SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from ---------- to ----------

COMMISSION FILE NO. 1-5627

ITT INDUSTRIES, INC.

INCORPORATED IN THE STATE OF INDIANA — 13-5158950 (I.R.S. EMPLOYER IDENTIFICATION NO.)

4 WEST RED OAK LANE, WHITE PLAINS, NY 10604
(PRINCIPAL EXECUTIVE OFFICE)

TELEPHONE NUMBER: (914) 641-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT, ALL OF WHICH ARE REGISTERED ON THE NEW YORK STOCK EXCHANGE, INC.:

COMMON STOCK, $1 PAR VALUE (ALSO REGISTERED ON PACIFIC STOCK EXCHANGE)
SERIES A PARTICIPATING CUMULATIVE PREFERRED STOCK PURCHASE RIGHTS (ALSO REGISTERED ON PACIFIC STOCK EXCHANGE)
8 7/8% SENIOR DEBENTURES DUE JUNE 2003

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X .... No ....

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on January 31, 2001 was approximately $3.5 billion.

As of February 28, 2001, there were outstanding 87,914,595 shares of Common Stock, $1 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held on May 15, 2001, is incorporated by reference in Part III of this Form 10-K.

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* Included pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

PART I

ITEM 1. BUSINESS

ITT Industries, Inc., with 2000 sales of approximately $4.8 billion, is a global multi-industry company engaged directly and through its subsidiaries in the design and manufacture of a wide range of engineered products and the provision of related services. We are focused on the four principal business segments of Connectors & Switches, Defense Products & Services, Pumps & Complementary Products, and Specialty Products.

Our World Headquarters is located at 4 West Red Oak Lane, White Plains, NY 10604. We have approximately 42,000 employees based in 49 countries. Unless the context otherwise indicates, references herein to "ITT Industries," the "Company," and such words as "we," "us," and "our" include ITT Industries, Inc. and its subsidiaries. ITT Industries, Inc. was incorporated on September 5, 1995 in Indiana. Reference is made to "-- COMPANY HISTORY AND CERTAIN RELATIONSHIPS." Our telephone number is (914) 641-2000.

The table below shows, in percentage terms, our consolidated sales and revenues and operating income (excluding restructuring and other special items) attributable to each of our ongoing lines of business for the last three years:

	YEAR ENDED DECEMBER 31, 2000	1999	1998
SALES AND REVENUES			
Connectors & Switches	16%	11%	12%
Defense Products & Services	28	31	29
Pumps & Complementary Products	36	37	39
Specialty Products	20	21	19
Other	--	--	1
	100%	100%	100%
OPERATING INCOME			
Connectors & Switches	20%	15%	16%
Defense Products & Services	24	27	30
Pumps & Complementary Products	39	40	45
Specialty Products	28	32	28
Other	(11)	(14)	(19)
	100%	100%	100%

BUSINESS AND PRODUCTS

CONNECTORS & SWITCHES

Connectors & Switches, with sales and revenues of approximately $774.6 million, $516.0 million, and $527.9 million for 2000, 1999, and 1998, respectively, is a significant connector and switch company that develops and manufactures connectors, interconnects, cable assemblies, switches, key pads, multi-function grips, panel switch assemblies, dome arrays, input/output (I/O) card kits, smart card systems, LAN components, high-speed/high-bandwidth network systems, and related services.

Connectors & Switches consists of products and services for the areas of communications, industrial, transportation, consumer, military/aerospace, computer, and commercial aircraft.

In the communications area, Connectors & Switches designs products and provides services specifically for today's fast-growing transmission and networking industries. These products and services include connectors, interconnects, cable assemblies, keypads, switches, panel switch assemblies, I/O card kits, smart card systems, and LAN components, as well as high-speed/high-bandwidth network systems and services. They are used in wireless, carrier networks, enterprise networks, datacommunications, transmission, and switching applications.

In the industrial area, Connectors & Switches' products are incorporated in various industrial equipment and control products, including DL zero insertion force connectors, cable assemblies, electromechanical switches, and device control interfaces. They are used in industrial controls, production equipment, and instrument applications. Medical applications include robotic surgical, ultrasound, and other diagnostic equipment.

In the transportation area, Connectors & Switches' products are incorporated in off-highway, heavy-vehicle, and automotive applications. The products include high reliability connectors, multi-function control assemblies, and the K12 Series Switch used in powertrain, instrument controls, and chassis applications.

In the consumer area, Connectors & Switches primarily supplies keypads for remote control devices.

In the military/aerospace area, Connectors & Switches supplies products for mission-critical applications ranging from below the ocean to deep in space. The products include circular, microminiature, fiber optic, and "special" connectors used in military electronics, missiles, and space applications.

In the computer area, Connectors & Switches supplies keypads, connectors, and switches for computers and computer peripherals.

In the commercial aircraft area, Connectors & Switches supplies highly reliable light, space-saving products for technically advanced aircraft. The products include rack and panel, circular, and fiber optic connectors. Their applications range from avionics (flight control, communications and navigation) to passenger in-flight entertainment systems.

The following table illustrates the percentage of sales and revenues for the listed categories for the periods specified:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Communications	39%	32%	29%
Industrial	17	20	18
Transportation	11	14	13
Consumer	10	6	5
Military/Aerospace	10	13	17
Computer	7	5	5
Commercial Aircraft	6	10	13
	100%	100%	100%

Order backlog for Connectors & Switches was $207.9 million in 2000, compared with $158.6 million in 1999 and $130.2 million in 1998.

Connectors & Switches products are marketed primarily under the Cannon(R) brand name.

The level of activity for Connectors & Switches is affected by overall economic conditions in the markets served and the competitive position with respect to price, quality, technical expertise, and customer service. See "-- COMPETITION."

Connectors & Switches companies have an aggregate of approximately 14,800 employees and have 31 facilities located in 12 countries.

DEFENSE PRODUCTS & SERVICES

Defense Products & Services, with sales and revenues of approximately $1.33 billion, $1.41 billion, and $1.29 billion for 2000, 1999, and 1998, respectively, develops, manufactures, and supports high technology electronic systems and components for worldwide defense and commercial markets. Operations are in North America, Europe, and the Middle East. Product groups are government services, tactical mobile communications, night vision, airborne electronic warfare, satellite instruments, and radar and other.

Defense Products & Services concentrates its efforts primarily in those market segments where management believes it can be a market leader. It is a leading supplier of products that management believes will be critical to the armed forces in the 21st century. This particularly includes products designated to facilitate communications in the forward area battlefield, night vision devices that enable soldiers to conduct night combat operations, and airborne electronic warfare systems that protect aircraft from enemy missiles. Management believes that Defense Products & Services may also benefit from trends to commercialize and outsource military support services.

Defense Products & Services consists of the two major areas of (i) systems and services and (ii) defense electronics. Systems and services consists of our systems business and our advanced engineering and sciences business. Defense electronics consists of our aerospace and communications business, our night vision business, and our avionics business.

Systems and Services

The Systems Division is involved in support services and systems engineering. This business provides military base operations support, equipment and facility maintenance, and training services for government sites around the world.

The Advanced Engineering & Sciences Division is involved in communications systems and engineering and applied research. This business provides advanced technology services and customized products to government, industrial, and commercial customers in the areas of information technology, consulting and technical assistance, military systems effects and analysis, and hardware design, test, and evaluation.

Defense Electronics

The ITT Aerospace/Communications Division ("A/CD") manufactures products, including voice and data systems, that facilitate communications in the forward area battlefield. A/CD produces the Single Channel Ground and Airborne Radio System ("SINCGARS") and has a contract to produce the Near Term Digital Radio ("NTDR"), which has data transmission capacity twenty times greater than SINCGARS. A/CD also produces sophisticated sounding and imaging instruments such as those used by the National Oceanographic and Atmospheric Agency in remote sensing space payloads to track hurricanes, tornadoes, and other weather patterns. In addition, A/CD provides navigation payloads for the Global Positioning System ("GPS") navigation satellite.

The Night Vision Division provides advanced goggles for airborne and ground applications which give United States and allied soldiers the capability to conduct night combat operations. Night Vision is the leading full service supplier of Generation III night vision products to the United States and allied military forces. Night Vision also produces a commercial line of night vision products for law enforcement, marine, and recreational applications.

The Avionics Division produces airborne electronic warfare systems, such as the Airborne Self-Protection Jammer ("ASPJ"), to help protect aircraft from radar-guided weapons. Avionics is developing for the United States Army the next-generation fully integrated airborne electronic warfare system for rotary wing aircraft called a Suite of Integrated Radio Frequency Countermeasures ("SIRFC"). Avionics, teamed with BAE Systems, is also developing the United States Integrated Defensive Countermeasures ("IDECM") system for fixed wing aircraft such as the F/A-18 E/F fighter fleet. The Avionics Division is a co-developer of the integrated communications, navigation and identification system for the U.S. Air Force F-22 Raptor.

Defense Products & Services also produces and installs ship and air defense radar and air traffic control systems both in the United States and internationally.

The following table illustrates the percentage of sales and revenues for the listed categories for the periods specified:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Systems and Services			
Systems	32%	37%	40%
Advanced Engineering & Sciences	13	--	--
Defense Electronics			
A/CD	32	37	37
Night Vision	15	14	12
Avionics	8	12	11
	100%	100%	100%

Defense Products & Services sells its products to a wide variety of governmental and non-governmental entities located throughout the world. Approximately 97% of 2000 sales and revenues of Defense Products & Services was to governmental entities, of which approximately 84% was to the United States Government (principally in defense programs).

A substantial portion of the work of Defense Products & Services is performed in the United States under prime contracts and subcontracts, some of which by statute are subject to profit limitations and all of which are subject to termination by the United States Government. Apart from the United States Government, no other governmental or commercial customer accounted for more than 3.5% of 2000 sales and revenues for Defense Products & Services.

Sales and revenues to non-governmental entities as a percentage of total sales and revenues for Defense Products & Services were 3% in 2000, 3% in 1999, and 2% in 1998. Certain products sold by Defense Products & Services have particular commercial application, including night vision devices and radar systems. In addition, Defense Products & Services, in partnership with California Commercial Spaceport, Inc. in a venture known as Spaceport Systems International, provides full service payload processing and launch capability for small to medium satellite systems in low polar earth orbits.

Order backlog for Defense Products & Services was $2.41 billion in 2000, compared with $1.84 billion in 1999 and $2.22 billion in 1998.

The level of activity in Defense Products & Services is affected by overall defense budgets, the portion of those budgets devoted to products and services of the type provided by Defense Products & Services, demand and budget availability for such products and services in areas other than defense, and other factors. See "-- COMPETITION."

Defense Products & Services companies have an aggregate of approximately 9,200 employees and have 95 facilities in 15 countries.

PUMPS & COMPLEMENTARY PRODUCTS

Pumps & Complementary Products, with sales and revenues of approximately $1.75 billion, $1.74 billion, and $1.77 billion for 2000, 1999, and 1998, respectively, is engaged in the design, development, production, sale, and after-sale support of products, systems and services used to move, measure, and manage fluids. Pumps & Complementary Products is a leading worldwide supplier of a broad range of pumps, mixers, heat exchangers, valves, and systems for residential, agricultural, commercial, municipal, and industrial applications. Major production and assembly facilities are located in Argentina, Australia, Austria, Canada, China, England, Germany, Italy, Malaysia, Mexico, the Philippines, South Korea, Sweden, and the United States. Principal customers are in North America, Europe, the Middle East, Africa, Latin America, and the Asia/Pacific region. No single customer accounted for more than 2% of 2000 sales for Pumps & Complementary Products. Sales are made directly and through independent distributors and representatives.

Pumps & Complementary Products offers a wide range of product and system solutions for the two major areas of water and wastewater and industrial and process.

Water and Wastewater

Water and wastewater consists of our Flygt Division, our Fluid Handling Division, our Water Technology Division, and our Lowara business. The water and wastewater business provides submersible and dry-mount pumps, submersible mixers, valves, and sequential batch reactor wastewater treatment systems.

Our Flygt Division is the world's originator and largest manufacturer of submersible pumps and mixers. These pumps and mixers form the heart of many of the world's sewage and wastewater treatment facilities. As the world's leading producer of fluid handling machinery for treating and recycling wastewater, ITT Industries actively promotes more efficient use and re-use of water and endeavors to raise the level of awareness of the need to preserve and protect the earth's water resources. Sanitaire(R) and ABJ(TM) brands are leaders in aeration products and systems for municipal and industrial wastewater treatment. The broad range of products includes ceramic and membrane fine bubble diffusers, stainless steel coarse bubble diffusers, in-place cleaning systems, and complete activated sludge plants. Combining Flygt's submersible pumps and mixers with Sanitaire and ABJ products provides a solution to customers' needs for complete system solutions in wastewater treatment.

Goulds Pumps ("Goulds") provides pumps and accessories for residential, agriculture and irrigation, sewage and drainage, commercial, and light industrial use. In the residential market, Goulds offers a wide range of water systems products, including state-of-the-art submersible and jet pumps, pressure tanks, controls and special use pumps for the home water well industry. Over one quarter of all well water pumps in North America are supplied by Goulds.

Other products serving the water and wastewater market are supplied by Lowara and by our A-C Custom Pump Division ("A-C Pump"). Lowara is a leader in stainless steel manufacturing technology. Its pumps are used in residential, agriculture, and irrigation applications. Dry mount pumps from A-C Pump provide an alternative technical solution to submersible pumps when high horsepower is needed. Typical application areas are sewage and sludge handling , circulating water applications for power plants, desalinization, and flood control.

Submersible pumps and line shaft turbine pumps provide for the pumping needs of agriculture, aquaculture, golf courses, and similar applications. Our wide range of submersible drainage pumps from Flygt serves the construction market by dewatering construction sites on a global basis. A-C Pump has been in the forefront of developing, designing, and custom building a wide range of fire pump systems, including prefabricated, turnkey fire pump packages, and house units that meet every fire protection need. Through our Bell & Gossett Division, we provide a broad variety of products for environmental control in buildings and for building service and utility applications. We are market leaders in liquid-based heating and air conditioning systems and our liquid level control and steam trap products for boiler and steam systems through our McDonnell & Miller(R) and Hoffman Specialty(R) brand name products. With extensive product offerings of pumps, heat exchangers, valves, and control equipment for the power industry, we provide a level of experience and expertise to solve the most difficult fluid handling problems. Double suction, horizontal multistage, and vertical turbine pumps handle the most demanding condensate or circulating water needs. Also available are pumps for slurry, ash handling, and other tough applications.

Industrial & Process

In the industrial & process business, Pumps & Complementary Products offers a broad line of pumps with applications ranging from pharmaceutical uses to enormous pumps for cooling power plants. We offer a broad line of industrial pumps for moving abrasives, corrosives, slurries, solids or other liquids. We are the ANSI standard process pump market leader. Our chemical process pumps and valves are available in a wide variety of alloys. Other unique non-metallic pumps and valves provide advantages when handling severe corrosives. A line of "sealless" magnetic drive pumps from our Goulds and Richter units is offered for services where leakage cannot be tolerated. In mining and mineral applications, our pumps and valves provide a wide range of corrosion and abrasion resistance. The pumps are designed for vertical, horizontal, submersible situations for coal prep plants, mine slurries, and dewatering applications. Vertical turbine pumps, API process pumps, vertical can pumps for low NPSH, fire pumps and submersibles as well as high performance valves are available for the oil refining and gas processing industries. Our heavy duty stock pumps and a complete line of double suction and LoPulse(R) fan pumps are designed for pulp and paper applications.

Life Cycle Costing

Life cycle cost is the total system cost over the life of that system. It includes installation, energy costs, maintenance, decommissioning, as well as the original purchase price -- which generally is a small fraction of the overall life cycle cost. ITT Industries is focused on improving the total life cycle cost for customers through the application of technology. With energy conservation becoming increasingly important from a cost control as well as environmental perspective, life cycle costing initiatives create another factor in market differentiation.

Global Service and Customer Care

Through our Pro-Service Shops, ITT Industries has built a global network of service centers for aftermarket customer care. Our aftermarket capabilities include the repair and service of all brands of pumps and rotating equipment, engineering upgrades, contract maintenance, and inventory management services. We offer field service solutions for troubleshooting, disassembly, on-site repairs, and emergency service.

ITT Fluid Technology -- On-Line

Electronic commerce at ITT Industries is exemplified by the web site of our Bell & Gossett Division. There, contractors and specifying engineers are now able to view products, select and quote complex pumping systems, use software for pipe sizing and pressure drop analysis, as well as engage in helpful on-line engineering dialogue.

The following table illustrates the percentage of sales and revenues for the listed categories for the periods specified:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Water and Wastewater			
Flygt	35%	35%	33%
Fluid Handling Division	17	17	16
Water Technology Division	14	13	12
Lowara	8	8	9
Industrial & Process			
Industrial Pump Group	26	27	30
	100%	100%	100%

Our management believes that Pumps & Complementary Products has a solid technology base and proven expertise in designing its products to meet customer needs. Management believes that the continuing development of new products will enable Pumps & Complementary Products to maintain and build market leadership positions in served markets.

Order backlog for Pumps & Complementary Products was $264.0 million in 2000, compared with $273.8 million in 1999 and $269.7 million in 1998.

Brand names include ABJ(TM), A-C(TM) Pump, Bell & Gossett(R), Flygt(R), Goulds(R), Hoffman Specialty(R), ITT Standard(R), Lowara(R), McDonnell & Miller(R), Richter(R), Sanitaire(R), and Vogel(R).

The level of activity in Pumps & Complementary Products is dependent upon economic conditions in the markets served, weather conditions, in the case of municipal markets, the ability of municipalities to fund projects for our products and services, and other factors. See "-- COMPETITION."

Pumps & Complementary Products companies have an aggregate of approximately 10,400 employees and have 273 facilities in 35 countries.

SPECIALTY PRODUCTS

Specialty Products, with sales and revenues of approximately $972.4 million, $959.5 million, and $849.3 million for 2000, 1999, and 1998, respectively, comprises a group of units operating in a range of specialty market segments. Operations are located principally in North America and Europe, with sales in Latin America and Asia supported through joint ventures or distribution arrangements. Specialty Products consists of the areas of Fluid Handling Systems, Flow Control, Galfer, and Koni.

ITT Fluid Handling Systems designs and produces engineered tubing systems and connectors for use in applications such as braking systems, fuel supply, and other fluid transfer applications in transportation or industrial uses. Fluid Handling Systems' principle customers are the major North American and European automotive makers, their key Tier 1 suppliers, and other similar customers. Ford, General Motors, and Chrysler, with their respective affiliates, account for approximately 31%, 21%, and 10%, respectively, of the sales of this unit. Fluid Handling also owns 50% of a joint venture with Sanoh Industrial Co. of Japan that supplies similar products to the major Japanese transplant manufacturers in the United States.

The Flow Control group consists of Jabsco, HydroAir, Engineered Valves, Aerospace, and Conoflow. The Jabsco Division is the world's leading producer of pumps and related products for the leisure marine market. Products are sold worldwide under the brand names Jabsco(R), Rule(R), Flojet(R), and Danforth(R). Flojet is also a leading producer of pumps and components for beverage and other specialty industrial fluid dispensing applications. Specialty Products' units, under the brand names HydroAir(R) and Marlow(R), design and manufacture pumps and other components for manufacturers of whirlpool and spa baths.

ITT Engineered Valves designs and manufactures precision valves for Bio-pharmaceutical and other similar applications under the brand name Pure-Flo(R), and for severe service chemical and mining applications under brand names including Dia-Flo(R) and Fabri-Valve(R). Sales are achieved through a worldwide network of distributors and service organizations.

ITT Aerospace Controls designs switches, valves, and controls for aerospace applications. Principal customers are North American aircraft manufacturers where the quality and performance required for FAA certification is a key factor. This unit also sells switches to industrial customers for severe service applications.

Speciality Products also markets pressure regulators and diaphragm seals for industrial applications and natural gas vehicles under the brand name Conoflow(R).

Galfer designs and manufactures quality friction pads for braking applications on vehicles. From three facilities in Italy, Galfer services most European OEM auto makers and also operates a substantial facility for research and testing of new materials. Approximately 29% of Galfer's business is in aftermarket activity.

Koni designs and markets adjustable shock absorbers under the brand name KONI(R) for high performance vehicles, trucks, buses, and railways. Customers are principally in Europe, North America, and Asia.

The following table illustrates the percentage of sales and revenues for the listed categories for the periods specified:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Fluid Handling Systems	44%	45%	43%
Flow Control	33	30	29
Galfer	14	16	18
Koni	9	9	10
	100%	100%	100%

The level of activity for Specialty Products depends upon economic conditions in the served markets, particularly the automotive and the marine and leisure markets. See "-- COMPETITION." Order backlog is not a significant factor in this segment.

Specialty Products companies have an aggregate of approximately 7,100 employees and have 44 facilities located in 11 countries.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and see Note 20 "BUSINESS SEGMENT INFORMATION" to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further details with respect to business segments.

MANAGEMENT INITIATIVES

Management has undertaken a number of initiatives focused on enhancing the value of the Company. During 2000, we initiated a Value-Based Six Sigma program directed toward implementing continuing process improvements. The program is multi-faceted and involves a number of factors, including leadership development, production and marketing rationalizations, and product development. Also included in our initiatives is the central theme of re-deploying cash, as well as concepts of portfolio management, emphasizing growth areas, cultivating our people, realizing added value from our technology, and maintaining consistent results.

ACQUISITIONS, DIVESTITURES, RESTRUCTURING, AND RELATED MATTERS

We have been involved in an ongoing program of acquiring businesses that provide a rational fit with businesses we presently conduct and divesting businesses that do not enhance that fit.

During 2000, we acquired C & K Components, Inc., a designer and manufacturer of switches for the telecommunications, computer, and electronic equipment markets. We also acquired the Man Machine Interface business of TRW, a manufacturer of multi-layer switch components and assemblies for the wireless mobile handset market. Both acquisitions are for our Connectors & Switches segment. In addition, we acquired the business of Aerotherm Corporation, a company that makes guidance systems for target missiles, and sold our GaAsTEK business, both with respect to our Defense Products & Services segment.

During 1999, we acquired STX Pte. Ltd. for our Connectors & Switches segment, the space and defense communications businesses of Stanford Telecommunications, Inc. and K and M Electronics, Inc. for our Defense Products & Services segment, Water Pollution Control Corp. (now our Sanitaire Division) and assets of Energy Machine Service, Inc. for our Pumps & Complementary Products segment, and Hydro Air Industries and Flojet Corp. (now our Flojet Division) for our Specialty Products segment. In addition, we made an investment in EarthWatch Incorporated for our Defense Products & Services segment and divested all, or portions of, our Community Development Corporation, Carbon Industries, and Palm Coast Utility businesses.

In 1998, we acquired Great American Gumball Corporation for our Connectors & Switches segment and A.G. Johansons Metallfabrik AB, Rule Industries, Inc., Sinton Engineering Co. Limited, and Sinton (UK) Limited for our Specialty Products segment.

On September 25, 1998, we completed the sale to Continental AG and certain of its subsidiaries of our business of designing, developing, manufacturing, and marketing brake systems and chassis modules for the automotive industry worldwide for approximately $1.93 billion in cash. That business was conducted through various direct and indirect subsidiaries, and joint ventures in which we held an ownership interest.

On September 28, 1998, we completed the sale to Valeo SA and certain of its subsidiaries of our business of designing, developing, manufacturing, and marketing electrical motors and actuators, air management and engine cooling products, wiper and washer systems, lamps, power antennas, switches, and sensors for the automotive industry worldwide for approximately $1.7 billion in cash. That business was conducted through various direct and indirect subsidiaries and joint ventures in which we held an ownership interest.

After-tax proceeds from the sales of our automotive Brake and Chassis and our automotive Electrical Systems businesses were directed to reducing debt, funding acquisitions, investing in our remaining businesses and repurchasing approximately 30.5 million of our shares. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- RISKS AND UNCERTAINTIES -- SALES OF AUTOMOTIVE BUSINESSES" AND NOTE 5 "DISCONTINUED OPERATIONS" TO "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further information regarding sales of automotive businesses and discontinued operations. Also during 1998 we divested our Barton fluid measurement and Pomona Electronics businesses.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- LIQUIDITY AND CAPITAL RESOURCES -- STATUS OF RESTRUCTURING ACTIVITIES."

GEOGRAPHIC MARKETS

The geographic sales base of Connectors & Switches is predominantly in Europe, which accounted for 41% of 2000 sales and revenues, the United States, which accounted for 37% of 2000 sales and revenues, and the Asia/Pacific region, which accounted for 20% of 2000 sales and revenues. Connectors & Switches has facilities in Costa Rica as well as facilities in the Asia/Pacific region, including two joint ventures in China, a wholly-owned subsidiary in Japan, the San Teh key pad unit (STX Pte. Ltd.) headquartered in Singapore with four manufacturing locations in China, and the Man Machine Interface (MMI) manufacturing facility in China. These Asia/Pacific operations supply connectors and switch products across a broad market spectrum, including the communications, industrial, and consumer sectors.

The geographic sales base of Defense Products & Services is predominantly the United States, which accounted for approximately 85% of 2000 sales and revenues. Management of Defense Products & Services has been in the process of increasing its international defense business and anticipates growth opportunities in the Asia/Pacific region, Europe, and the Middle East.

The geographic sales base of Pumps & Complementary Products is broad. In 2000, approximately 49% of the sales and revenues of Pumps & Complementary Products was derived from the United States, while approximately 29% was derived from Western Europe. The geographic sales mix differs among products and among divisions of Pumps & Complementary Products. Our management anticipates growth opportunities in Eastern Europe, Central Asia, Africa/Middle East, Latin America, and the Asia/Pacific region. In China, Pumps & Complementary Products has manufacturing and distribution facilities to produce and sell submersible pumps for the sewage handling and mining markets and a joint venture that produces vertical turbine pumps and includes a foundry operation. It also has joint venture sales and manufacturing and other operations in Eastern Europe, Latin America, Africa/Middle East, and other locations in the Asia/Pacific region.

The geographic sales base of Specialty Products is predominantly in North America and Europe. In 2000, approximately 57% of sales and revenues of Specialty Products were to customers in the United States, and approximately 32% of sales were to customers in Western Europe. Management of ITT Industries sees growth opportunities in South America, Mexico, and Asia, particularly in China.

See Note 20 "BUSINESS SEGMENT INFORMATION" to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further geographical information concerning sales and revenues and long-lived assets.

COMPETITION

Substantially all of our operations are in highly competitive businesses. The nature of the competition varies across all business segments. A number of large companies engaged in the manufacture and sale of similar lines of products and the provision of similar services are included in the competition, as are many small enterprises with only a few products or services. Technological innovation, price, quality, reliability, and service are primary factors in the markets served by the various segments of our businesses.

In Connectors & Switches, competitive pressures continue on a global basis. In most of the markets served, competition is based primarily upon price, quality, technical expertise, and customer service.

In Defense Products & Services, government defense budgets, particularly in the United States, generally have leveled off after years of significant declines. Business consolidations continue to change the competitive environment. We have adjusted to these changes by focusing on the defense electronics and services markets, by making process improvements, and through capacity rationalization. In most of the markets served by Defense Products & Services, competition is based primarily upon price, quality, technological expertise, cycle time, and service.

The Pumps & Complementary Products segment is affected by strong competition, changing economic conditions, industry overcapacity that leads to intense pricing pressures, and public bidding in some markets. Management of Pumps & Complementary Products responds to competitive pressures by utilizing strong distribution networks, strong brand names, broad product lines focused on market niches, a global customer base, a continuous stream of new products developed from a strong technology base, a focus on quality and customer service, and through continuous cost improvement programs and life cycle cost initiatives.

In Specialty Products, competition is a significant factor which has resulted in increased pressure to reduce prices and, therefore, costs. Product capability, quality, engineering support, and experience are also important competitive factors.

EXPOSURE TO CURRENCY FLUCTUATIONS

Our companies conduct operations worldwide. We, therefore, are exposed to the effects of fluctuations in relative currency values. Although our companies engage in various hedging strategies with respect to their foreign currency exposure where appropriate, it is not possible to hedge all such exposure. Accordingly, our operating results may be impacted by fluctuations in relative currency values.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- MARKET RISK EXPOSURES" and Note 16 "FINANCIAL INSTRUMENTS" to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS."

CYCLICALITY

Many of the markets in which our businesses operate are cyclical and can be affected by general economic conditions in those markets. Since we manufacture and sell products used in historically cyclical industries, such as the construction, mining and minerals, transportation, automotive, and aerospace industries, we could be adversely affected by negative cycles affecting those and other industries.

GOVERNMENTAL REGULATION AND RELATED MATTERS

A number of our businesses are subject to governmental regulation by law or through contractual arrangements. Our Defense Products & Services businesses perform work under contracts with the United States Department of Defense and similar agencies in certain other countries. These contracts are subject to security and facility clearances under applicable governmental regulations, including regulations requiring background investigations for high-level security clearances for our executive officers. Most of such contracts are subject to termination by the respective governmental parties on various grounds, although such terminations have rarely occurred in the past.

ENVIRONMENTAL MATTERS

We are subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal. Such environmental laws and regulations include the Federal Clean Air Act, the Clean Water Act, the Resource, Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). Environmental requirements are significant factors affecting all operations. Management believes that our companies closely monitor all of their respective environmental responsibilities, together with trends in environmental laws. We have established an internal program to assess compliance with applicable environmental requirements for all of our facilities, both domestic and overseas. The program is designed to identify problems in a timely manner, correct deficiencies and prevent future noncompliance. Over the past several years we have conducted regular, thorough audits of our major operating facilities. As a result, management believes that our companies are in substantial compliance with current environmental regulations. Management does not believe, based on current circumstances, that we will incur compliance costs pursuant to such regulations that will have a material adverse effect on our financial position, results of operations or cash flows. In addition, we have purchased insurance protection against certain unknown risks.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- RISKS AND UNCERTAINTIES -- ENVIRONMENTAL MATTERS" and "LEGAL PROCEEDINGS".

RAW MATERIALS

All of our businesses require various raw materials (e.g., metals and plastics), the availability and prices of which may fluctuate. Although some cost increases may be recovered through increased prices to customers, our operating results are exposed to such fluctuations. We attempt to control such costs through purchasing and various other programs. In recent years, our businesses have not experienced significant difficulties in obtaining an adequate supply of raw materials necessary for our manufacturing processes.

RESEARCH, DEVELOPMENT, AND ENGINEERING

Our businesses require substantial commitment of resources for research, development, and engineering activities to maintain significant positions in the markets we serve. Such activities are conducted in laboratory and engineering facilities at several of our major manufacturing locations. Although most of our funds dedicated to research, development, and engineering activities are applied to areas of high technology, such as aerospace and applications involving electronic components, these activities are important in all of our business segments. Expenditures by ITT Industries for research, development, and engineering relating to our on-going lines of business totaled $391.2 million in 2000, $264.4 million in 1999, and $267.6 million in 1998. Of those amounts 74.6% in 2000, 57.8% in 1999, and 67.4% in 1998 was expended pursuant to customer contracts.

INTELLECTUAL PROPERTY

While we own and control a number of patents, trade secrets, confidential information, trademarks, trade names, copyrights, and other intellectual property rights which, in the aggregate, are of material importance to our business, management believes that our business, as a whole, is not materially dependent upon any one intellectual property or related group of such properties. We are licensed to use certain patents, technology, and other intellectual property rights owned and controlled by others, and, similarly, other companies are licensed to use certain patents, technology, and other intellectual property rights owned and controlled by us.

Patents, patent applications, and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. Such expiration or termination of patents, patent applications, and license agreements is not expected by our management to have a material adverse effect on our financial position, results of operations or cash flows.

At the time of the Distribution (see -- "COMPANY HISTORY AND CERTAIN RELATIONSHIPS"), we obtained from ITT Destinations certain exclusive rights and licenses to use the "ITT" name, mark, and logo. In 1999, we acquired all right, title, and interest in and to the "ITT" name, mark, and logo and an assignment of certain agreements granting The Hartford and ITT Educational Services, Inc. (ESI) limited rights to use the "ITT" name, mark, and logo in their businesses. These agreements are perpetual, and the licenses are subject to maintenance of certain quality standards by both The Hartford and ESI.

EMPLOYEES

As of December 31, 2000, ITT Industries and its subsidiaries employed an aggregate of approximately 42,000 people. Of this number, approximately 19,000 are employees in the United States, of whom approximately 30% are represented by labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

COMPANY HISTORY AND CERTAIN RELATIONSHIPS

ITT Industries, Inc. is an Indiana corporation incorporated on September 5, 1995 as ITT Indiana, Inc. It is the successor pursuant to a statutory merger of ITT Corporation, a Delaware corporation ("ITT Delaware"), into ITT Indiana, Inc. effective December 20, 1995, whereupon its name became ITT Industries, Inc. ITT Delaware, originally incorporated in Maryland in 1920 as International Telephone and Telegraph Corporation, was reincorporated in Delaware in 1968. It changed its name to ITT Corporation in 1983. On December 19, 1995, ITT Delaware made a distribution (the "Distribution") to its stockholders consisting of all the shares of common stock of ITT Destinations, Inc., a Nevada corporation ("ITT Destinations"), and all the shares of common stock of ITT Hartford Group, Inc., a Delaware corporation (now known as The Hartford Financial Services Group, Inc. or "The Hartford"), both of which were wholly-owned subsidiaries of ITT Delaware. In connection with the Distribution, ITT Destinations changed its name to ITT Corporation. On February 23, 1998, ITT Corporation was acquired by Starwood Hotels & Resorts Worldwide, Inc.

ITT Delaware, ITT Destinations, and The Hartford entered into a Distribution Agreement (the "Distribution Agreement") providing for, among other things, certain corporate transactions required to effect the Distribution and other arrangements among the three parties subsequent to the Distribution.

The Distribution Agreement provides for, among other things, assumptions of liabilities and cross-indemnities generally designed to allocate the financial responsibility for the liabilities arising out of or in connection with (i) the former automotive, defense & electronics, and fluid technology segments to ITT Industries and its subsidiaries, (ii) the hospitality, entertainment, and information services businesses to ITT Destinations and its subsidiaries, and (iii) the insurance businesses to The Hartford and its subsidiaries. The Distribution Agreement also provides for the allocation of the financial responsibility for the liabilities arising out of or in connection with former and present businesses not described in the immediately preceding sentence to or among ITT Industries, ITT Destinations, and The Hartford on a shared basis. The Distribution Agreement provides that neither ITT Industries, ITT Destinations nor The Hartford will take any action that would jeopardize the intended tax consequences of the Distribution.

ITT Industries, ITT Destinations, and The Hartford also entered into agreements in connection with the Distribution relating to intellectual property, tax, and employee benefit matters.

One member of the Board of Directors of ITT Industries also serves on the Board of Directors of The Hartford.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- FORWARD-LOOKING STATEMENTS" for information regarding forward-looking statements and cautionary statements relating thereto.

ITEM 2. PROPERTIES

Our principal executive offices are in leased premises located in White Plains, NY. We consider the many offices, plants, warehouses, and other properties that we own or lease to be in good condition and generally suitable for the purposes for which they are used. These properties are located in several states in the United States, as well as in numerous countries throughout the world. See "BUSINESS" for further information with respect to properties in each of our business segments, including the numbers of facilities and countries in which they are located.

ITEM 3. LEGAL PROCEEDINGS

ITT Industries and its subsidiaries are responsible, in whole or in part, or are alleged to be responsible for environmental investigation and remediation at approximately 130 sites in various countries. Of those sites, ITT Industries has received notice that it is considered a Potentially Responsible Party ("PRP") at approximately 15 sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under CERCLA or its state equivalent. Other situations generally involve either actions brought by private parties relating to sites formerly owned or operated by subsidiaries of the Company seeking to recoup incurred costs or shift environmental liability to ITT Industries pursuant to contractual language, or situations discovered by ITT Industries through its internal environmental assessment program.

In Glendale, California ITT Industries has been involved in an environmental proceeding relating to the San Fernando Valley aquifer. ITT Industries is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against ITT Industries and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it has incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including ITT Industries and Lockheed Martin, reached a settlement, and a consent decree requiring the PRPs to perform additional remedial activities was entered in August 2000.

In a suit filed several years ago by ITT Industries in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al. against its insurers, ITT Industries is seeking recovery of costs it incurred in connection with the Glendale case and other environmental matters. In April 1999, the Superior Court granted partial summary judgment under California law, dismissing certain claims in the California action. The California Court of Appeals has accepted ITT Industries' petition for review of the Superior Court's order. Argument was scheduled for August 1999; however, it has been continued to an indefinite date pending further developments in other similar cases in California to which the Company is not a party. In April 1999, ITT Industries initiated a new coverage action in New Jersey, ITT Industries, Inc. et al. v. Federal Ins. Co. et al., (Middlesex County, No. L-1919-99), involving new environmental insurance claims as well as claims pending but dormant before the Court in California. ITT Industries' insurers challenged the convenience of New Jersey as the forum for this action. In its ruling on the motion, the Court dismissed the non-New Jersey claims, deferred action on certain New Jersey claims and retained jurisdiction over one New Jersey claim. ITT Industries has negotiated settlements with certain defendant insurance companies, is engaged in negotiations with others, and is prepared to pursue its legal remedies where reasonable negotiations are not productive.

While there can be no assurance as to the ultimate outcome of any litigation involving ITT Industries, management does not believe any pending legal proceeding will result in a judgment or settlement that will have, after taking into account ITT Industries' existing provisions for such liabilities, a material adverse effect on

ITT Industries' financial position, results of operations or cash flows.

Reference is made to "BUSINESS -- COMPANY HISTORY AND CERTAIN RELATIONSHIPS" for information concerning the allocation of certain liabilities among the parties to the Distribution Agreement.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our shareholders during the fourth quarter of the

fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following information is provided regarding the executive officers of ITT Industries:

NAME	AGE AT FEBRUARY 1, 2001	POSITION	YEAR OF INITIAL ELECTION AS AN OFFICER	DATE OF ELECTION TO PRESENT POSITION
David J. Anderson.................	51	Senior Vice President and Chief Financial Officer	1999	12/13/99
Robert L. Ayers...................	55	Vice President, ITT Industries; President, Fluid Technology	1998	10/1/99
Henry J. Driesse..................	57	Vice President, ITT Industries, President, Defense	2000	9/12/00
Donald E. Foley...................	49	Vice President and Treasurer	1996	5/21/96
James D. Fowler, Jr.	56	Senior Vice President and Director, Human Resources	2000	11/6/00
Gerard Gendron....................	48	Vice President, ITT Industries; President, Cannon Worldwide	1998	10/27/98
Louis J. Giuliano.................	54	Chairman, President and Chief Executive Officer and Director	1988	2/24/01
Richard J. M. Hamilton............	51	Vice President, ITT Industries; President, Specialty Products	1992	9/1/99
Martin Kamber.....................	52	Senior Vice President, Director of Corporate Development	1995	12/19/95
Vincent A. Maffeo.................	50	Senior Vice President and General Counsel	1995	12/19/95
Thomas R. Martin..................	47	Senior Vice President, Director of Corporate Relations	1996	3/9/99
Richard W. Powers.................	59	Vice President, Director of Taxes and Assistant Secretary	1991	12/19/95
Marvin R. Sambur..................	54	Vice President	1998	10/27/98
Edward W. Williams................	62	Vice President and Corporate Controller	1998	10/27/98

Travis Engen served as Chairman and Chief Executive of ITT Industries from its inception in December, 1995, until February 28, 2001, at which time he resigned and thereafter retired to take the position as President and Chief Executive Officer of another company.

Each of the above-named officers was elected to his present position to serve at the pleasure of the Board of Directors.

Throughout the past five years, all of the above-named officers have held executive positions with ITT Industries bearing at least substantially the same responsibilities as those borne in their present offices, except that (i) Mr. Anderson, prior to his election as Senior Vice President and Chief Financial Officer (1999), was Senior Vice President and Chief Financial Officer of Newport News Shipbuilding (1996) and, prior to that, Executive Vice President and Chief Financial Officer of RJR Tobacco; (ii) Mr. Ayers, prior to his election as Vice President (1998) and President of Fluid Technology (1999), was President of Sulzer Bingham Pumps Inc. (1990); (iii) Mr. Driesse, prior to his election as Vice President and President of Defense (2000), was President of ITT Avionics (1991); (iv) Mr. Foley, prior to his election as Vice President and Treasurer (1996), was Assistant Treasurer of International Paper Company; (v) Mr. Fowler, prior to his election as Senior Vice President and Director, Human Resources (2000), was Executive Director and President of the Executive Leadership Council (1997), an independent consultant with Fowler Associates (1996), and, prior to that, held various executive positions with ITT Delaware and its subsidiaries; (vi) Mr. Gendron, prior to his election as Vice President (1998), was and continues as President of Cannon Worldwide (1997) and, prior to that, its Vice President (1995); (vii) Mr. Giuliano, prior to his election as Chairman, President, Chief Executive Officer and Director (2/24/01), was President and Chief Operating Officer (1998), and, prior to that, was

Senior Vice President (1995); (viii) Mr. Hamilton, in addition to his election as Vice President (1992) and President of Specialty Products (1999), held other senior positions with ITT Industries, including Senior Vice President and Controller (1995); (ix) Mr. Martin, prior to his election as Senior Vice President, Director of Corporate Relations (1999), was Vice President, Director of Corporate Relations (1996), and, prior to that, was Vice President of Corporate Communications of Federal Express Corp. (1995); (x) Mr. Sambur, prior to his election as Vice President (1998), was President of our Aerospace/Communications Division (1991) and has held other executive positions, including President of Defense; and (xi) Mr. Williams, prior to his election as Vice President and Corporate Controller (1998), was Vice President and Controller of our Defense & Electronics business.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

COMMON STOCK -- MARKET PRICES AND DIVIDENDS

	2000		1999	
	HIGH	LOW	HIGH	LOW
	IN DOLLARS			
Three Months Ended				
March 31	$34.94	$22.38	$40.88	$35.00
June 30	36.19	28.63	41.50	34.88
September 30	34.94	29.63	40.00	30.50
December 31	39.63	29.75	36.25	31.38

The above table reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security is traded (under the trading symbol "ITT"). During the period from January 1, 2001 through February 28, 2001, the high and low reported market prices of our common stock were $44.25 and $36.38, respectively.

We declared dividends of $.15 per share of common stock in each of the four quarters of 1999 and 2000 and in the first quarter of 2001.

Dividend decisions are subject to the discretion of our Board of Directors and will be based on, and affected by, a number of factors, including operating results and financial requirements. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future.

There were 36,917 holders of record of our common stock on February 28, 2001.

ITT Industries common stock is listed on the following exchanges: Frankfurt, London, Midwest, New York, Pacific, and Paris.

ITEM 6. SELECTED FINANCIAL DATA

	2000	1999	1998	1997	1996
	(In millions, except per share amounts)				
RESULTS AND POSITION					
Sales and revenues................	$4,829.4	$4,632.2	$4,492.7	$4,207.6	$3,744.5
Operating income (loss)(a)........	493.1	415.2	(74.6)	141.3	246.0
Income (loss) from continuing operations(a)...................	264.5	232.9	(97.6)	11.9	66.4
Net income........................	264.5	232.9	1,532.5	108.1	222.6
Income from continuing operations, as adjusted(b)..................	264.5	230.0	146.0	95.9	66.4
Expenditures on plant additions...	180.6	227.9	212.9	212.5	176.0
Depreciation and amortization.....	201.8	181.1	195.6	196.9	187.3
Total assets......................	4,611.4	4,529.8	5,048.8	5,058.4	3,976.9
Total assets, excluding discontinued operations.........	4,611.4	4,529.8	5,048.8	4,127.0	2,929.6
Long-term debt....................	408.4	478.8	515.5	531.2	582.2
Total debt........................	1,038.3	1,088.1	767.1	2,172.6	1,368.0
Cash dividends declared per common share...........................	.60	.60	.60	.60	.60
EARNINGS PER SHARE					
Income from continuing operations, as adjusted(b)					
Basic...........................	$ 3.01	$ 2.58	$ 1.29	$ .81	$ .56
Diluted.........................	$ 2.94	$ 2.50	$ 1.29	$ .79	$ .55
Net income					
Basic...........................	$ 3.01	$ 2.61	$ 13.55	$ .91	$ 1.89
Diluted.........................	$ 2.94	$ 2.53	$ 13.55	$ .89	$ 1.85

(a) Income from continuing operations in 1999, 1998 and 1997 includes (income) charges of $(4.6), $399.4 and $137.8 pretax, respectively, or $(2.9), $243.6 and $84.0, after-tax, respectively, for restructuring and other items as described in Note 4.

(b) Income from continuing operations in 1999, as adjusted, excludes restructuring and other special items of $(2.9) after-tax. Income from continuing operations in 1998, as adjusted, excludes the items in note (a) above and $83.2, after-tax, for operating income from discontinued operations; $1,546.9, after-tax, for gain on sale of ITT Automotive operations. The 1997 net income from continuing operations, as adjusted, excludes the items in note (a) above and operating income from discontinued operations of $101.8, after-tax; and a charge for the cumulative effect of accounting change of $5.6, after-tax. The 1996 net income from continuing operations, as adjusted, excludes operating income from discontinued operations of $156.2, after-tax.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

HIGHLIGHTS

For the years ended December 31, ITT Industries, Inc. (the "Company") reported the following (in millions):

	2000	1999(a)	1998(b)
Sales and revenues from continuing operations...............	$4,829.4	$4,632.2	$4,492.7
Operating income from continuing operations................	$ 493.1	$ 410.6	$ 324.8
Income from continuing operations, after-tax...............	$ 264.5	$ 230.0	$ 146.0

(a) 1999 figures are adjusted to exclude restructuring and other special items of $(4.6) pretax or $(2.9) after-tax.

(b) 1998 figures are adjusted to exclude restructuring and other special items of $399.4 pretax or $243.6 after-tax.

ACQUISITIONS: During 2000, the Company continued to make acquisitions intended to strengthen market positions and present the highest potential for creating value. Most notably, the Company acquired C&K Components, Inc ("C&K"), a leader in the design and manufacture of switches for the telecommunications, computer and electronic equipment markets, and Man Machine Interface ("MMI"), a manufacturer of multi-layer switch components and assemblies for the wireless mobile handset market. These companies have combined annualized revenue of approximately $166 million.

DEFENSE AWARD: The Company's Defense Products and Services segment was awarded a contract to modernize US Air Force Spacelift Range System ("SLRS") in November 2000, worth an estimated $1.3 billion over ten years. The SLRS contract will provide the Department of Defense, NASA and commercial customers an integrated system to support space missions including spacecraft launch, ballistic missile and aeronautical testing.

VALUE-BASED SIX SIGMA: During 2000, the Value-Based Six Sigma ("VBSS") program was launched with more than 180 people trained. VBSS is a structured process for the identification, prioritization, and deployment of improvement projects. VBSS is the overarching discipline under which the Company will drive toward operational excellence, improve efficiencies and accelerate new product introductions. Another 150 people are scheduled for training in 2001.

MARGIN IMPROVEMENT: During 2000, segment operating margins increased over 100 basis points from 10.1% in 1999 to 11.3% in 2000 and total operating margin increased from 8.9% to 10.2%.

This gain was due to the introduction of new, more profitable products, higher volume, lower pension expense and higher productivity.

CASH FLOW: During 2000, the Company's free cash flow more than doubled from $115.3 million in 1999 to $234.0 million in 2000. This improvement is due to the Company's ongoing effort to maximize operating cash flow.

CONNECTORS & SWITCHES GROWTH: During 2000, our Connectors & Switches business' sales grew $258.6 million of which 29.6% represents organic growth. This increase was driven by robust expansion in the telecommunications, industrial and transportation markets.

COMMERCIALIZATION OF TECHNOLOGY: The Company acquired a 15% equity interest in MeshNetworks, Inc. ("MeshNetworks") in exchange for licensing a portion of the Company's wireless technology to the new venture as well as cash. MeshNetworks is a start-up company which focuses on the commercialization of mobile communications technology.

CHANGE IN TICKER SYMBOL: Effective September 5, 2000, the Company changed its ticker symbol on the New York Stock Exchange to "ITT."

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1999: Sales and revenues in 2000 were $4.8 billion, an increase of $197.2 million, or 4.3% over 1999 ($359.9 million or 7.8% in constant currencies). The increase is attributable to several acquisitions made in 2000 and the second half of 1999, as well as organic growth, partially offset by the absence of a defense settlement received in 1999 and the scheduled wind down of certain Defense contracts.

Operating income of $493.1 million in 2000 was $77.9 million higher than the prior year. Operating income for 1999 of $415.2 million included a $4.6 million credit related to restructuring and other special items. Excluding restructuring and other special items from 1999, operating income was $82.5 million higher than the 1999 comparative operating income of $410.6 million. The related operating margin improved to 10.2% from 8.9% in 1999. The increases in operating income and margin were the result of higher sales volumes, a significant improvement in productivity, lower pension expense and the introduction of new, more profitable products.

Interest expense of $75.2 million (net of interest income of $17.9 million) increased $28.4 million on higher average debt levels due to the 1999 share repurchase program, which was completed in the first quarter of 1999, and several acquisitions made in 2000 and the second half of 1999, as well as higher average interest rates.

Net income from continuing operations in 2000 was $264.5 million, or $2.94 per diluted share compared to $232.9 million, or $2.53 per diluted share in 1999 ($230.0 million and $2.50 per share excluding restructuring and other special items). The Company's effective tax rate was 37.0% in both 2000 and 1999. The Company expects that its effective tax rate will be reduced to 35.0% in 2001 due to several tax initiatives undertaken in 2000 to reduce the structural rate.

YEAR ENDED DECEMBER 31, 1999 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1998: Sales and revenues in 1999 were $4.6 billion, an increase of $139.5 million, or 3.1% over 1998. The increase is attributable to several acquisitions made in 1999 and 1998, as well as organic growth, partially offset by lost revenue due to discontinued product lines, higher selectivity with products and customers, and lower sales from companies held for disposition.

Operating income for 1999 was $415.2 million and included a $4.6 million credit related to restructuring and other special items. The 1998 operating loss of $74.6 million included restructuring and other special items of $399.4 million. Excluding restructuring and other special items in both years, the comparative operating income was $410.6 million for 1999 and $324.8 million for 1998. The related operating margin improved to 8.9% in 1999 from 7.2% in 1998. The year-to-year increases in operating income and margin were the result of higher sales volumes, cost reductions, and the contribution from acquisitions.

Interest expense of $46.8 million (net of interest income of $38.0 million) represented a 43.2% reduction from the 1998 interest expense of $82.4 million (net of interest income of $43.4 million). The decrease was due to using a portion of the proceeds from the automotive disposition to significantly lower the Company's debt level.

Net income from continuing operations excluding restructuring and other special items in 1999 was $230.0 million, or $2.50 per diluted share, compared to $146.0 million, or $1.29 per diluted share in 1998. The increase was due to higher sales volume, benefits from restructuring and other cost reduction initiatives, a significant reduction in interest expense, and a lower effective tax rate.

BUSINESS SEGMENTS

Sales and revenues and operating income for each of the Company's business segments were as follows (in millions):

Year Ended December 31,	Pumps & Complementary Products	Defense Products & Services	Specialty Products	Connectors & Switches	Dispositions, Other & Eliminations	Corporate	Total
2000							
Sales and revenues.............	$1,752.2	$1,334.6	$972.4	$ 774.6	$(4.4)	$ --	$4,829.4
Operating income (loss)........	$ 194.5	$ 117.3	$136.0	$ 99.0	$(0.4)	$ (53.3)	$ 493.1
1999							
Sales and revenues.............	$1,735.0	$1,413.9	$959.5	$ 516.0	$ 7.8	$ --	$4,632.2
Operating income (loss):							
Before restructuring and other special items........	164.4	108.8	132.9	62.1	0.5	(58.1)	410.6
Restructuring and other special items..............	(5.5)	3.9	(3.5)	9.7	--	--	4.6
Total operating income (loss).......................	$ 158.9	$ 112.7	$129.4	$ 71.8	$ 0.5	$ (58.1)	$ 415.2
1998							
Sales and revenues.............	$1,770.0	$1,293.4	$849.3	$ 527.9	$52.1	$ --	$4,492.7
Operating income (loss):							
Before restructuring and other special items........	145.5	97.9	90.9	52.7	5.4	(67.6)	324.8
Restructuring and other special items..............	(147.6)	(69.6)	(9.0)	(102.4)	31.0	(101.8)	(399.4)
Total operating income (loss).......................	$ (2.1)	$ 28.3	$ 81.9	$ (49.7)	$36.4	$(169.4)	$ (74.6)

Pumps & Complementary Products' sales and revenues of $1.7 billion increased $17.2 million, over 1999. The increase reflects higher volume within the construction and water and wastewater businesses partially offset by the impact of foreign exchange rates and softness in industrial pumps. In addition, the adoption of EITF Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs" (EITF 00-10) (refer to the section entitled "Accounting Pronouncements" for further discussion of EITF 00-10) resulted in an increase in revenues and cost of sales of approximately $16 million in comparison to 1999. Revenues and cost of sales for years prior to 2000 were not restated to reflect the provisions of EITF 00-10 as it was impractical to do so. Operating income for 2000 was up $30.1 million compared to 1999 operating income, excluding restructuring, due to higher prices, higher productivity, the liquidation of foreign businesses and the benefits of restructuring and cost initiatives. Sales for 1999 decreased $35.0 million, or 2.0%, from 1998. Weakness in the industrial end-user markets, and lost revenue due to discontinued product lines and higher selectivity with products and customers offset the acquisition of Sanitaire Corporation and strength in the water and wastewater markets. In addition, 1999 operating income before restructuring and other special items was $164.4 million, up $18.9 million or 13.0% over the prior year.

Defense Products & Services' sales and revenues decreased $79.3 million, or 5.6%, compared to 1999. The decrease is due to the scheduled wind down of certain large contracts, the absence of a $25.6 million claim settlement received in 1999, and lost revenue from the sale of GaAsTEK, partially offset by an entire year of revenues from the 1999 acquisition of Stanford Telecommunications Inc.'s ("Stel") space and defense communications businesses (which added approximately $120 million in sales and revenues). Operating income for 2000 was $8.5 million greater than 1999 operating income, excluding restructuring, primarily due to margin improvements from product/program mix. Sales and revenues for 1999 were up 9.3% or $120.5 million over 1998. Higher domestic SINCGARS sales, higher export sales, particularly a large radar sale to Korea in the fourth quarter, higher sales volume in our Night Vision unit, as well as a $25.6 million claim settlement on a prior year project, drove the revenue increase in this segment. Operating margin remained flat for the year. Operating income excluding restructuring and other special items was $108.8 million, an increase of $10.9 million or 11.1% over 1998, mainly due to higher sales volume and the receipt of a $5.3 million settlement during the second quarter. During 1999, the Company recorded $28.3 million in charges for loss contracts, warranty provisions and other matters.

Specialty Products recorded sales and revenues of $972.4 million for the year, representing an increase of 1.3% over 1999. The inclusion of the 1999 acquisitions of Flojet Corporation and Hydro-Air Industries for an entire year (which combined to add approximately $46 million of sales and revenues) partially offset by the impact of foreign exchange rates were the primary reasons for the change. Revenues of $959.5 million for 1999, represent an increase of 13.0% over 1998. Strong sales to OEM automotive customers resulting from high North American and European vehicle build rates, the impact of the 1998 General Motors strike, higher sales in the pharmaceutical industry, along with the impact of acquisitions fueled the revenue growth. Operating income before restructuring and other special items for 1999 rose 46.2% or $42.0 million over 1998, to $132.9 million. Operating margins, before restructuring and other special items, were up 3.1 percentage points.

Connectors and Switches' sales and revenues were $774.6 million for 2000, representing an increase of $258.6 million, or 50.1%, compared to 1999. The increase reflects robust growth in the telecommunications, industrial and transportation markets partially offset by the negative impact of foreign exchange rates. The 1999 acquisition of STX Pte. Ltd. ("STX"), and the 2000 acquisitions of C&K and MMI (incremental sales and revenues for these three acquisitions combined to add approximately $143 million) also had a favorable impact. Operating income was up $36.9 million, or 59.4%, over the prior year operating income, excluding restructuring, due to higher volume, greater contributions from new products with higher margins, and improvements in manufacturing processes. In 1999, sales and revenues decreased $11.9 million, or 2.3%, compared to 1998. Weak demand in the European connector market during the first half of 1999 and total year softness within the North American military aerospace market was partially offset by strong demand for the Company's communications connectors and switches, and the acquisition of STX during the fourth quarter of 1999. Operating income before restructuring and other special items was $62.1 million, up $9.4 million, or 17.8%, from 1998. Operating margin, before restructuring and other special items, expanded by 2.1 percentage points in 1999. New products, together with ongoing cost control efforts, contributed to the operating income increase.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS: Cash flows from operating activities were $414.6 million in 2000, an increase of $71.4 million, or 20.8%, from $343.2 million generated in 1999. The increase is largely attributable to higher earnings, and lower tax and restructuring payments, partially offset by higher working capital levels, and other operating activities. Higher accounts receivable balances, due to increased sales and the timing of collections, were the primary drivers behind the increase in working capital.

ADDITIONS TO PLANT, PROPERTY AND EQUIPMENT: Capital expenditures during 2000 were $180.6 million, a decrease from $227.9 million in 1999. Approximately 29% of the 2000 spending occurred at Pumps & Complementary Products primarily related to expansion of existing product lines, new product lines and custodial replacement. Approximately 26% was incurred at Specialty Products related to product line changes resulting in product improvements and the expansion of the capacity for established as well as new products. Approximately 25% was spent at Connectors & Switches for new product introductions and manufacturing cost reduction initiatives. Defense Products & Services expended approximately 20% of the 2000 total, primarily related to the expansion of new and existing product lines, as well as, custodial replacements. At December 31, 2000, contractual commitments have been made for future expenditures totaling $51.6 million.

ACQUISITIONS: During 2000, the Company acquired C&K, MMI, and several other small companies for approximately $192 million. The acquisitions were accounted for as purchases and accordingly, the results of operations of each entity are included in the consolidated income statement commencing on the date of acquisition. Goodwill of $173.9 million, representing the excess of the purchase price over the fair value of net assets acquired, was recorded by the Company and is being amortized over 25 to 30 years.

In 1999, the Company acquired Stel's space and defense communications businesses, Flojet Corporation, STX, Sanitaire Corporation, Hydro Air Industries, K and M Electronics, and the assets of Energy Machine Service, Inc. and made an equity investment in EarthWatch Incorporated. The Company paid a total of $544.8 million for these acquisitions. The acquisitions were accounted for as purchases and, accordingly, the results of operations of each acquired company were included in the consolidated income statement from the date of acquisition. The excess of the purchase prices over the fair values of the net assets acquired and the liabilities assumed of $416.1 million was recorded as goodwill and is being amortized over periods not exceeding 40 years.

STATUS OF RESTRUCTURING ACTIVITIES: The Company has undertaken a number of actions in recent years to improve operating efficiencies and reduce structural costs. The following is a brief summary of the activity during the past three years. See Note 4, Restructuring and Other Special Items, in the Notes to the Consolidated Financial Statements for a detailed discussion.

During 1998, the Company recorded restructuring and other special items of $20.1 million in the first quarter, $10.7 million in the second quarter, and $368.6 million in the fourth quarter. The actions taken affected all four business segments and included rationalization of operating locations, consolidations of sales and distribution facilities, workforce reductions and product pruning. The items included write-downs of businesses to be sold and an increase in reserves for environmental exposures.

In the fourth quarter of 1999, the Company recorded $20.2 million of charges related to additional restructuring activities, primarily for the closure of four facilities and severance of 324 persons. The Company also recorded $20.0 million of goodwill write-offs. As of December 31, 2000, the Company had closed three of the four facilities and reduced its work-force by 226. It is expected that the majority of remaining actions will be completed in 2001.

During the fourth quarter of 1999, the Company assessed its restructuring reserves established in 1998, determined that activities related to those reserves will be completed for $44.8 million less than originally estimated, and reversed the related reserves into income. The net effect of the reversal of 1998 reserves and the 1999 restructuring and asset write-offs was an increase to 1999 operating income of $4.6 million and EPS of $0.03. As of December 31, 2000, the Company had closed 19 of the planned 25 facilities, discontinued all of the planned 19 product lines, and reduced the workforce by 2,136, or approximately 93% of the revised planned aggregate reduction of approximately 2,300 persons. The remaining activities will be completed in 2001.

DIVESTITURES: In 2000, the Company generated divestiture proceeds of $47.6 million. In the first quarter of 2000, the Company sold the net assets of GaAsTEK, a business in the Defense Products and Services segment for $28.3 million. The remaining $19.3 million of cash proceeds from the sale of assets represents plant, property and equipment sales across all businesses. During 1999, the Company made three significant divestitures, Palm Coast Utility Corporation, Carbon Industries, Inc. and assets of Community Development Corporation which in aggregate generated $96.5 million of cash. In addition, the Company generated $11.2 million of proceeds from property and equipment sales across all businesses. In 1998, the Company sold its automotive Brake and Chassis and Electrical Systems businesses, and the Barton fluid measurement and Pomona Electronics units for a total of $3.75 billion.

SHARE REPURCHASE: During 1999 and 1998, the Company repurchased 8.1 million and 22.4 million shares, respectively, as part of its share repurchase program announced on July 29, 1998. The total cost of the share repurchases was $318.3 million and $787.1 million in 1999 and 1998, respectively. In 2000, 1999, and 1998, 1.7 million, 2.2 million, and 1.3 million shares, respectively, were repurchased to offset the dilutive effect of exercised stock options.

DEBT AND CREDIT FACILITIES: Debt at December 31, 2000 was $1.04 billion, compared to $1.09 billion at December 31, 1999. Cash and cash equivalents were $88.7 million at December 31, 2000 compared to $181.7 million at December 31, 1999. In November 2000, the Company entered into a revolving credit agreement with 20 domestic and foreign banks, which expires in November 2005, and provides aggregate commitments of $1.0 billion. There were no borrowings under this facility at December 31, 2000. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate ("LIBOR"), plus a spread which reflects the Company's debt rating. The provisions of these agreements require the Company to maintain certain financial ratios. At December 31, 2000, the Company was in compliance with all financial covenants. The commitment fee on the revolving credit agreement is .125% of the total commitment, based on the Company's current debt rating. The agreement entered into in November 2000, replaced the Company's previous $1.5 billion credit agreement which expired in November 2000. The revolving credit agreement provides back-up for the Company's commercial paper program.

MARKET RISK EXPOSURES

The Company, in the normal course of doing business, is exposed to the risks associated with changes in interest rates, currency exchange rates, and commodity prices. To limit the risks from such fluctuations, the Company enters into various hedging transactions that have been authorized pursuant to the Company's policies and procedures. See Note 1, Accounting Policies, and Note 16, Financial Instruments, in the Notes to Consolidated Financial Statements.

To manage exposure to interest rate movements and to reduce its borrowing costs, the Company has borrowed in several currencies and from various sources and has used interest rate swaps. In May 2000, the Company entered into several fixed to floating interest rate swap agreements for a notional amount of $421.7 million. The interest expense on substantially all of the Company's long term debt is calculated on a variable, rather than fixed rate, basis. Terms of the agreements match the terms of the fixed debt and reference 3 month LIBOR.

At December 31, 2000, the Company's short-term and long-term debt obligations, net of cash, were $949.6 million. Based on this position and the Company's overall exposure to interest rate changes, a 71 basis point change in interest rates (which is equivalent to 10% of the Company's weighted average short-term interest rate at December 31, 2000) on the Company's cash and marketable securities, and on its floating rate debt obligations and related interest rate derivatives, would have a $6.4 million effect on the Company's pretax earnings for the year ended December 31, 2000. An 85 basis point increase in long-term interest rates (equivalent to 10% of the Company's weighted average long-term interest rate at December 31, 2000) would have a $3.6 million effect on the fair value of the Company's fixed rate debt.

The multinational operations of the Company are exposed to foreign currency exchange rate risk. The Company utilizes foreign currency denominated forward contracts to hedge against adverse changes in foreign exchange rates. Such contracts generally have durations of less than one year. The Company has also utilized foreign currency denominated derivative instruments to selectively hedge its net long-term investments in foreign countries. The Company's largest exposures to foreign exchange rates exist primarily with the Deutsche Mark, Belgian Franc, Swedish Krona, and Italian Lira against the U.S. Dollar.

A 10% adverse change in currency exchange rates for the Company's foreign currency derivatives and other foreign currency denominated financial instruments, held as of December 31, 2000, would have an impact of approximately $0.4 million on the fair value of such instruments. The Company uses derivative instruments to hedge exposures, and as such, the quantification of the Company's market risk for foreign exchange financial instruments does not account for the offsetting impact of the Company's underlying investment and transactional positions.

INCOME TAXES

FOREIGN TAX CREDITS: As a global company, the Company makes provisions for, and pays taxes in numerous jurisdictions, some of which impose income taxes in excess of equivalent U.S. domestic rates. Credit for such taxes is generally available under U.S. tax laws when earnings are remitted, or deemed to be remitted, to the U.S. The Company expects to fully utilize credits generated through December 31, 2000 for income taxes paid in foreign jurisdictions.

DEFERRED TAX ASSETS: The Company had net deferred tax assets of $367.6 million at December 31, 2000 and $356.8 million at December 31, 1999. The deferred tax assets for both periods are composed of U.S., foreign, and state and local deferred tax assets. These net deferred tax assets arise from temporary differences between assets and liabilities for financial reporting and tax purposes and primarily relate to reserves, employee benefits, and accelerated depreciation. It is management's expectation that the Company will have sufficient future taxable income from continuing operations to utilize its deductions in future periods.

ACCOUNTING PRONOUNCEMENTS

The Company will adopt Statement of Financial Accounting Standards ("SFAS")

No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") in the first quarter of 2001. SFAS 133, as amended by SFAS 138, will not have a material impact on the Company's combined results of operations, financial position, or cash flows.

Effective October 1, 2000, the Company adopted SAB 101 "Revenue Recognition in Financial Statements" ("SAB 101") and EITF Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs" ("EITF 00-10"). SAB 101 provides guidance on the recognition, presentation and disclosure of the revenue in the financial statements. EITF 00-10 requires that all shipping and handling costs billed to customers be recorded as sales. The adoption of SAB 101 did not have a material impact on the Company's consolidated results of operations, financial condition, or cash flow. The adoption of EITF 00-10 caused an increase in 2000 annual sales and cost of sales of approximately $16 million. The adoption of EITF 00-10 had no effect on operating income, net income, EPS, financial condition or cash flow of the Company.

RISKS AND UNCERTAINTIES

SALES OF AUTOMOTIVE BUSINESSES: In 1998, the Company received notifications of claims from the buyers of the automotive businesses requesting post-closing adjustments to the purchase price under the provisions of the sales agreements. In 1999, those claims were submitted to arbitration. After a thorough review, the Company believes that the claims have little merit and is vigorously disputing them. Although it cannot be determined at this time whether or to what extent, if any, there will be a post-closing adjustment of the purchase prices as a result of the arbitration, the Company does not believe such adjustments would have a material adverse effect on the cash flow, results of operations, or financial condition of the Company on a consolidated basis.

ENVIRONMENTAL MATTERS: The Company is subject to stringent environmental laws and regulations that affect its operating facilities and impose liability for the clean up of past discharges of hazardous substances. In the United States, these laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Management believes that the Company is in substantial compliance with these and all other applicable environmental requirements. Environmental compliance costs are accounted for as normal operating expenses.

In estimating the costs of environmental investigation and remediation, the Company considers, among other things, regulatory standards, its prior experience in remediating contaminated sites, and the professional judgment of environmental experts. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such problems, the selection of alternative remedies, and changes in clean-up standards. When it is possible to create reasonable estimates of liability with respect to environmental matters, the Company establishes reserves in accordance with generally accepted accounting principles. Insurance recoveries are recorded when it is probable that they will be received. Although the outcome of the Company's various remediation efforts presently cannot be predicted with a high level of certainty, management does not expect that these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

EURO CONVERSION ISSUE: The Company is addressing issues raised by the conversion to the Euro, such as assessing whether cross-border price transparency will affect price structures for similar products and adapting its information technology systems. The Company's efforts to adapt its systems differ at its various European operations. All operations are able to accommodate Euro-denominated invoicing and purchasing transactions. The Company's European operations are formulating plans to accommodate all Euro-denominated transactions and triangulation conventions by January 1, 2002, and some of these operations have already implemented the utilization of the Euro as a transactional currency. The Company anticipates that its costs in connection with the Euro conversion will not be material. Further, the Company does not anticipate that the conversion from the legacy currencies to the Euro will have a material adverse impact on its consolidated financial position, results of operations, or cash flows.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including within this Management's Discussion and Analysis of Financial Condition and Results of Operations (most particularly, material presented under "Liquidity and Capital Resources," "Market Risk Exposures," and "Risks and Uncertainties"), that are not historical facts, constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, in general, predict, forecast, indicate or imply future results, performance or achievements and generally use words so indicative. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Company and its businesses to be materially different from that expressed or implied by such forward-looking statements. Such factors may be described or referred to from time to time in filings made by the Company with the Securities and Exchange Commission. Included in those factors are the following: general economic and business conditions; foreign currency exchange rates; political, social and economic conditions and local regulations in the countries in which the Company conducts its businesses; government regulations and compliance therewith; demographic changes; sales and revenues mix; pricing levels; changes in sales and revenues to, or the identity of, significant customers; changes in technology; industry capacity and production rates; ability of outside third parties to comply with their commitments; competition; capacity constraints; availability of raw materials and adequate labor; availability of appropriate professional expertise; availability of liquidity sufficient to meet the Company's needs; the ability to adapt to changes resulting from acquisitions and divestitures and to effect cost reduction programs and various other factors referenced in this Management's Discussion and Analysis. In some areas the availability of energy sources may affect our production processes or customer demand for our products or services. In addition to these factors, our business segments may be affected by the more specific factors referred to below.

Our Pumps & Complementary Products business will be affected by factors including global economic conditions; governmental funding levels; international demand for fluid management products; the ability to successfully expand into new geographic markets; weather conditions; and continued demand for replacement parts and servicing.

Our Defense Products & Services business will be affected by factors including the level of defense funding by domestic and foreign governments; our ability to receive contract awards; and our ability to develop and market products and services for customers outside of traditional markets.

Our Specialty Products business will be affected by the cyclical nature of the transportation industries; strikes at major auto producers; and international demand for marine and leisure products.

Our Connectors & Switches business will be affected by the economic conditions in foreign markets, both those in which we currently participate, and those that we are trying to enter and the cyclical nature of the industry.

The Company assumes no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is provided under the caption "Market Risk Exposures" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 16, "Financial Instruments", to "Notes to Consolidated Financial Statements" herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedule herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 with respect to directors is incorporated herein by reference to the definitive proxy statement involving the election of directors filed or to be filed by ITT Industries with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K Annual Report.

The information called for by Item 10 with respect to executive officers is set forth above in Part I under the caption "Executive Officers of the registrant."

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as a part of this report:

1. See Index to Consolidated Financial Statements and Schedule appearing on page F-1 for a list of the financial statements and schedule filed as a part of this report.

2. See Exhibit Index appearing on pages II-2, II-3 and II-4 for a list of the exhibits filed or incorporated herein as a part of this report.

(b) On November 20, 2000, ITT Industries reported on Form 8-K that on November 10, 2000, it entered into a five-year Competitive Advance and Revolving Credit Facility Agreement with twenty banks for an aggregate amount of $1 billion.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

ITT INDUSTRIES, INC. AND SUBSIDIARIES

REPORT OF MANAGEMENT

The management of ITT Industries, Inc. is responsible for the preparation and integrity of the information contained in the consolidated financial statements and other sections of this document. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and, where necessary, include amounts that are based on management's informed judgments and estimates. Other information herein is consistent with the consolidated financial statements.

ITT Industries' consolidated financial statements are audited by Arthur Andersen LLP, independent public accountants, whose appointment is ratified by the shareholders. Management has made ITT Industries' financial records and related data available to Arthur Andersen LLP, and believes that the representations made to the independent public accountants are valid and complete.

ITT Industries' system of internal controls is a major element in management's responsibility to assure that the consolidated financial statements present fairly the Company's financial condition. The system includes both accounting controls and the internal auditing program, which are designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly recorded and executed in accordance with management's authorization, and that fraudulent financial reporting is prevented or detected.

ITT Industries' internal controls provide for the careful selection and training of personnel and for appropriate divisions of responsibility. The controls are documented in written codes of conduct, policies, and procedures that are communicated to ITT Industries' employees. Management continually monitors the system of internal controls for compliance. In addition, based upon management's assessment of risk, both operational and financial, special reviews are performed by contracted auditors to periodically test the effectiveness of selected controls. The independent public accountants also evaluate internal controls and perform tests of procedures and accounting records to enable them to express their opinion on ITT Industries' consolidated financial statements. They also make recommendations for improving internal controls, policies, and practices. Management takes appropriate action in response to each recommendation.

The Audit Committee of the Board of Directors, composed of non-employee directors, meets periodically with management and with the independent public accountants and contracted auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities.

/s/ LOUIS J. GIULIANO
- ---
Louis J. Giuliano
Chairman, President and
Chief Executive Officer

/s/ DAVID J. ANDERSON
- ---
David J. Anderson
Senior Vice President and
Chief Financial Officer

ITT INDUSTRIES, INC AND SUBSIDIARIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of ITT Industries, Inc.:

We have audited the consolidated financial statements of ITT Industries, Inc. (an Indiana corporation) and subsidiaries as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, as set forth on the accompanying Index to Consolidated Financial Statements and Schedule. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ITT Industries, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Consolidated Financial Statements and Schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

STAMFORD, CONNECTICUT
JANUARY 22, 2001

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

	Year ended December 31,		
	2000	1999	1998
	(in millions, except per share amounts)		
Sales and revenues	$4,829.4	$4,632.2	$4,492.7
Costs of sales and revenues	3,195.3	3,265.8	3,165.9
Selling, general and administrative expenses	749.8	691.4	734.4
Research, development and engineering expenses	391.2	264.4	267.6
Restructuring and other special items	--	(4.6)	399.4
Total costs and expenses	4,336.3	4,217.0	4,567.3
Operating income (loss)	493.1	415.2	(74.6)
Interest expense, net	(75.2)	(46.8)	(82.4)
Miscellaneous income (expense)	2.0	1.3	(3.0)
Income (loss) from continuing operations before income taxes	419.9	369.7	(160.0)
Income tax (expense) benefit	(155.4)	(136.8)	62.4
Income (loss) from continuing operations	264.5	232.9	(97.6)
Discontinued operations:			
Operating income, net of tax of $53.1	--	--	83.2
Gain on sales of ITT Automotive, net of tax of $835.0	--	--	1,546.9
Net income	$ 264.5	$ 232.9	$1,532.5
EARNINGS (LOSS) PER SHARE			
Income (loss) from continuing operations			
Basic	$ 3.01	$ 2.61	$ (.86)
Diluted	$ 2.94	$ 2.53	$ (.86)
Discontinued operations			
Basic	$ --	$ --	$ 14.41
Diluted	$ --	$ --	$ 14.41
Net income			
Basic	$ 3.01	$ 2.61	$ 13.55
Diluted	$ 2.94	$ 2.53	$ 13.55
AVERAGE COMMON SHARES -- BASIC	87.9	89.2	113.1
AVERAGE COMMON SHARES -- DILUTED	90.0	92.0	113.1

The accompanying Notes to Consolidated Financial Statements are an integral part of the above statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2000	1999	1998
	(in millions)		
Net income	$264.5	$232.9	$1,532.5
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	(69.1)	(23.3)	18.0
Reclassifications included in net income	(5.6)	--	(182.7)
Unrealized loss on investment securities	(1.6)	(0.2)	(2.1)
Minimum pension liability	(20.4)	--	--
Total other loss, before tax	(96.7)	(23.5)	(166.8)
Income tax (expense) benefit related to other comprehensive loss	15.7	(11.6)	(19.1)
Total other loss, after tax	(81.0)	(35.1)	(185.9)
Comprehensive income	$183.5	$197.8	$1,346.6

The accompanying Notes to Consolidated Financial Statements are an integral part of the above statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999
	(in millions, except per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 88.7	$ 181.7
Receivables, net	814.9	834.7
Inventories, net	531.3	545.8
Other current assets	71.4	66.1
Total current assets	1,506.3	1,628.3
Plant, property and equipment, net	865.4	847.0
Deferred income taxes	384.4	373.6
Goodwill, net	1,373.0	1,206.0
Other assets	482.3	474.9
Total non-current assets	3,105.1	2,901.5
TOTAL ASSETS	$4,611.4	$4,529.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 386.0	$ 383.1
Accrued expenses	823.9	753.1
Accrued taxes	392.9	364.9
Notes payable and current maturities of long-term debt	629.9	609.3
Total current liabilities	2,232.7	2,110.4
Pension benefits	195.8	170.8
Postretirement benefits other than pensions	195.4	211.3
Long-term debt	408.4	478.8
Other liabilities	367.9	459.4
Total non-current liabilities	1,167.5	1,320.3
TOTAL LIABILITIES	3,400.2	3,430.7
Shareholders' Equity:		
Common stock: Authorized -- 200,000,000 shares, $1 par value per share		
Outstanding -- 87,914,595 shares	87.9	87.9
Retained earnings	1,306.9	1,113.8
Accumulated other comprehensive loss	(183.6)	(102.6)
Total shareholders' equity	1,211.2	1,099.1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,611.4	$4,529.8

The accompanying Notes to Consolidated Financial Statements are an integral part of the above statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2000	1999	1998
	(in millions)		
OPERATING ACTIVITIES			
Net income	$ 264.5	$ 232.9	$ 1,532.5
Discontinued operations:			
Operating income	--	--	(83.2)
Gain on sales of ITT Automotive	--	--	(1,546.9)
Income (loss) from continuing operations	264.5	232.9	(97.6)
Adjustments to income (loss) from continuing operations:			
Depreciation	150.6	144.3	157.5
Amortization	51.2	36.8	38.1
Restructuring and other special items	--	(4.6)	430.5
Payments made for restructuring and other special items	(25.9)	(60.0)	(25.1)
Change in receivables, inventories, accounts payable, and accrued expenses	(26.9)	4.5	(112.5)
Change in accrued and deferred taxes	44.2	43.4	(136.4)
Other, net	(43.1)	(54.1)	(66.0)
Net Cash -- operating activities	414.6	343.2	188.5
INVESTING ACTIVITIES			
Additions to plant, property and equipment	(180.6)	(227.9)	(212.9)
Acquisitions	(192.0)	(544.8)	(79.6)
Proceeds from sale of assets and businesses	47.6	107.7	3,745.1
Other, net	(1.3)	4.5	3.9
Net Cash -- investing activities	(326.3)	(660.5)	3,456.5
FINANCING ACTIVITIES			
Short-term debt, net	(43.5)	426.0	(1,419.8)
Long-term debt repaid	(21.1)	(83.8)	(61.4)
Long-term debt issued	0.9	3.1	9.0
Repurchase of common stock	(54.0)	(402.6)	(830.8)
Dividends paid	(52.9)	(55.5)	(70.5)
Other, net	26.6	29.8	39.5
Net Cash -- financing activities	(144.0)	(83.0)	(2,334.0)
EXCHANGE RATE EFFECTS ON CASH AND CASH EQUIVALENTS	(28.0)	(14.5)	2.4
NET CASH -- DISCONTINUED OPERATIONS	(9.3)	(284.4)	(624.7)
Increase (decrease) in cash and cash equivalents	(93.0)	(699.2)	688.7
Cash and cash equivalents -- beginning of year	181.7	880.9	192.2
CASH AND CASH EQUIVALENTS -- END OF YEAR	$ 88.7	$ 181.7	$ 880.9
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 82.3	$ 76.4	$ 121.8
Income taxes	$ 108.6	$ 42.1	$ 107.1

The accompanying Notes to Consolidated Financial Statements are an integral part of the above statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Shares Outstanding			Dollars		
YEAR ENDED DECEMBER 31,	2000	1999	1998	2000	1999	1998
	(amounts in millions, except per share amounts)					
COMMON STOCK						
Beginning balance	87.9	96.0	118.4	$ 87.9	$ 96.0	$ 118.4
Stock incentive plans	1.7	2.2	1.3	1.7	2.2	1.3
Repurchases	(1.7)	(2.2)	(1.3)	(1.7)	(2.2)	(1.3)
Stock repurchase program	--	(8.1)	(22.4)	--	(8.1)	(22.4)
Ending balance	87.9	87.9	96.0	$ 87.9	$ 87.9	$ 96.0
CAPITAL SURPLUS						
Beginning balance				$ --	$ --	$ 397.0
Stock incentive plans				--	--	28.7
Repurchases				--	--	(46.9)
Stock repurchase program				--	--	(378.8)
Ending balance				$ --	$ --	$ --
RETAINED EARNINGS						
Beginning balance				$1,113.8	$1,271.5	$ 188.5
Net income				264.5	232.9	1,532.5
Common stock dividend declared -- $.60, $.60 and $.60				(52.9)	(53.4)	(68.1)
Repurchases				(18.5)	(337.2)	(381.4)
Ending balance				$1,306.9	$1,113.8	$1,271.5
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):						
Unrealized Loss on Investment Securities						
Beginning balance				$ (0.7)	$ (0.5)	$ 1.6
Unrealized loss				(1.6)	(0.2)	(2.1)
Ending balance				$ (2.3)	$ (0.7)	$ (0.5)
Minimum Pension Liability						
Beginning balance				$ --	$ --	$ --
Recognition of minimum pension liability				(12.9)	--	--
Ending balance				$ (12.9)	$ --	$ --
Cumulative Translation Adjustments						
Beginning balance				$ (101.9)	$ (67.0)	$ 116.8
Translation of foreign currency financial statements				(66.5)	(34.9)	21.0
Sale of net foreign investments				--	--	(204.8)
Ending balance				$ (168.4)	$ (101.9)	$ (67.0)
Total accumulated other comprehensive loss				$ (183.6)	$ (102.6)	$ (67.5)
TOTAL SHAREHOLDERS' EQUITY				$1,211.2	$1,099.1	$1,300.0

The accompanying Notes to Consolidated Financial Statements are an integral part of the above statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE STATED)

NOTE 1 ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES: The consolidated financial statements include the accounts of ITT Industries, Inc. (the "Company") and all majority owned subsidiaries. Investments in unconsolidated companies where management exercises significant influence are accounted for using the equity method. All significant intercompany transactions have been eliminated.

SALES AND REVENUE RECOGNITION: The Company recognizes revenues as services are rendered and recognizes sales as products are shipped to customers. Our Defense Products & Services business recognizes sales and revenues based on unit of delivery, milestone achievement, completion of contract or based on costs incurred for cost reimbursable contracts, depending on the type of contract and contract terms and conditions. Expected losses on long-term contracts are recognized when events and circumstances indicate that a loss will be incurred.

RESEARCH, DEVELOPMENT AND ENGINEERING: Significant costs are incurred each year in connection with research, development, and engineering ("RD&E") programs that are expected to contribute to future earnings. Such costs are charged to income as incurred, except to the extent recoverable under existing contracts. Approximately 74.6%, 57.8% and 67.4% of total RD&E costs were expended pursuant to customer contracts for each of the three years ended December 31, 2000, 1999, and 1998, respectively.

CASH AND CASH EQUIVALENTS: The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES: Most inventories are valued at the lower of cost (first-in, first-out or "FIFO") or market. A full absorption procedure is employed using standard cost techniques that are customarily reviewed and adjusted annually. Potential losses from obsolete and slow-moving inventories are provided for when identified. Domestic inventories valued under the last-in, first-out ("LIFO") method represent 13.0% and 11.3% of total 2000 and 1999 inventories, respectively. There would not have been a material difference in the value of inventories, if the FIFO method had been used by the Company to value all inventories.

ASSET IMPAIRMENT LOSSES: The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts.

PLANT, PROPERTY AND EQUIPMENT: Plant, property and equipment, including capitalized interest applicable to major project expenditures, are recorded at cost. The Company normally claims the maximum depreciation deduction allowable for tax purposes. In general, for financial reporting purposes, depreciation is provided on a straight-line basis over the useful economic lives of the assets involved as follows: buildings and improvements -- 5 to 40 years, machinery and equipment -- 2 to 10 years, and other -- 5 to 40 years. Gains or losses on sale or retirement of assets are included in income.

GOODWILL: The excess of cost over the fair value of net assets acquired is amortized on a straight-line basis over periods not exceeding 40 years. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

FOREIGN CURRENCY TRANSLATION: Balance sheet accounts are translated at the exchange rate in effect at each year-end and income accounts are translated at the average rates of exchange prevailing during the year. The national currencies of the foreign companies are generally the functional currencies. Gains from foreign currency transactions are reported currently in selling, general and administrative expenses and were $2.5, $2.8 and $2.2 in 2000, 1999, and 1998, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS: The Company uses a variety of derivative financial instruments, including interest rate swaps and foreign currency forward contracts and/or swaps, as a means of hedging exposure to interest rate and foreign currency risks.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Changes in the spot rate of instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustment component of shareholders' equity. The Company and its subsidiaries are end-users and do not utilize these instruments for speculative purposes. The Company has rigorous standards regarding the financial stability and credit standing of its major counterparties.

Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net payments are recognized as an adjustment to interest. Should the swap be terminated, unrealized gains or losses are deferred and amortized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt instrument.

ENVIRONMENTAL REMEDIATION COSTS: Accruals for environmental matters are recorded on a site by site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. The Company's estimated liability is reduced to reflect the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Accruals for environmental liabilities are generally included in the balance sheet as "Other liabilities" at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties. Recoveries from insurance companies or other third parties are recorded as "Other assets" when it is probable that a claim will be realized.

EARNINGS PER SHARE: Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding and potentially dilutive common shares, which include stock options. Potential common shares are not included in the computation of any diluted per share amount when a loss from continuing operations exists, even when the Company reports net income.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS: Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with the current year presentation.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

The Company will adopt Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") beginning January 1, 2001. SFAS No. 133, as amended by SFAS No. 138, establishes accounting and reporting standards that require every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires companies to formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The adoption of SFAS No. 133 will not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

Effective October 1, 2000, the Company adopted Staff Accounting Bulletin No. 101

"Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in the financial statements. The adoption of SAB 101 did not have a material impact on the Company's consolidated results of operations, financial condition, or cash flow.

Effective October 1, 2000, the Company adopted Emerging Issues Task Force Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs" ("EITF 00-10"). EITF 00-10 requires that all shipping and handling costs billed to customers be recorded as sales. Sales and cost of sales in 2000 increased by approximately $16 due to the adoption of EITF 00-10. The adoption of EITF 00-10 had no effect on operating income, net income, EPS, financial condition or cash flow of the Company. The Company did not restate sales and cost of sales for years prior to 2000, since it was impractical to do so.

In January 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the disclosure of comprehensive income, which includes, in addition to net income, other comprehensive income consisting of unrealized gains and losses which bypass the traditional income statement and are recorded directly into a separate section of shareholders' equity on the balance sheet. The components of other comprehensive income for the Company consist of unrealized gains and losses relating to the translation of foreign currency financial statements, as adjusted by hedges of net foreign investments, certain investment securities, and an additional minimum pension liability adjustment.

NOTE 3 ACQUISITIONS

On November 3, 2000 the Company acquired Man-Machine Interface ("MMI"), a mobile phone switch producer, from TRW Inc. for $61.9. The purchase price exceeded the fair value of the net assets acquired by $43.5 and the excess has been recorded as goodwill, which is being amortized over a 25 year period. MMI is a technology leader and produces a wide array of the latest switches and keypads for mobile phones. Annual sales of MMI approximate $53.

On June 26, 2000 the Company acquired C&K Components Inc.("C&K") a privately held company, for $106.9, net of cash acquired. The purchase price exceeded the fair value of net assets acquired by $116.2 and the excess has been recorded as goodwill, which is being amortized over a 30 year period. C&K has annual sales of approximately $113, and is a worldwide leader in the design and manufacture of switches for the telecommunications, computer and electronic equipment markets.

On December 14, 1999 the Company completed the purchase of Stanford Telecommunications Inc.'s ("Stel") space and defense communications businesses for $192.7. The purchase price exceeded the fair value of the net assets acquired by $160.6 and the excess has been recorded as goodwill, which is being amortized over a 40 year period. These units of Stel have annual sales of approximately $142 and are leading designers, manufacturers and marketers of advanced digital communication products and systems.

On October 29, 1999 the Company completed the purchase of STX Pte. Ltd. ("STX") from Singapore-based San Teh, Ltd., for $119.4. The purchase price exceeded the fair value of the net assets acquired by $82.1 and the excess has been recorded as goodwill, which is being amortized over a 40 year period. STX manufactures conductive rubber switches used in keypads for mobile telephones, high-end remote control units, and keyless entry systems. STX has annual sales of approximately $64.

On September 10, 1999 the Company acquired Flojet Corporation ("Flojet"), a privately held company, for $141.0, consisting of $131.0 in cash and $10.0 in notes payable. The purchase price exceeded the fair value of the net assets acquired by $103.3 and the excess has been recorded as goodwill, which is being amortized over a 40 year period. Flojet manufactures air and electric driven pumps, motors, and dispensing equipment for a variety of industries, including beverage, general industrial equipment, agricultural/lawn and garden, recreational vehicle, leisure marine, and water purification. Flojet has annual sales of approximately $50.

During 2000, the Company also completed several small acquisitions for a combined total of $23.2. In 1999 the Company also acquired Sanitaire Corporation, Hydro Air Industries, K and M Electronics, Inc., and the assets of Energy Machine Service, Inc., and made an equity investment in EarthWatch, for a total of $101.7.

All acquisitions were accounted for using the purchase method. The purchase price allocations for the 2000 acquisitions have been prepared on a preliminary basis and changes are expected as evaluations of assets and liabilities are completed and as additional information becomes available. The pro forma effect on the Company's net income and earnings per share for these acquisitions, as though the acquisitions occurred as of January 1 of each year, is not material.

NOTE 4 RESTRUCTURING AND OTHER SPECIAL ITEMS

During 1998, the Company recorded restructuring and other special items of $20.1 in the first quarter, $10.7 in the second quarter, and $368.6 in the fourth quarter. The actions taken affected all four segments. Restructuring and other special items for the year ended December 31, 1998 are detailed in the following table:

	Restructuring	Write-offs	Other	Total
Connectors & Switches	$ 61.2	$ 41.2	$ --	$102.4
Defense Products & Services	20.5	49.1	--	69.6
Pumps & Complementary Products	94.7	52.9	--	147.6
Specialty Products	4.2	1.5	3.3	9.0
Corporate and Other	5.0	35.6	30.2	70.8
TOTAL 1998 CHARGES	$185.6	$180.3	$33.5	$399.4

The 1998 charges related to restructuring activities which involved the closure of facilities, sales offices and distribution centers worldwide; facility consolidations; the discontinuance of product lines; and reductions in workforce to reduce cost and improve profitability. In Connectors & Switches, several labor intensive operations in Europe have, or are being consolidated into a low wage facility in Eastern Europe and other site consolidations occurred to eliminate duplication of process and to relocate to lower cost areas. Defense Products & Services exited two facilities in the United States. In Pumps & Complementary Products, twenty facilities, including distribution centers, sales offices and manufacturing locations, have, or are being closed and eight product lines were discontinued. Costs not directly related to exit activities and which are expected to benefit future periods, such as costs to relocate and train employees were expensed as incurred. Estimated severance costs included in restructuring were $92.5.

Asset write-offs were taken when current events and circumstances indicated that asset values were impaired using the criteria of SFAS No. 121. Write-offs at Connectors & Switches related to assets which were idle or taken out of service, because sales volumes did not materialize, and assets which were deemed to be impaired because their net book values exceeded the estimated future cash flows to be generated by those assets. The majority of the idle assets had no value because of their specialized nature or because of their poor condition and have been written off. The impaired assets were written down to estimated fair values. Write-offs also included certain capitalized software costs which had no future utility since the business chose to implement a new software platform. Goodwill in the amount of $6.6, which was related to two products, was also written off. Assets in Defense Products & Services that were expected to be sold were written down to fair value. Pumps & Complementary Products undertook a review of certain of its operations where current events and circumstances indicated that asset values may be impaired. It was determined that goodwill of $22.5 related to operations in Venezuela and Mexico had no value, and that assets of the Richter business were overvalued by approximately $9.1. Also included in the charge were write-offs of $11.1 related to information systems which were no longer used due to migrations to new information system platforms, and other asset write-downs of $10.2. At Corporate, the Company wrote the net assets held for sale of three non-core businesses down to fair value.

Other at Corporate of $30.2 included a charge of $44.2, net of expected future recoveries, for anticipated costs to remediate certain environmental sites and gains on the sale of two non-core businesses. Additional environmental charges of $3.3 were recorded in Specialty Products.

During the fourth quarter of 1999, the Company assessed its 1998 restructuring reserves, determined that activities related to those reserves would be completed for $44.8 less than originally estimated, and reversed the related reserve into income. The excess was primarily the result of favorable experience in employee separations and asset disposal costs that were not required. As of December 31, 2000, the Company had closed 19 of the planned 25 facilities, discontinued all of the planned 19 product lines, and reduced the workforce by 2,136, or approximately 93% of the revised planned aggregate reduction of approximately 2,300 persons. The remaining 1998 restructuring activities will be completed in early 2001.

During 1999, in connection with carrying out the aforementioned restructuring programs, the Company identified other facilities to be shutdown and relocated to lower cost areas or consolidated into existing facilities. In the fourth quarter of 1999, the Company also identified asset impairments at two facilities. Restructuring and other special items for the year ended December 31, 1999 are detailed in the following table:

	Restructuring	Write-offs	Total
Connectors & Switches	$ 6.8	$ --	$ 6.8
Defense Products & Services	0.3	4.4	4.7
Pumps & Complementary Products	9.6	15.6	25.2
Specialty Products	3.5	--	3.5
TOTAL 1999 CHARGES	$20.2	$20.0	$40.2

The 1999 restructuring activities involved the closure of facilities and sales offices and reduction of workforce. In Connectors & Switches, a factory will be closed with a portion of the business being relocated. In Defense Products & Services, several positions at two divisions were eliminated in 2000. Pumps & Complementary Products closed two facilities and related service offices and also consolidated the operations of one warehouse into existing facilities. In Specialty Products, a workforce reduction occurred at one facility. Among the business segments, $8.7 of the estimated $12.1 severance costs have been incurred as of December 31, 2000. These costs were associated with a workforce reduction of 226 of the revised plan of 324 persons.

Pumps & Complementary Products wrote down $15.6 of goodwill at an unprofitable Far East operation based on the management's future cash flow projections of the business. Defense Products & Services wrote off $4.4 of goodwill related to a product line sold in January 2000.

The following table displays a rollforward of the restructuring reserves:

	Balance December 31, 1998	Payments and Other	Reversals	1999 Cash Charges	Balance December 31, 1999	Payments and Other	Balance December 31, 2000
Connectors & Switches	$ 42.7	$(13.4)	$(16.5)	$ 5.7	$18.5	$ (5.7)	$12.8
Defense Products & Services	15.1	(3.6)	(8.6)	0.3	3.2	(1.3)	1.9
Pumps & Complementary Products	73.8	(43.5)	(19.7)	6.4	17.0	(14.5)	2.5
Specialty Products	1.8	(0.7)	--	2.4	3.5	(3.2)	0.3
Corporate and Other	5.0	(2.5)	--	--	2.5	(1.5)	1.0
TOTAL	$138.4	$(63.7)	$(44.8)	$14.8	$44.7	$(26.2)	$18.5

NOTE 5 DISCONTINUED OPERATIONS

On September 28, 1998, the Company closed the sale of its automotive Electrical Systems business to Valeo, SA of France for approximately $1,700. This transaction followed the sale of the Company's Brake and Chassis unit to Continental AG of Germany for approximately $1,930 completed on September 25, 1998. As a result of the sales, these two units, as well as several other small previously sold automotive units, have been accounted for as discontinued operations.

The Company received notifications of claims from Valeo, SA and Continental AG requesting post-closing adjustments to the purchase price under the provisions of the sales contracts, based upon a number of accounting issues relating to the calculation of the net worth of the businesses sold. Those claims have been submitted to arbitration. After a thorough review, the Company believes that the claims have little merit and is vigorously disputing them. Although it cannot be determined at this time whether or to what extent, if any, there will be post-closing adjustments of the purchase price as a result of the arbitration, management does not believe such adjustments would have a material adverse effect on the cash flow, results of operations or financial condition of the Company on a consolidated basis.

NOTE 6 INCOME TAXES

Income tax data from continuing operations is as follows:

	For the years ended December 31,		
	2000	1999	1998
Pretax income (loss)			
U.S.	$ 171.2	$ 154.4	$(142.0)
Foreign	248.7	215.3	(18.0)
	$ 419.9	$ 369.7	$(160.0)
(Provision) benefit for income tax			
Current			
U.S. federal	$ (58.1)	$ 3.8	$ 14.8
State and local	(8.3)	(15.2)	(7.3)
Foreign	(93.2)	(107.9)	15.7
	(159.6)	(119.3)	23.2
Deferred			
U.S. federal	3.1	(52.1)	48.0
State and local	--	6.4	(0.1)
Foreign	1.1	28.2	(8.7)
	4.2	(17.5)	39.2
Total income tax (expense) benefit	$(155.4)	$(136.8)	$ 62.4

A reconciliation of the tax (provision) benefit at the U.S. statutory rate to the effective income tax (expense) benefit rate as reported is as follows:

	For the years ended December 31,		
	2000	1999	1998
Tax (provision) benefit at U.S. statutory rate	(35.0)%	(35.0)%	35.0%
Foreign tax rate differential	(1.5)	9.0	2.0
Taxes on repatriation of foreign earnings	0.3	(6.9)	5.7
State income taxes, net of federal benefit	(1.3)	(1.5)	(3.0)
Goodwill	(1.9)	(4.5)	(5.3)
Research & development credit	1.5	1.3	3.9
Tax benefit of foreign sales corporation	0.6	0.5	0.8
Other	0.3	0.1	(0.1)
Effective income tax (expense) benefit rate	(37.0)%	(37.0)%	39.0%

Deferred income taxes are established for all temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and for tax purposes.

Deferred tax assets (liabilities), for which no valuation allowances have been provided, include the following:

	December 31, 2000	December 31, 1999
Employee benefits	$ 32.5	$ 30.0
Accelerated depreciation	(13.3)	(19.6)
Reserves	298.7	285.5
Long-term contracts	4.6	9.0
Uniform capitalization	12.3	7.2
Loss carryforward	14.4	--
Other	18.4	44.7
	$367.6	$356.8

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of certain subsidiaries amounting to approximately $110.9, since these amounts are permanently reinvested.

As of December 31, 2000 the Company has approximately $2.5 of foreign tax credit carryforwards available to reduce future tax liabilities. The credit carryforwards will expire as follows: $1.0, December 31, 2001, $1.2, December 31, 2002 and $0.3, December 31, 2004.

Shareholders' equity at December 31, 2000 and 1999 reflects tax benefits related to the exercise of stock options of approximately $8.1 and $11.5, respectively.

NOTE 7 EARNINGS PER SHARE

A reconciliation of the data used in the calculation of basic and diluted earnings per share computations for income from continuing operations is as follows:

	For the years ended December 31, 2000	1999	1998
Basic Earnings (Loss) Per Share			
Income (loss) from continuing operations available to common shareholders	$264.5	$232.9	$(97.6)
Average common shares outstanding	87.9	89.2	113.1
Basic earnings (loss) per share	$ 3.01	$ 2.61	$ (.86)
Diluted Earnings (Loss) Per Share			
Income (loss) from continuing operations available to common shareholders	$264.5	$232.9	$(97.6)
Average common shares outstanding	87.9	89.2	113.1
Add: Stock options	2.1(1)	2.8(2)	--(3)
Average common shares outstanding on a diluted basis	90.0	92.0	113.1
Diluted earnings (loss) per share	$ 2.94	$ 2.53	$ (.86)

(1) Options to purchase 3,429,883 shares of common stock at an average price of $36.34 per share were outstanding at December 31, 2000 but were not included in the computation of diluted EPS, because the options' exercise prices were greater than the annual average market price of the common shares. These options expire between 2008 and 2010.

(2) Options to purchase 1,559,201 shares of common stock at an average price of $39.54 per share were outstanding at December 31, 1999 but were not included in the computation of diluted EPS, because the options' exercise prices were greater than the annual average market price of the common shares. These options expire in 2009.

(3) Stock options of 3,291,544 at the end of 1998 were not included in the computation of diluted earnings per share, because the Company had a loss from continuing operations and inclusion of the options would be antidilutive.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8 RECEIVABLES, NET

Receivables consist of the following:

	December 31, 2000	December 31, 1999
Trade	$820.0	$738.5
Accrued for completed work	--	32.3
Other	15.9	86.0
Less -- reserves	(21.0)	(22.1)
	$814.9	$834.7

NOTE 9 INVENTORIES, NET

Inventories consist of the following:

	December 31, 2000	December 31, 1999
Finished goods	$181.6	$ 186.5
Work in process	183.5	263.1
Raw materials	210.0	209.1
Less -- progress payments	(43.8)	(112.9)
	$531.3	$ 545.8

NOTE 10 OTHER CURRENT ASSETS

At December 31, 2000 and 1999, other current assets consist primarily of advance payments on contracts, prepaid expenses and capitalized tooling costs.

NOTE 11 PLANT, PROPERTY AND EQUIPMENT, NET

Plant, property and equipment consists of the following:

	December 31, 2000	December 31, 1999
Land and improvements	$ 59.3	$ 66.1
Buildings and improvements	370.8	343.4
Machinery and equipment	1,202.0	1,186.0
Construction work in progress	99.8	86.3
Other	393.7	368.9
	2,125.6	2,050.7
Less -- accumulated depreciation and amortization	(1,260.2)	(1,203.7)
	$ 865.4	$ 847.0

NOTE 12 GOODWILL, NET

Goodwill consists of the following:

	December 31, 2000	December 31, 1999
Goodwill	$1,474.7	$1,271.1
Less -- accumulated amortization	(101.7)	(65.1)
	$1,373.0	$1,206.0

NOTE 13 OTHER ASSETS

At December 31, 2000 and 1999, other assets primarily consists of prepaid pension and employee benefit plan costs, equity investments, and expected recoveries from third parties in relation to environmental and other claims.

NOTE 14 LEASES AND RENTALS

The Company leases certain offices, manufacturing buildings, land, machinery, automobiles, computers, and other equipment. Such leases expire at various dates and may include renewals and escalations. The Company often pays maintenance, insurance, and tax expense related to leased assets. Rental expenses under operating leases were $55.5, $51.8 and $45.3 for 2000, 1999 and 1998, respectively. Future minimum operating lease payments under long-term operating leases as of December 31, 2000 are shown below.

2001	$ 55.0
2002	44.0
2003	32.5
2004	25.8
2005	22.5
2006 and thereafter	110.8
Total minimum lease payments	$290.6

NOTE 15 DEBT

Debt consists of the following:

	December 31, 2000	December 31, 1999
Commercial paper	$473.0	$512.6
Short-term loans	83.1	85.1
Current maturities of long-term debt	73.8	11.6
Notes payable and current maturities of long-term debt	$629.9	$609.3

Long-term debt	Maturity	Interest rate	2000	1999
Notes and debentures:	7/1/2001	6.500%	$ 58.6	$ 58.6
	8/1/2001	8.250%	13.6	13.6
	6/15/2003	8.875%	13.5	13.5
	2/1/2008	8.875%	13.2	13.2
	5/1/2011	6.500%	31.7	31.7
	7/1/2011	7.500%	37.4	37.4
	2/15/2021	9.750%	19.1	19.1
	4/15/2021	9.500%	13.6	13.6
	11/15/2025	7.400%	250.0	250.0
	8/25/2048	(1)	41.0	42.7
Other	2000--2014	(2)	21.3	31.2
Subtotal notes and debentures			513.0	524.6
Less -- unamortized discount			(30.8)	(36.8)
Capital leases			--	2.6
Long-term debt			482.2	490.4
Less -- current maturities			(73.8)	(11.6)
Net long-term debt			$408.4	$478.8

(1) The interest rate for the note/debenture was 6.60% and 6.195% at December 31, 2000 and 1999, respectively.

(2) The weighted average interest rate was 6.797% and 6.974% at December 31, 2000 and 1999, respectively.

Principal payments required on long-term debt for the next five years are:

2001	2002	2003	2004	2005
$73.8	$4.4	$14.6	$1.0	$3.2

The weighted average interest rate for short-term borrowings was 7.10% and 6.70% at December 31, 2000 and 1999, respectively. The fair value of the Company's short-term loans approximates carrying value. The fair value of the Company's long-term debt is estimated based on current rates indicated to the Company for debt with similar remaining maturities. As of December 31, 2000, the fair value of the long-term debt was $560.0, compared to the fair value of $484.9, at December 31, 1999. The year to year increase in fair value reflects the decline in interest rates experienced during 2000.

In November 2000, the Company entered into a revolving credit agreement, which expires in November 2005, with 20 domestic and foreign banks providing aggregate commitments of $1.0 billion. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate ("LIBOR"), plus a spread which reflects the Company's debt rating. The provisions of these agreements require that the Company maintain certain financial ratios. At December 31, 2000 the Company was in compliance with all financial covenants. The commitment fee on the revolving credit agreement is .125% of the total commitment, based on the Company's current debt ratings. This agreement replaced the prior revolving credit agreement, which expired in November 2000. The revolving credit agreement serves as backup for the commercial paper program.

On August 1, 1999, the Company redeemed all of its outstanding 9 1/4% senior debentures with a maturity date of July 15, 2001 and a value at maturity of $18.9, and it redeemed all of its 8 3/4% senior debentures with a maturity date of March 1, 2006 and a value at maturity of $7.8. Both were redeemed in conformity with relevant call provisions.

Assets pledged to secure indebtedness (including mortgage loans) amount to approximately $35.4 as of December 31, 2000.

NOTE 16 FINANCIAL INSTRUMENTS

The Company uses a variety of derivative financial instruments, including interest rate swaps, foreign currency forward contracts and/or swaps, and on a limited basis, commodity collar contracts, as a means of hedging exposure to interest rate, foreign currency, and commodity price risks.

The Company's credit risk associated with these derivative contracts is generally limited to the unrealized gain on those contracts with a positive fair market value, reduced by the effects of master netting agreements, should any counterparty fail to perform as contracted. The counterparties to the Company's derivative contracts consist of a number of major international financial institutions. The Company continually monitors the credit quality of these financial institutions and does not expect non-performance by any counterparty.

FINANCING STRATEGIES AND INTEREST RATE RISK MANAGEMENT: The Company maintains a multi-currency debt portfolio to fund its operations. The Company at times uses interest rate swaps to manage the Company's debt portfolio, the related financing costs, and interest rate structure.

At December 31, 2000, the Company had interest rate swaps outstanding with notional values totaling $421.7. The swaps were designed to manage the interest rate exposure associated with certain short and long-term debt. The swaps, mature at various dates through 2025 and effectively convert the aforementioned debt from fixed to variable rate borrowings. The variable interest rates are based on 3 month LIBOR rates plus a spread, which reflects the Company's debt rating, and the coupon of the underlying long-term obligations. The weighted average variable and fixed interest rates were 6.47% and 7.35% at December 2000.

At December 31, 1999, the Company had interest rate swaps outstanding with notional values totaling 150 million Deutsche Marks. These swaps were designed to manage the interest exposure of the Company's short-term debt. The interest rate swap agreements matured in March and April of 2000 and required the Company to pay interest at fixed rates averaging 6.96% and receive interest at floating rates based on the Frankfurt Interbank Offered Rate ("FIBOR"), which averaged 3.29% over the terms of the contracts.

FOREIGN CURRENCY RISK MANAGEMENT: The Company has significant foreign operations and conducts business in various foreign currencies. The Company may periodically hedge net investments in currencies other than its own functional currency and non-functional currency cash flows and obligations, including intercompany financings. Changes in the spot rate of debt instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustment component of shareholders' equity. The Company regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At December 31, 2000 and 1999, the Company held foreign currency forward contracts with notional amounts totaling approximately $60 and $79, respectively, to hedge various foreign currency exposures. The contracts outstanding at December 31, 2000 will mature during the first quarter of 2001.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS: The fair values of the Company's derivative financial instruments are as follows:

	(Payable)/Receivable			
	DEC. 31, 2000		DEC. 31, 1999	
	CARRYING AMOUNT	FAIR VALUE	Carrying Amount	Fair Value
Interest rate swaps	$2.8	$42.5	$(2.3)	$(2.3)
Currency forwards/swaps	(0.8)	(0.6)	1.9	2.6

The following methods and assumptions were used to estimate the fair value of these derivative financial instruments:

INTEREST RATE SWAP AGREEMENTS: The fair value of interest rate swap agreements is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that the Company would expect to receive or pay to terminate the agreements at the reporting date.

Receivable or payable amounts are accrued monthly based on the interest rate differentials of derivatives and are reflected in interest expense as a hedge of interest on outstanding debt.

FOREIGN CURRENCY EXCHANGE CONTRACTS: The fair values associated with the foreign currency contracts have been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date.

NOTE 17 EMPLOYEE BENEFIT PLANS

PENSION PLANS: The Company sponsors numerous defined benefit pension plans. The Company funds employee pension benefits, except in some countries outside the U.S. where funding is not required. The plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments and real estate. In addition to Company sponsored pension plans, certain employees of the Company participate in multi-employer pension plans sponsored by local or national unions. The Company's contribution to such plans amounted to $1.5, $1.3, and $1.1 for the years ended 2000, 1999, and 1998, respectively.

POSTRETIREMENT HEALTH AND LIFE: The Company provides health care and life insurance benefits for certain eligible retired employees. The Company has pre-funded a portion of the health care and life insurance obligations, where such prefunding can be accomplished on a tax effective basis. The plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments, and real estate.

INVESTMENT AND SAVINGS PLANS: The Company sponsors numerous defined contribution savings plans which allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. Several of the plans require the Company to match a percentage of the employee contributions up to certain limits. Matching contributions charged to income amounted to $19.1, $18.2, $17.9 for the years ended 2000, 1999, and 1998, respectively.

The first table below contains a reconciliation of the changes in the benefit obligations, the changes in plan assets, and the weighted average assumptions for the periods ending December 31, 2000 and 1999, respectively. The second table below contains the components of net periodic benefit cost for the years ended 2000, 1999, and 1998, respectively.

	Pension		Other Benefits	
	2000	1999	2000	1999
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$3,091.0	$3,334.1	$ 425.1	$ 469.2
Service cost	56.7	70.9	4.3	5.1
Interest cost	241.4	216.7	33.2	30.6
Amendments made during the year	0.9	4.6	(10.3)	--
Actuarial (gain) loss	280.3	(294.9)	54.9	(40.5)
Obligations of acquired companies	19.8	--	--	--
Effect of plan curtailment	--	--	--	(3.1)
Benefits paid	(232.4)	(229.5)	(36.7)	(36.2)
Effect of currency translation	(15.4)	(10.9)	--	--
Benefit obligation at end of year	$3,442.3	$3,091.0	$ 470.5	$ 425.1
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$3,859.5	$3,382.2	$ 255.7	$ 203.8
Actual return on plan assets	(9.8)	692.0	(0.7)	31.7
Assets of acquired companies	23.3	--	--	--
Employer contributions	6.9	5.9	--	25.5
Employee contributions	0.7	0.8	--	--
Benefits paid	(218.4)	(217.6)	(13.9)	(5.3)
Effect of currency translation	(10.1)	(3.8)	--	--
Fair value of plan assets at end of year	$3,652.1	$3,859.5	$ 241.1	$ 255.7
Funded status	$ 209.8	$ 768.5	$(229.4)	$(169.4)
Unrecognized net transition asset	0.7	(5.4)	--	--
Unrecognized net actuarial (gain) loss	(188.0)	(779.2)	58.8	(21.5)
Unrecognized prior service cost	42.1	48.8	(24.8)	(20.4)
Minimum pension liability adjustment	(25.2)	--	--	--
Prepaid (accrued) benefit cost recognized in the balance sheet	$ 39.4	$ 32.7	$(195.4)	$(211.3)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31,				
Discount rate	7.39%	7.60%	7.50%	7.75%
Expected return on plan assets	9.73%	9.62%	9.75%	9.75%
Rate of future compensation increase	4.90%	4.90%	5.00%	5.00%

	Pension			Other Benefits		
	2000	1999	1998	2000	1999	1998
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	$ 56.7	$ 70.9	$ 58.4	$ 4.3	$ 5.1	$ 4.8
Interest cost	241.4	216.7	215.4	33.2	30.6	31.2
Expected return on plan assets	(302.8)	(270.8)	(252.4)	(24.0)	(19.4)	(18.1)
Amortization of transitional asset	(5.8)	(5.8)	(5.9)	--	--	--
Amortization of net actuarial (gain) loss	1.7	9.8	6.4	(0.7)	0.2	(0.7)
Amortization of prior service cost	8.6	8.3	10.7	(5.9)	(4.7)	(4.7)
Effect of plan curtailment	--	--	--	--	(3.1)	--
Net periodic benefit cost	$ (0.2)	$ 29.1	$ 32.6	$ 6.9	$ 8.7	$ 12.5

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 6.5% for 2000. It has been assumed that the rate will be 8.0% for 2001, decreasing ratably to 6.0% in 2006. Increasing the table of health care trend rates by one percent per year would have the effect of increasing the benefit obligation by $25.9 and

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the aggregate service and interest cost components by $2.3; a decrease of one percent in the trend rate would reduce the benefit obligation by $22.1 and the aggregate service and interest cost components by $2.0. To the extent that actual experience differs from the inherent assumptions, the effect will be amortized over the average future service of the covered active employees.

NOTE 18 SHAREHOLDERS' EQUITY

CAPITAL STOCK: The Company has authority to issue an aggregate of 250,000,000 shares of capital stock, of which 200,000,000 have been designated as "Common Stock" having a par value of $1 per share and 50,000,000 have been designated as "Preferred Stock" not having any par or stated value. Of the shares of Preferred Stock, 300,000 shares have initially been designated as "Series A Participating Cumulative Preferred Stock" (the "Series A Stock"). Such Series A Stock is issuable pursuant to the provisions of a Rights Agreement dated as of November 1, 1995 between the Company and The Bank of New York, as Rights Agent (the "Rights Agreement"). Capitalized terms herein not otherwise defined are as defined in the Rights Agreement.

The rights issued pursuant to the Rights Agreement (the "Rights") are currently attached to, and trade with, the Common Stock. The Rights Agreement provides, among other things, that if any person acquires more than 15% of the outstanding Common Stock, the Rights will entitle the holders other than the Acquiring Person (or its Affiliates or Associates) to purchase Series A Stock at a significant discount to its market value. Rights beneficially owned by the Acquiring Person, including any of its Affiliates or Associates, become null and void and nontransferable. Rights generally are exercisable at any time after the Distribution Date and at, or prior to, the earlier of the 10th anniversary of the date of the Rights Agreement or the Redemption Date. The Company may, subject to certain exceptions, redeem the Rights as provided for in the Rights Agreement. Each 1/1,000th of a share of Series A Stock would be entitled to vote and participate in dividends and certain other distributions on an equivalent basis with one share of Common Stock. Under certain circumstances specified in the Rights Agreement, the Rights become nonredeemable for a period of time and the Rights Agreement may not be amended during such period.

As of December 31, 2000 and 1999, 57,243,719 shares of Common Stock were held in treasury.

STOCK INCENTIVE PLANS: The Company's stock option incentive plans provide for the awarding of options on common shares to employees, exercisable over ten-year periods. Certain options become exercisable upon the attainment of specified market price appreciation of the Company's common shares or at nine years after the date of grant. Other options become exercisable upon the earlier of the attainment of specified market price appreciation of the Company's common shares or over a three-year period commencing with the date of grant. The exercise price per share is the fair market value on the date each option is granted. In 2000, 1999, and 1998, the Company made shares available for the exercise of stock options by purchasing shares in the open market.

A summary of the status of the Company's stock option incentive plans as of December 31, 2000, 1999, and 1998, and changes during the years then ended is presented below (shares in thousands):

	2000		1999		1998	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year....	11,752	$23.95	12,175	$21.24	11,457	$19.31
Granted................	1,938	33.13	1,835	39.22	2,108	31.18
Exercised..............	(1,737)	18.89	(2,166)	21.06	(1,255)	19.62
Canceled or expired....	(97)	29.06	(92)	38.23	(135)	28.11

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	2000		1999		1998	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at end of year	11,856	$26.15	11,752	$23.95	12,175	$21.24
Options exercisable at year-end	8,721	$22.81	10,030	$21.34	10,347	$19.47
Weighted-average fair value of options granted during the year		$18.22		$17.78		$11.68

The Company accounts for these plans using the intrinsic value method pursuant to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized. Had compensation cost for these plans been determined based on the fair value at the grant dates consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	2000	1999	1998
Net income			
As reported	$264.5	$232.9	$1,532.5
Pro forma	245.5	217.2	1,520.1
Basic earnings per share			
As reported	$ 3.01	$ 2.61	$ 13.55
Pro forma	2.79	2.44	13.44
Diluted earnings per share			
As reported	$ 2.94	$ 2.53	$ 13.55
Pro forma	2.73	2.36	13.44

Because the method of accounting prescribed by SFAS No. 123 is not required to be applied to options granted prior to January 1, 1995, the resulting pro forma effect may not be representative of that expected in future years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions for grants in 2000, 1999, and 1998: dividend yield of 1.99%, 2.01%, and 2.14% respectively; expected volatility of 63%, 51%, and 38%, respectively; expected life of six years; and risk-free interest rates of 6.73%, 4.82%, and 5.66%, respectively.

The following table summarizes information about the Company's stock options at December 31, 2000 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$ 8.72	466	1.0 years	$ 8.72	466	$ 8.72
15.39 -- 17.91	2,367	3.3 years	15.72	2,367	15.72
20.32 -- 28.38	3,810	5.1 years	23.15	3,810	23.15
30.31 -- 40.00	5,213	8.1 years	34.63	2,078	33.40
	11,856			8,721	

As of December 31, 2000, 6,161,146 shares were available for future grants. Effective January 1, 2001, option shares available for future grants increased by 2,177,375 as a result of the annual limitation formula established in the 1994 ITT Industries Incentive Stock Plan. The incentive stock plan also provides for awarding restricted stock subject to a restriction period in which the stock cannot be sold, exchanged, or pledged. During 2000, 1999 and 1998, 0, 30,000, and 44,500 shares of restricted stock were awarded under this plan respectively.

During 2000, 1999, and 1998, pursuant to the ITT Industries, 1996 Restricted Stock Plan for Non-Employee Directors, the Company awarded 13,626, 10,248, and 10,688 restricted shares with five-year restriction periods, respectively, in payment of the annual retainer for such directors. Restrictions may lapse earlier depending on certain circumstances.

NOTE 19 COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal actions including those related to government contracts and environmental matters. Some of these actions include claims for substantial amounts. Reserves have been established where the outcome is probable and can be reasonably estimated. While the ultimate results of these legal actions and related claims cannot be determined, the Company does not expect that they will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. As of December 31, 2000, the Company is responsible, or is alleged to be responsible for environmental investigation and remediation at sites in various countries. The Company has received notice that it is considered a potentially responsible party (PRP) at a number of those sites by the United States Environmental Protection Agency (EPA) and/or a similar state agency under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) or its state equivalent. In many of these proceedings, the Company's liability is considered de minimis. In Glendale, California, the Company has been involved in an environmental proceeding relating to the San Fernando Valley aquifer. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against the Company and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it has incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including the Company and Lockheed Martin, reached a settlement, and a consent decree requiring the PRPs to perform additional remedial activities was entered in August 2000.

In a suit filed several years ago by the Company, in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al. against its insurers, the Company is seeking recovery of costs it incurred in connection with the Glendale case and other environmental matters. In April 1999, the Superior Court granted partial summary judgment under California law, dismissing certain claims in the California action. The California Court of Appeals has accepted the Company's petition for review of the Superior Court's order. Argument was scheduled for August 1999; however, it has now been continued to an indefinite date pending further developments in other similar cases in California to which the Company is not a party. In April 1999, the Company initiated a new coverage action in New Jersey, ITT Industries, Inc. et al. v. Federal Ins. Co. et al., (Middlesex County, No. L-1919-99), involving new environmental insurance claims as well as claims pending but dormant before the Court in California. The Company's insurers challenged the convenience of New Jersey as the forum for this action. In its ruling on the motion, the Court dismissed the non-New Jersey claims, deferred action on certain New Jersey claims and retained jurisdiction over one New Jersey claim. The Company has negotiated settlements with certain defendant insurance companies, is engaged in negotiations with others, and is prepared to pursue its legal remedies where reasonable negotiations are not productive.

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in Note 1, "Accounting Policies." In management's opinion, the total amounts accrued and related receivables are appropriate based on existing facts and circumstances. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such problems, the selection of alternative remedies, and changes in clean-up standards. In the event that future remediation expenditures are in excess of amounts accrued, management does not anticipate that they will have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company.

NOTE 20 BUSINESS SEGMENT INFORMATION

	Pumps & Complementary Products	Defense Products & Services	Specialty Products	Connectors & Switches	Dispositions, Other & Eliminations	Corporate	Total
2000							
Sales and revenues..........	$1,752.2	$1,334.6	$972.4	$774.6	$ (4.4)	$ --	$4,829.4
Operating income............	194.5	117.3	136.0	99.0	(0.4)	(53.3)	493.1
Earnings (loss) of companies on an equity basis........	(0.5)	2.2	1.8	--	--	--	3.5
Total segment profit........	194.0	119.5	137.8	99.0	(0.4)	(53.3)	496.6
Net interest expense........							(75.2)
Miscellaneous expense(a)....							(1.5)
Income before income tax expense...................							419.9
Long-lived assets...........	331.5	138.8	209.9	160.9	1.2	23.1	865.4
Investment in companies on an equity basis...........	6.9	37.2	7.6	0.4	--	--	52.1
Total assets................	1,616.0	861.0	717.1	751.8	78.8	586.7	4,611.4
Gross plant additions.......	52.9	35.1	47.3	45.8	--	(0.5)	180.6
Depreciation................	52.9	26.1	33.6	35.7	--	2.3	150.6
Amortization................	18.1	8.5	8.6	10.0	--	6.0	51.2
1999							
Sales and revenues..........	$1,735.0	$1,413.9	$959.5	$516.0	$ 7.8	$ --	$4,632.2
Operating income:							
Before restructuring and other special items.....	164.4	108.8	132.9	62.1	0.5	(58.1)	410.6
Restructuring and other special items...........	(5.5)	3.9	(3.5)	9.7	--	--	4.6
After restructuring and other special items.....	158.9	112.7	129.4	71.8	0.5	(58.1)	415.2
Earnings (loss) of companies on an equity basis........	(0.2)	2.1	1.2	--	--	--	3.1
Total segment profit........	158.7	114.8	130.6	71.8	0.5	(58.1)	418.3
Net interest expense........							(46.8)
Miscellaneous expense(a)....							(1.8)
Income before income tax expense...................							$ 369.7
Long-lived assets...........	334.7	146.0	202.0	137.0	1.3	26.0	847.0
Investment in companies on an equity basis...........	8.5	29.9	6.2	0.5	--	--	45.1
Total assets................	1,670.3	839.1	741.7	463.6	24.2	790.9	4,529.8
Gross plant additions.......	70.4	55.7	45.3	55.7	0.4	0.4	227.9
Depreciation................	54.0	26.0	33.8	28.1	0.3	2.1	144.3
Amortization................	18.2	3.1	7.2	0.8	2.1	5.4	36.8

	Pumps & Complementary Products	Defense Products & Services	Specialty Products	Connectors & Switches	Dispositions, Other & Eliminations	Corporate	Total
1998							
Sales and revenues	$1,770.0	$1,293.4	$849.3	$527.9	$ 52.1	$ --	$4,492.7
Operating income:							
Before restructuring and other special items	145.5	97.9	90.9	52.7	5.4	(67.6)	324.8
Restructuring and other special items	(147.6)	(69.6)	(9.0)	(102.4)	31.0	(101.8)	(399.4)
After restructuring and other special items	(2.1)	28.3	81.9	(49.7)	36.4	(169.4)	(74.6)
Earnings (loss) of companies on an equity basis	0.5	(1.6)	0.3	(0.3)	--	--	(1.1)
Total segment profit (loss)	(1.6)	26.7	82.2	(50.0)	36.4	(169.4)	(75.7)
Net interest expense							(82.4)
Miscellaneous expense(a)							(1.9)
Loss from continuing operations before income tax							$ (160.0)
Long-lived assets	347.3	122.8	206.8	128.3	156.5	29.9	991.6
Investment in companies on an equity basis	11.9	13.2	5.1	0.1	--	0.5	30.8
Total assets	1,741.1	644.8	588.3	333.1	252.6	1,488.9	5,048.8
Gross plant additions	75.1	26.4	53.5	39.2	5.1	13.6	212.9
Depreciation	56.6	25.3	34.3	33.9	5.3	2.1	157.5
Amortization	20.6	3.1	7.3	1.0	6.1	--	38.1

(a) Excludes earnings of companies on an equity basis

	Net Sales and Revenues			Long-Lived Assets		
	2000	1999	1998	2000	1999	1998
GEOGRAPHICAL INFORMATION						
United States	$2,830.4	$2,696.1	$2,570.4	$497.3	$504.1	$639.0
Western Europe	1,216.2	1,194.7	1,227.8	297.2	282.0	312.3
Asia Pacific	362.1	339.7	280.5	46.7	48.5	22.6
Other	420.7	401.7	414.0	24.2	12.4	17.7
Total Segments	$4,829.4	$4,632.2	$4,492.7	$865.4	$847.0	$991.6

	2000	1999	1998
SALES AND REVENUES BY PRODUCT CATEGORY			
Pumps & Complementary Products	$1,793.9	$1,732.0	$1,767.8
Connectors & Switches	760.1	510.5	532.6
Defense Products	730.3	844.4	765.7
Defense Services	588.4	554.5	527.7
Fluid Handling	425.6	442.8	362.2
Engineered Valves	160.5	116.2	116.5
Brakes	140.0	157.4	150.6
Shock Absorbers	82.6	90.3	91.5
Marine Products	80.3	114.9	87.8
Network Systems & Services	40.6	39.8	45.1
Measuring Devices	--	--	17.3
Other	27.1	29.4	27.9
Total	$4,829.4	$4,632.2	$4,492.7

Defense Products & Services had sales and revenues from the United States government of $1,023.6, $1,054.0, and $1,008.6, for 2000, 1999, and 1998, respectively. Apart from the

United States government, no other government or commercial customer accounted for 10% or more of sales and revenues for the Company.

CONNECTORS & SWITCHES: This business consists of the Company's products marketed under the Cannon(R) brand. These products include connectors, switches and cabling used in telecommunications, computing, aerospace and industrial applications as well as network services. The Connectors & Switches segment represents about 16.0% of the Company's sales and revenues and 20.1% of its operating income for 2000.

DEFENSE PRODUCTS & SERVICES: The businesses in this segment are those that directly serve the military and government agencies with products and services. These include air traffic control systems, jamming devices that guard military planes against radar guided missiles, digital combat radios, night vision devices and satellite instruments. Approximately 43.1% of the sales and revenues in this segment are generated through contracts for technical and support services which the Company provides for the military and other government agencies. Approximately 77%, 75%, and 78% of 2000, 1999, and 1998 Defense Products & Services sales and revenues, respectively, were to the U.S. government. The Defense Products & Services segment represents about 27.6% of the Company's sales and revenues and 23.8% of its operating income in 2000.

PUMPS & COMPLEMENTARY PRODUCTS: This segment contains the Company's pump businesses, including brands such as Flygt,(R) Goulds,(R) Bell and Gossett,(R) A-C Pump,(R) Lowara(R) and Vogel,(R) making the Company the world's largest pump producer. Businesses within this segment also supply mixers, heat exchangers and related products with brand names such as McDonnell & Miller(R) and ITT Standard(R) in addition to those mentioned above. This segment represents approximately 36.3% of the Company's sales and revenues and approximately 39.4% of its operating income for 2000.

SPECIALTY PRODUCTS: Businesses in the Specialty Products segment produce engi-neered valves and switches for industrial and aerospace applications, products for the marine and leisure markets, fluid handling materials such as tubing systems and connectors for various automotive and industrial markets, and specialty shock absorbers and brake friction materials for the transportation industry. The Specialty Products segment accounts for approximately 20.1% of the Company's sales and revenues and approximately 27.6% of its operating income for 2000.

DISPOSITIONS AND OTHER: This includes the operating results and assets of units other than "Discontinued Operations," including other non-core businesses and other businesses which have been sold.

CORPORATE: This primarily includes the operating results and assets of corporate headquarters.

NOTE 21 QUARTERLY RESULTS FOR 2000 AND 1999

	Three Months Ended				
	Mar. 31	June 30	Sept. 30	Dec. 31	Year
	In millions, except per share amounts; (unaudited)				
2000					
Sales and revenues(a)	$1,210.0	$1,227.5	$1,176.7	$1,215.2	$4,829.4
Costs of sales and revenues(a)(b)	911.0	915.9	873.5	886.1	3,586.5
Income from continuing operations	51.3	70.2	64.9	78.1	264.5
Net income	51.3	70.2	64.9	78.1	264.5
Income from continuing operations per share					
-- Basic	$ .58	$ .80	$ .74	$ .89	$ 3.01
-- Diluted	$ .57	$ .78	$ .72	$ .87	$ 2.94
Net income per share					
-- Basic	$ .58	$ .80	$ .74	$ .89	$ 3.01
-- Diluted	$ .57	$ .78	$ .72	$ .87	$ 2.94
Common stock information					
Price range:					
High	$ 34.94	$ 36.19	$ 34.94	$ 39.63	$ 39.63
Low	$ 22.38	$ 28.63	$ 29.63	$ 29.75	$ 22.38
Close	$ 31.06	$ 30.38	$ 32.44	$ 38.75	$ 38.75
Dividends per share	$ .15	$ .15	$ .15	$ .15	$ .60
1999					
Sales and revenues	$1,091.7	$1,191.7	$1,106.4	$1,242.4	$4,632.2
Costs of sales and revenues(b)	840.9	908.5	844.2	936.6	3,530.2
Income from continuing operations(c)	42.5	63.3	54.4	72.7	232.9
Net income	42.5	63.3	54.4	72.7	232.9
Income from continuing operations per share					
-- Basic(d)	$ .46	$ .72	$ .62	$ .83	$ 2.61
-- Diluted(d)	$ .45	$ .70	$ .60	$ .80	$ 2.53
Net income per share					
-- Basic	$ .46	$ .72	$ .62	$ .83	$ 2.61
-- Diluted	$ .45	$ .70	$ .60	$ .80	$ 2.53
Common stock information					
Price range:					
High	$ 40.88	$ 41.50	$ 40.00	$ 36.25	$ 41.50
Low	$ 35.00	$ 34.88	$ 30.50	$ 31.38	$ 30.50
Close	$ 35.38	$ 38.13	$ 31.81	$ 33.44	$ 33.44
Dividends per share	$ .15	$ .15	$ .15	$ .15	$ .60

(a) Due to the adoption of EITF 00-10, the first, second, and third quarters were restated to increase sales and cost of sales by approximately $4 per quarter. Prior year amounts were not restated since it was impractical to do so.

(b) Includes research, development, and engineering expenses.

(c) 1999 income from continuing operations includes restructuring and other special income of $2.9 after-tax.

(d) Quarterly and full year earnings per share amounts were calculated independently based on the average common shares and potentially dilutive shares applicable to each period. Because of the repurchase of common stock in the first quarter 1999, the sum of the four quarters does not equal the calculation for the full year 1999.

The above table reflects the range of market prices of the Company's common stock for 2000 and 1999. The prices are as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which the Company's common stock is traded, under the symbol "ITT". The Company's common stock is listed on the following exchanges: Frankfurt, London, Midwest, New York, Pacific, and Paris.

During the period from January 1, 2001 through February 28, 2001, the high and low reported market prices of the Company's common stock were $44.25 and $36.38. The Company declared dividends of $0.15 per common share in the first quarter of 2001. There were approximately 36,917 holders of record of the Company's common stock on February 28, 2001.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

	BALANCE AT JANUARY 1	CHARGED TO COSTS AND EXPENSES	TRANSLATION ADJUSTMENT	WRITE-OFF/ PAYMENTS/ OTHER	BALANCE AT DECEMBER 31
YEAR ENDED DECEMBER 31, 2000					
Trade Receivables -- Allowance for doubtful accounts................	$ 22.1	$ 9.0	$(0.9)	$ (9.2)	$ 21.0
Restructuring......................	44.7	--	--	(26.2)	18.5
YEAR ENDED DECEMBER 31, 1999					
Trade Receivables -- Allowance for doubtful accounts................	$ 22.7	$ 5.0	$(1.3)	$ (4.3)	$ 22.1
Restructuring......................	138.4	(4.6)	--	(89.1)	44.7
YEAR ENDED DECEMBER 31, 1998					
Trade Receivables -- Allowance for doubtful accounts................	$ 19.0	$ 9.5	$ 0.2	$ (6.0)	$ 22.7
Restructuring......................	22.2	185.6	--	(69.4)	138.4

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, AND BY THE UNDERSIGNED IN THE CAPACITY INDICATED.

ITT INDUSTRIES, INC.

By /s/ EDWARD W. WILLIAMS

EDWARD W. WILLIAMS
VICE PRESIDENT AND CORPORATE CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)

March 26, 2001

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ LOUIS J. GIULIANO LOUIS J. GIULIANO (PRINCIPAL EXECUTIVE OFFICER)	Chairman, President and Chief Executive Officer and Director	March 6, 2001
/s/ DAVID J. ANDERSON DAVID J. ANDERSON (PRINCIPAL FINANCIAL OFFICER)	Senior Vice President and Chief Financial Officer	March 6, 2001
/s/ RAND V. ARASKOG RAND V. ARASKOG	Director	March 6, 2001
/s/ CURTIS J. CRAWFORD CURTIS J. CRAWFORD	Director	March 6, 2001
/s/ MICHEL DAVID-WEILL MICHEL DAVID-WEILL	Director	March 6, 2001
/s/ TRAVIS ENGEN TRAVIS ENGEN	Director	March 6, 2001
/s/ CHRISTINA A. GOLD CHRISTINA A. GOLD	Director	March 6, 2001
/s/ JOHN J. HAMRE JOHN J. HAMRE	Director	March 6, 2001
/s/ RAYMOND W. LEBOEUF RAYMOND W. LEBOEUF	Director	March 6, 2001
/s/ EDWARD C. MEYER EDWARD C. MEYER	Director	March 6, 2001
/s/ LINDA S. SANFORD LINDA S. SANFORD	Director	March 6, 2001

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3		
	(a) ITT Industries, Inc.'s Restated Articles of Incorporation..........	Incorporated by reference to Exhibit 3(i) to ITT Industries' Form 10-Q for the quarterly period ended June 30, 1997 (CIK No. 216228, File No. 1-5627).
	(b) Form of Rights Agreement between ITT Indiana, Inc. and The Bank of New York, as Rights Agent..............	Incorporated by reference to Exhibit 1 to ITT Industries' Form 8-A dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(c) ITT Industries, Inc.'s By-laws, as amended............................	Incorporated by reference to Exhibit 3(c) to ITT Industries' Form 10-K for the fiscal year ended December 31, 1999 (CIK No. 216228, File No. 1-5627).
4	Instruments defining the rights of security holders, including indentures.............	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries upon request of the Commission.
9	Voting Trust Agreement.....................	None.
10	Material contracts	
	(a) ITT Industries 1997 Long-Term Incentive Plan.....................	Incorporated by reference to Appendix II to ITT Industries' Proxy Statement dated March 26, 1997 (CIK No. 216228, File No. 1-5627).
	(b) ITT Industries 1997 Annual Incentive Plan for Executive Officers.........	Incorporated by reference to Appendix I to ITT Industries' Proxy Statement dated March 26, 1997 (CIK No. 216228, File No. 1-5627).
	(c) Form of group life insurance plan for non-employee members of the Board of Directors..........................	Incorporated by reference to exhibits to ITT Delaware's Form 10-K for the fiscal year ended December 31, 1983 (CIK No. 216228, File No. 1-5627).
	(d) ITT Industries 1986 Incentive Stock Plan...............................	Incorporated by reference to ITT Delaware's Registration Statement on Form S-8 (Registration No. 33-5412) (CIK No. 216228, File No. 1-5627).
	(e) Form of indemnification agreement with directors..........................	Incorporated by reference to Exhibit 10(h) to ITT Industries' Form 10-K for the fiscal year ended December 31, 1996 (CIK No. 216228, File No. 1-5627).
	(f) ITT Industries, Inc. Senior Executive Severance Pay Plan.................	Incorporated by reference to Exhibit 10.15 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(g)	ITT Industries Special Senior Executive Severance Pay Plan........	Incorporated by reference to Exhibit 10(j) to ITT Industries' Form 10-K for the fiscal year ended December 31, 1996 (CIK No. 216228, File No. 1-5627).
(h)	1994 ITT Industries Incentive Stock Plan................................	Incorporated by reference to Appendix A to ITT Delaware's Proxy Statement dated March 28, 1994 (CIK No. 216228, File No. 1-5627).
(i)	ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors, as amended.............................	Incorporated by reference to Exhibit 10(a) to ITT Industries' Form 10-Q for the quarterly period ended September 30, 2000 (CIK No. 216228, File No. 1-5627).
(j)	Distribution Agreement among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.........	Incorporated by reference to Exhibit 10.1 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(k)	Intellectual Property License Agreement between and among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.........	Incorporated by reference to Exhibit 10.2 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(l)	Tax Allocation Agreement among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.........	Incorporated by reference to Exhibit 10.3 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(m)	Employee Benefit Services and Liability Agreement among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.........	Incorporated by reference to Exhibit 10.7 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(n)	Five-year Competitive Advance and Revolving Credit Facility Agreement dated as of November 10, 2000.......	Incorporated by reference to Exhibit 10 to ITT Industries' Form 8-K Current Report dated November 20, 2000 (CIK No. 216228, File No. 1-5627).
(o)	ITT Industries Enhanced Severance Pay Plan................................	Incorporated by reference to Exhibit 10(s) to ITT Industries' Form 8-K Current Report dated June 5, 1997 (CIK No. 216228, File No. 1-5627).
(p)	Agreement with Valeo SA with respect to the sale of the Automotive Electrical Systems Business.........	Incorporated by reference to Exhibit 10(b) to ITT Industries' Form 10-Q Quarterly Report for the quarterly period ended June 30, 1998 (CIK No. 216228, File No. 1-5627).

EXHIBIT NUMBER	DESCRIPTION	LOCATION
	(q) Agreement with Continental AG with respect to the sale of the Automotive Brakes and Chassis Business............................	Incorporated by reference to Exhibit 2.1 to ITT Industries' Form 8-K Current Report dated October 13, 1998 (CIK No. 216228, File No. 1-5627).
	(r) ITT Industries Deferred Compensation Plan...............................	Filed herewith.
11	Statement re computation of per share earnings................................	Not required to be filed.
12	Statement re computation of ratios.........	Filed herewith.
13	Annual report to security holders, Form 10-Q or quarterly report to security holders.................................	Not required to be filed.
16	Letter re change in certifying accountant................................	None.
18	Letter re change in accounting principles................................	None.
21	Subsidiaries of the Registrant.............	Filed herewith.
22	Published report regarding matters submitted to vote of security holders....	Not required to be filed.
23	Consent of Arthur Andersen LLP.............	Filed herewith.
24	Power of attorney..........................	None.
99	Additional exhibits........................	None.

Exhibit 10(r)

ITT INDUSTRIES

DEFERRED COMPENSATION PLAN

Effective as of January 1, 1995
including amendments through November 1, 2000

ITT INDUSTRIES DEFERRED COMPENSATION PLAN

The ITT Deferred Compensation Plan (the "Plan") was established by ITT Corporation, a Delaware corporation ("Former ITT"), effective January 1, 1995. The purpose of the Plan is to provide each Participant with a means of deferring compensation in accordance with the terms of the Plan.

Effective as of December 19, 1995, Former ITT split into three separate companies -- ITT Hartford Group, Inc., ITT Corporation, a Nevada corporation, and ITT Industries, Inc. an Indiana corporation (the "Corporation"), which is the successor to Former ITT.

Under the Employee Benefits Service and Liability Agreement dated November 1, 1995 (the "Agreement") the Corporation agreed to continue the Plan for eligible employees of the Corporation or of any of its subsidiaries and to transfer the liabilities attributable to participants who become employees of ITT Corporation, a Nevada corporation, on December 19, 1995 to ITT Corporation.

Effective as of January 1, 1996, the Plan was amended to accept the liabilities under the ITT Industries Excess Savings Plan attributable to salary deferrals, excess matching contributions, and excess floor contributions credited with respect to Base Salary deferred under this Plan and hold such amounts hereunder in accordance with the provisions of the ITT Industries Excess Savings Plan as set forth in Appendix A, attached hereto and made part hereof.

Effective as of October 1, 1997, January 1, 1998, April 1, 1998, January 1, 1999, and November 1, 2000, the Plan was further amended to make certain administration changes and to unify the form and timing of Plan distributions, respectively.

All benefits payable under this Plan, which constitutes a nonqualified, unfunded deferred compensation plan for a select group of management or highly-compensated employees under Title I of ERISA, shall be paid out of the general assets of the Company.

ITT INDUSTRIES DEFERRED COMPENSATION PLAN

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ARTICLE 1. DEFINITIONS

1.01 "ACCELERATION EVENT" shall mean an event which shall occur if:

(a) a report on Schedule 13D shall be filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the "Act") disclosing that any person (within the meaning of Section 13(d) of the Act), other than the Corporation or a subsidiary of the Corporation or any employee benefit plan sponsored by the Corporation or a subsidiary of the Corporation, is the beneficial owner directly or indirectly of twenty percent or more of the outstanding common stock of the Corporation;

(b) any person (within the meaning of Section 13(d) of the Act), other than the Corporation or a subsidiary of the Corporation or any employee benefit plan sponsored by the Corporation or a subsidiary of the Corporation, shall purchase shares pursuant to a tender offer or exchange offer to acquire any common stock of the Corporation (or securities convertible into such common stock) for cash, securities or any other consideration, provided that after consummation of the offer, the person in question is the beneficial owner (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of fifteen percent or more of the outstanding common stock of the Corporation (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire common stock);

(c) the stockholders of the Corporation shall approve (i) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before, or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Corporation; or

(d) there shall have been a change in a majority of the members of the Board of Directors of the Corporation within a 12-month period, unless the election or nomination for election by the Corporation's stockholders of each new director during such 12-month period was approved by the vote of two-thirds of the directors then still in office who were directors at the beginning of such 12-month period.

1.02 "ADMINISTRATIVE COMMITTEE" shall mean the person or persons appointed to administer the Plan as provided in Section 8.01.

1.03 "ASSOCIATED COMPANY" shall mean any division, subsidiary or affiliated company of the Corporation which is an Associated Company, as defined in the ITT Industries Salaried Retirement Plan (formerly known as the Retirement Plan for Salaried Employees of ITT Corporation).

1.04 "BASE SALARY" shall mean the annual base fixed compensation paid periodically during the calendar year, determined prior to any pre-tax contributions under a "qualified cash or deferred arrangement" (as defined under Code Section 401(k) and its applicable regulations) or under a "cafeteria plan" (as defined under Code Section 125 and its applicable regulations) and any deferrals under Article 3, Appendix A or another unfunded deferred compensation plan maintained by the Corporation, but excluding any overtime, bonuses, foreign service allowances or any other form of compensation, except to the extent otherwise deemed "Base Salary" for purposes of the Plan under rules as are adopted by the Compensation and Personnel Committee.

1.05 "BENEFICIARY" shall mean the person or persons designated by a Participant pursuant to the provisions of Section 5.07 in a time and manner determined by the Administrative Committee to receive the amounts, if any, payable under the Plan upon the death of the Participant.

1.06 "BONUS" shall mean the cash amount, if any, awarded to an employee of the Company under the Company's executive bonus program, or other compensation program designated by the Compensation and Personnel Committee as a bonus hereunder.

1.07 "BOARD OF DIRECTORS" OR "BOARD" shall mean the Board of Directors of the Corporation.

1.08 "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.09 "COMPANY" shall mean the Corporation, and any successor thereto, with respect to its employees and any Associated Company authorized by the Compensation and Personnel Committee to participate in the Plan, with respect to their employees.

1.10 "COMPENSATION AND PERSONNEL COMMITTEE" shall mean the Compensation and Personnel Committee of the Board of Directors.

1.11 "CORPORATION" shall mean ITT Industries, Inc., an Indiana corporation (successor to ITT Corporation, a Delaware corporation), or any successor by merger, purchase, or otherwise.

1.12 "DEFERRAL ACCOUNT" shall mean the bookkeeping account maintained for each Participant to record the amount of Bonus and/or Base Salary such Participant has elected to defer in accordance with Article 3, adjusted pursuant to Article 4.

1.13 "DEFERRAL AGREEMENT" shall mean the completed agreement, including any amendments, attachments and appendices thereto, in such form approved by the Administrative Committee, between an Eligible Executive and the Company, under which the Eligible Executive agrees to defer a portion of his Bonus and/or his Base Salary.

1.14 "DEFERRALS" shall mean the amount of deferrals credited to a Participant pursuant to Section 3.02.

1.15 "EFFECTIVE DATE" shall mean January 1, 1995.

1.16 "ELIGIBLE EXECUTIVE" shall mean an Employee who is eligible to participate in the Plan as provided in Section 2.01.

1.17 "EMPLOYEE" shall mean a person who is employed by the Company.

1.18 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.19 "PARTICIPANT" shall mean, except as otherwise provided in Article 2, each Eligible Executive who has executed a Deferral Agreement pursuant to the requirements of Section 2.02 and is credited with an amount under Section 3.03.

1.20 "PLAN" shall mean the ITT Industries Deferred Compensation Plan (which was formerly known as the ITT Deferred Compensation Plan for 1995, the ITT Industries Deferred Compensation Plan for 1996, and the ITT Industries Deferred Compensation Plan for 1997) as set forth in this document and the appendices and schedules thereto, as it may be amended from time to time.

1.21 "PLAN YEAR" shall mean the calendar year.

1.22 "REPORTING DATE" shall mean the last business day of each calendar month following the Effective Date, or such other day as the Administrative Committee may determine. For this purpose, a "business day" is any day on which the New York Stock Exchange is open.

1.23 "RETIREMENT" shall mean (i) with respect to an Eligible Executive, any termination of employment by an Eligible Executive after the date the Eligible Executive is eligible for an early, normal or late retirement benefit under the ITT Industries Salaried Retirement Plan (formerly known as the ITT Corporation Retirement Plan for Salaried Employees), or would have been eligible had he been a participant in such Plan.

ARTICLE 2. PARTICIPATION

2.01 ELIGIBILITY

(a) With respect to Plan Years commencing prior to January 1, 2001, an Eligible Executive shall be an Employee designated as eligible to participate in this Plan by the Compensation and Personnel Committee or its delegate.

(b) Effective as of November 1, 2000, an Employee whose Base Salary as of October 31 of a calendar year equals or exceeds $200,000 shall be an Eligible Executive with respect to the Plan Year following such calendar year and thereby eligible to participate in this Plan and execute a Deferral Agreement under this Plan with respect to Bonus and/or Base Salary which would be payable in the Plan Year following such October 31.

2.02 IN GENERAL

(a) An individual who is determined to be an Eligible Executive with respect to a Plan Year and who desires to have deferrals credited on his behalf pursuant to Article 3 for such Plan Year must execute a Deferral Agreement with the Administrative Committee authorizing Deferrals under this Plan for such year in accordance with the provisions of Sections 3.01 and 3.02.

(b) The Deferral Agreement shall be in writing and be properly completed upon a form approved by the Administrative Committee, which shall be the sole judge of the proper completion thereof. Such Deferral Agreement shall provide, subject to the provisions of Section 3.02, for the deferral of a portion of the Eligible Executive's Bonus and/or Base Salary earned after the effective date of the election and shall include such other provisions as the Administrative Committee deems appropriate.

2.03 TERMINATION OF PARTICIPATION

(a) Participation shall cease when all benefits to which a Participant is entitled to hereunder are distributed to him.

(b) If a former Participant who has terminated employment with the Company and whose participation in the Plan ceased under Section 2.03(a) is reemployed as an Eligible Executive, the former Participant may again become a Participant in accordance with the provisions of Section 2.02.

ARTICLE 3. DEFERRALS

3.01 FILING REQUIREMENTS

(a) Prior to the close of business on the date or dates specified by the Administrative Committee in a Plan Year and except as otherwise provided below, an Eligible Executive may elect, subject to Section 3.02(a), to defer a portion of his Bonus payable in the next calendar year and/or a portion of his Base Salary that is otherwise earned and payable in the next calendar year by filing a Deferral Agreement with the Administrative Committee.

(b) A Participant's election to defer a portion of his Bonus or Base Salary for any calendar year shall become irrevocable on the last day the deferral of such Bonus or Base Salary may be elected under Section 3.01(a), except as otherwise provided in Section 3.02(c) or 3.05. A Participant may revoke or change his election to defer a portion of Bonus or Base Salary at any time prior to the date the election becomes irrevocable. Any such revocation or change shall be made in a form and manner determined by the Administrative Committee.

(c) A Participant's Deferral Agreement shall only apply to a Bonus determined after the Deferral Agreement is filed with the Administrative Committee under Section 3.01(a). A Participant's Deferral Agreement shall apply only with respect to Base Salary earned in the calendar year following the Plan Year in which the Deferral Agreement is filed with the Administrative Committee under Section 3.01(a). Subject to the provisions of Section 3.02, an Eligible Executive must file, in accordance with the provisions of Section 3.01(a), a new Deferral Agreement for each calendar year the Eligible Executive is eligible for and elects to defer a portion of his Bonus or Base Salary.

(d) If a Participant ceases to be an Eligible Executive but continues to be employed by the Company, he shall continue to be a Participant and his Deferral Agreement currently in effect for the Plan Year shall remain in force for the remainder of such Plan Year, but such Participant shall not be eligible to defer any portion of his Bonus or Base Salary earned in a subsequent Plan Year until such time as he shall once again become an Eligible Executive.

(e) Notwithstanding the foregoing, effective as of January 1, 1999, an Eligible Executive shall not be permitted under the provisions of this Plan to make an election to defer Base Salary earned on or after January 1, 1999.

3.02 AMOUNT OF DEFERRAL

(a) (i) The Compensation and Personnel Committee or its delegate may determine prior to October 31 of a calendar year that an Eligible Executive may defer all or a portion of his Bonus that is otherwise payable in the next Plan Year. An Eligible Executive shall be given written notice of the opportunity to defer all or a portion of his Bonus at least ten business days prior to the date the Deferral Agreement for the applicable Plan Year must be submitted to the Administrative Committee.

(ii) With respect to calendar years commencing prior to January 1, 1999, the Compensation and Personnel Committee or its delegate may determine prior to October 31 of a calendar year that an Eligible Executive may defer a portion of his Base Salary that is otherwise earned and payable in the next Plan Year. An Eligible Executive shall be given written notice of the opportunity to defer a portion of his Base Salary at least ten business days prior to the date the Deferral Agreement for the applicable Plan Year must be submitted to the Administrative Committee. Notwithstanding any Plan provisions to the contrary, effective as of January 1, 1999, deferrals of Base Salary earned on or after January 1, 1999 shall not be permitted under the provisions of this Plan.

(b) The Administrative Committee may establish maximum or minimum limits on the amount of any Bonus or Base Salary which may be deferred and/or the timing of such deferral. Eligible Executives shall be given written notice of any such limits at least ten business days prior to the date they take effect.

(c) Notwithstanding anything in this Plan to the contrary, if an Eligible Executive:

(i) receives a withdrawal of deferred cash contributions on account of hardship from any plan which is maintained by the Company or an Associated Company and which meets the requirements of Code Section 401(k) (or any successor thereto); and

(ii) is precluded from making contributions to such 401(k) plan for at least 12 months after receipt of the hardship withdrawal,

no amounts shall be deferred under this Plan under the Eligible Executive's Deferral Agreement with respect to Bonus or Base Salary until such time as the Eligible Executive is again permitted to contribute to such 401(k) plan. Any Bonus or Base Salary payment which would have been deferred pursuant to a Deferral Agreement but for the application of this Section 3.02(c) shall be paid to the Eligible Executive as if he had not entered into the Deferral Agreement.

3.03 CREDITING TO DEFERRAL ACCOUNT

The amount of Deferrals shall be credited to such Participant's Deferral Account on the day such Bonus or Base Salary would have otherwise been paid to the Participant in the absence of a Deferral Agreement. Deferrals credited to a Participant's Deferral account which are deemed invested in a Corporation phantom stock fund will be credited based on the fair market value of the Corporation's common stock on that day.

3.04 VESTING

A Participant shall at all times be 100% vested in his Deferral Account.

3.05 HARDSHIP

Notwithstanding the foregoing provisions of this Article 3, a Participant may completely cease Deferrals made under all Deferral Agreements then in effect with respect to the Participant upon the Participant providing the Compensation and Personnel Committee with such evidence of severe financial hardship as the Compensation and Personnel Committee may deem appropriate. In the event the Compensation and Personnel Committee finds the Participant has incurred a severe financial hardship, the Participant's Deferrals shall cease as of the first practicable payroll period following the Compensation and Personnel Committee's decision. In the event the Participant wishes to recommence Deferrals starting in a subsequent calendar year, the Participant may do so by duly completing, executing, and filing the appropriate Deferral Agreement with the Administrative Committee in accordance with Section 3.01, provided said Participant is an Eligible Executive at that time.

ARTICLE 4. MAINTENANCE OF ACCOUNTS

4.01 ADJUSTMENT OF ACCOUNT

(a) As of each Reporting Date, each Deferral Account shall be credited or debited with the amount of earnings or losses with which such Deferral Account would have been credited or debited, assuming it had been invested in one or more investment funds, or earned the rate of return of one or more indices of investment performance, designated by the Administrative Committee and elected by the Participant pursuant to Section 4.02 for purposes of measuring the investment performance of his Deferral Account. Any portion of a Participant's Deferral Account deemed invested in a Corporation phantom stock fund shall be credited with dividend equivalents, as and when dividends are paid on the Corporation's common stock, which shall be deemed invested in additional shares of such phantom stock.

(b) The Administrative Committee shall designate at least one investment fund or index of investment performance and may designate other investment funds or investment indices (including a Corporation phantom stock fund) to be used to measure the investment performance of a Participant's Deferral Account. The designation of any such investment funds or indices shall not require the Company to invest or earmark their general assets in any specific manner. The Administrative Committee may change the designation of investment funds or indices from time to time, in its sole discretion, and any such change shall not be deemed to be an amendment affecting Participants' rights under Section 6.02.

4.02 INVESTMENT PERFORMANCE ELECTIONS

In the event the Administrative Committee designates more than one investment fund or index of investment performance under Section 4.01, each Participant shall file an investment election with the Administrative Committee with respect to the investment of his Deferral Account within such time period and on such form as the Administrative Committee may prescribe. The election shall designate the investment fund or funds or index or indices of investment performance which shall be used to measure the investment performance of the Participant's Deferral Account.

4.03 CHANGING INVESTMENT ELECTIONS

In the event the Administrative Committee designates more than one investment fund or index of investment performance under Section 4.01, a Participant may change his election of the investment fund or funds or index or indices of investment performance used to measure the future investment performance of both his future Deferrals and his existing account balance, by filing an appropriate written notice with the Administrative Committee or its delegate at least 15 days, or such other period as determined by the Administrative Committee, in advance of the date such election is effective. The election shall be effective as of the first business day of the calendar quarter following the month in which the notice is filed. Notwithstanding the foregoing, effective as of October 1, 1997, the election shall be effective as of the first business day of the last month in the calendar quarter following the month in which the notice is filed, or, effective as of May 1, 2000, such earlier date as prescribed by the Administrative Committee on a basis uniformly applicable to all Participants similarly situated.

4.04 INDIVIDUAL ACCOUNTS

The Administrative Committee shall maintain, or cause to be maintained on its books, records showing the individual balance of each Participant's Deferral Account. At least once a year each Participant shall be furnished with a statement setting forth the value of his Deferral Account.

4.05 VALUATION OF ACCOUNTS

(a) The Administrative Committee shall value or cause to be valued each Participant's Deferral Account at least quarterly. On each Reporting Date there shall be allocated to the Deferral Account of each Participant the appropriate amount determined in accordance with Section 4.01.

(b) Whenever an event requires a determination of the value of a Participant's Deferral Account, the value shall be computed as of the Reporting Date immediately preceding the date of the event, except as otherwise specified in this Plan.

ARTICLE 5. PAYMENT OF BENEFITS

5.01 COMMENCEMENT OF PAYMENT

(a) The following provisions shall apply with respect to an Eligible Executive who becomes a Participant prior to January 1, 1998:

(i) Except as otherwise provided in paragraph (d) below, the distribution of the portion of the Participant's Deferral Account attributable to deferrals of Bonus or Base Salary which would otherwise be payable on or after January 1, 1998 shall commence, pursuant to Section 5.02, on or as soon as practicable after the occurrence of any distribution event made available under procedures established from time to time by the Administrative Committee and as designated by the Participant on his first Deferral Agreement filed with respect to Bonus or Base Salary payable on and after January 1, 1998 ("Common Distribution Date").

(ii) Except as otherwise provided in paragraph (d) below, the distribution of the portion of the Participant's Deferral Account attributable to deferrals of Bonus or Base Salary which would have otherwise been paid prior to January 1, 1998 shall commence on or as soon as practicable after the occurrence of the distribution event designated by the Participant on his Deferral Agreement applicable to each particular deferral election ("Distribution Event Date(s)"), unless the Participant makes an election by duly completing, executing and filing with the Administrative Committee prior to October 31, 1997 the appropriate forms to have the deferrals made with respect to 1995, 1996 or 1997 paid on his Common Distribution Date.

(b) Except as otherwise provided in paragraph (d) below, with respect to an Eligible Executive who first becomes a Participant on or after January 1, 1998, the distribution of the Participant's Deferral Account shall commence, pursuant to Section 5.02, on or as soon as practicable after the occurrence of any distribution event made available under procedures established from time to time by the Administrative Committee and as designated by the Participant on his initial Deferral Agreement ("Common Distribution Date").

(c) In the event a Participant elects pursuant to paragraphs (a) or (b) above to defer to a specific calendar date in a specific calendar year, he may not elect a calendar date which occurs prior to the close of the calendar year following the calendar year in which he executed the Deferral Agreement.

(d) Notwithstanding the foregoing, in the event a Participant terminates employment for reasons other than Retirement prior to his Common Distribution Date and/or any Distribution Event Date(s) applicable to deferrals made with respect to 1995, 1996, or 1997, the distribution of his Deferral Account shall commence, pursuant to Section 5.02, as soon as practicable after his termination of employment; provided, however, if a Participant whose employment terminates on or after April 1, 1998 has prior to the date of his termination of employment, in accordance with the procedures prescribed by the Administrative Committee, made a special termination election, the distribution of his Deferral Account shall commence, pursuant to Section 5.02, as soon as practicable after the occurrence of the termination distribution date designated by the Participant on the appropriate special termination election form prescribed by the Administrative Committee ("Special Effective Termination Distribution Date"). However for a special termination election to be effective it must be made in a calendar year prior to the calendar year in which any portion of the Participant's Deferral Account is first to become payable after taking this election into account and a full six months must pass between the date the Participant duly makes this election and the date on which any portion of the Participant's Deferral Account is first to become payable after taking this election into account.

(e) A Participant shall not change his designation of the distribution event which entitles him to a distribution of his Deferral Account, except as otherwise provided in Section 5.03 below.

(f) Notwithstanding any Plan provision to the contrary, the distribution to a Participant who is an "insider" (as defined in Section 16 of the Act) and who has elected to have any portion of his Deferral Account invested in the Corporation phantom stock fund, shall be subject to the advance approval of the Compensation and Personnel Committee.

5.02 METHOD OF PAYMENT

(a) Except as otherwise provided in paragraphs (b) and (c) below:

(i) at the time a Participant makes an election of his distribution event pursuant to the provisions of Sections 5.01(a) or (b), the Participant shall elect that the portion of his Deferral Account to which such distribution event is applicable shall be made payable as of such distribution event under one of the following methods of payment:

(1) ratable annual cash installments for a period of years, not to exceed 15 years, designated by the Participant on his Deferral Agreement,

(2) a single lump sum cash payment, or

(3) any other form of payment approved by the Compensation and Personnel Committee; and

(ii) at the time a Participant makes an election of a Special Effective Termination Distribution Date pursuant to the provisions of Section 5.01(d), the Participant shall elect that his Deferral Account shall be made payable as of such Special Effective Termination Distribution Date under one of the following methods of payment:

(1) ratable annual cash installments for a period of five years, or

(2) a single lump sum cash payment.

During an installment payment period, the Participant's Deferral Account shall continue to be credited with earnings or losses as described in Section 4.01. The first installment or lump sum payment shall be made as soon as administratively practicable following the Reporting Date coincident with or preceding the distribution event designated pursuant to Section 5.01 or 5.03. Subsequent installments, if any, shall be paid as soon as administratively practicable following the anniversary of said distribution event in the following calendar year and each subsequent year of the installment period. The amount of each installment shall equal the balance in the Participant's Deferral Account as of each Reporting Date of determination divided by the number of remaining installments (including the installment being determined).

(b) Notwithstanding the foregoing, in the event payment is to be made pursuant to Section 5.01(d) to a Participant who does not have a Special Effective Termination Distribution Date election in effect as of his date of termination of employment, a lump sum payment shall be made as soon as administratively practicable following the Reporting Date coincident with or next following the Participant's termination of employment.

(c) If a Participant dies before payment of the entire balance of his Deferral Account, an amount equal to the unpaid portion thereof as of the date of his death shall be payable in one lump sum to his Beneficiary as soon as practicable after the Reporting Date coincident with or next following the Participant's date of death.

(d) A Participant shall not change his method of payment, except as otherwise provided in Section 5.03.

5.03 CHANGE OF DISTRIBUTION ELECTION

A Participant may change his elections of a Common Distribution Date or a Special Effective Termination Distribution Date under Section 5.01 or the method of payment under Section 5.02 applicable to the portion of his Deferral Account payable at said dates each October by duly completing, executing, and filing with the Administrative Committee prior to such distribution date a new election on an appropriate form designated by the Administrative Committee; provided however, that for any such change of election to be effective it must be made in the calendar year prior to the calendar year during which any portion of the Participant's Deferral Account is first to become payable after taking the change into account and a full six months must pass between the date the Participant duly makes the change of election and the date on which any portion of the Participant's Deferral Account is first to become payable after taking the change into account.

5.04 HARDSHIP

Payment of a Participant's Deferral Account shall not commence prior to a Participant's designated distribution date, except that the Compensation and Personnel Committee may, if it determines a severe unforeseeable financial hardship exists which cannot be met from other sources, approve a request by the Participant for a withdrawal from his Deferral Account. Such request shall be made in a time and manner determined by the Administrative Committee. The payment made from a Participant's Deferral Account pursuant to the provisions of this Section 5.04 shall not be in excess of the amount necessary to meet such financial hardship of the Participant, including amounts necessary to pay any federal, state or local income taxes.

5.05 PAYMENT UPON THE OCCURRENCE OF AN ACCELERATION EVENT

Notwithstanding the foregoing provisions of this Article 5, upon the occurrence of an Acceleration Event, every Participant who is an Eligible Executive or a former Eligible Executive shall automatically receive the entire balance of his Deferral Accounts in a single lump sum payment. Such lump sum payment shall be made as soon as practicable on or after the Acceleration Event. If such Participant dies after such Acceleration Event, but before receiving such payment, it shall be made to his Beneficiary.

5.06 TAX INCREASES

Notwithstanding the provisions of Section 5.01, in the event a Participant's Deferral Account is being paid in installment payments under Section 5.02, and during said payout period Federal personal income tax rates for the highest marginal tax rate are scheduled to increase by 5 or more percentage points, at the direction of the Administrative Committee, any remaining installment payments to be paid after the effective date of such increase shall be paid in one lump sum prior to said effective date.

5.07 DESIGNATION OF BENEFICIARY

Each Participant shall file with the Administrative Committee a written designation of one or more persons as the Beneficiary who shall be entitled to receive the amount, if any, payable under the Plan upon his death pursuant to Section 5.02(b) or 5.05. A Participant may, from time to time, revoke or change his Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Administrative Committee. The last such designation received by the Administrative Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Administrative Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no such Beneficiary designation is in effect at the time of a Participant's death, or if no designated Beneficiary survives the Participant, the Participant's surviving spouse, if any, shall be his Beneficiary, otherwise the person designated as beneficiary by the Participant under the ITT Industries Salaried Group Life Insurance Plan shall be his Beneficiary, and shall receive the payment of the amount, if any, payable under the Plan upon his death; provided, however, that if the life insurance benefit has been assigned, the Beneficiary shall be the Participant's estate.

5.08 DEBITING ACCOUNTS

Any amounts debited from a Participant's Deferral Account by reason of a distribution, withdrawal, or otherwise under this Article 5, shall be debited from the Participant's Deferral Account and the investment options under which such amount is credited, and such other accounts, subaccounts, options, or other allocations in the same proportion that the Participant's entire Deferral Account is credited at the time such debit is made, as determined by the Administrative Committee.

ARTICLE 6. AMENDMENT OR TERMINATION

6.01 RIGHT TO TERMINATE

Notwithstanding any Plan provision to the contrary, the Corporation may, by action of the Board of Directors, terminate this Plan and the related Deferral Agreements at any time. In the event the Plan and related Deferral Agreements are terminated, each Participant or Beneficiary shall receive a single sum payment in cash equal to the balance of the Participant's Deferral Account. The single sum payment shall be made as soon as practicable following the date the Plan is terminated and shall be in lieu of any other benefit which may be payable to the Participant or Beneficiary under this Plan.

6.02 RIGHT TO AMEND

The Compensation and Personnel Committee or its delegate may amend or modify this Plan and the related Deferral Agreements in any way either retroactively or prospectively. However, except that without the consent of the Participant or Beneficiary, if applicable, no amendment or modification shall reduce or diminish such person's right to receive any benefit accrued hereunder prior to the date of such amendment or modification, and after the occurrence of an Acceleration Event, no modification or amendment shall be made to Section 5.05 or Section 6.01 under Appendix A, attached hereto and made part hereof. A change in any investment fund or index under Section 4.01 shall not be deemed to adversely affect any Participant's rights to his Deferral Account. Notice of an amendment or modification to the Plan shall be given in writing to each Participant and Beneficiary of a deceased Participant having an interest in the Plan.

ARTICLE 7. GENERAL PROVISIONS

7.01 FUNDING

All amounts payable in accordance with this Plan shall constitute a general unsecured obligation of the Company. Such amounts, as well as any administrative costs relating to the Plan, shall be paid out of the general assets of the Company. The Administrative Committee may decide that a Participant's Deferral Account may be reduced to reflect allocable administrative expenses.

7.02 NO CONTRACT OF EMPLOYMENT

The Plan is not a contract of employment and the terms of employment of any Participant shall not be affected in any way by this Plan or related instruments, except as specifically provided therein. The establishment of the Plan shall not be construed as conferring any legal rights upon any person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person and to treat him without regard to the effect which such treatment might have upon him under this Plan. Each Participant and all persons who may have or claim any right by reason of his participation shall be bound by the terms of this Plan and all Deferral Agreements entered into pursuant thereto.

7.03 UNSECURED INTEREST

Neither the Company nor the Compensation and Personnel Committee nor the Administrative Committee in any way guarantees the performance of the investment funds or indices a Participant may designate under Article 4. No special or separate fund shall be established, and no segregation of assets shall be made, to assure the payments thereunder. No Participant hereunder shall have any right, title, or interest whatsoever in any specific assets of the Company. Nothing contained in this Plan and no action taken pursuant to its provisions shall create or be construed to create a trust of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive payments under this Plan, such right shall be no greater than the right of any unsecured creditor of the Company.

7.04 FACILITY OF PAYMENT

In the event that the Administrative Committee shall find that a Participant or Beneficiary is incompetent to care for his affairs or is a minor, the Administrative Committee may direct that any benefit payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid on his behalf to his spouse, a child, a parent or other relative, and any such payment so made shall thereby be a complete discharge of the liability of the Company and the Plan for that payment.

7.05 WITHHOLDING TAXES

The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

7.06 NONALIENATION

Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of a person entitled to such benefits.

7.07 TRANSFERS

(a) Notwithstanding any Plan provision to the contrary, in the event the Corporation (i) sells, causes the sale of, or sold the stock or assets of any employing company in the controlled group of the Corporation to a third party or (ii) distributes or distributed to the holders of shares of the Corporation's common stock all of the outstanding shares of common stock of a subsidiary or subsidiaries of the Corporation and, as a result of such sale or distribution, such company or its employees are no longer eligible to participate hereunder, the Compensation and Personnel Committee, in its sole discretion, may treat such event as not constituting a termination of employment and direct that the liabilities with respect to the benefits accrued under this Plan for a Participant who, as a result of such sale or distribution, is no longer eligible to participate in this Plan, shall (with the approval of the new employer), be transferred to a similar plan of such new employer and become a liability thereunder provided that no provisions of such new plan or amendment thereof shall reduce the balance of the Participants' Deferral Accounts as of the date of such transfer, as adjusted for investment gains or losses. Upon such transfer (and acceptance thereof), the liabilities for such transferred benefits shall become the obligation of the new employer and the liability under this Plan for such benefits shall cease.

(b) Notwithstanding any Plan provision to the contrary, at the discretion and direction of the Corporation, liabilities with respect to benefits accrued by a Participant under a plan maintained by such Participant's former employer may be transferred to this Plan and upon such transfer become the obligation of the Company.

7.08 CLAIMS PROCEDURE

(a) Submission of Claims

Claims for benefits under the Plan shall be submitted in writing to the Administrative Committee or to an individual designated by the Administrative Committee for this purpose.

(b) Denial of Claim

If any claim for benefits is wholly or partially denied, the claimant shall be given written notice within 90 days following the date on which the claim is filed, which notice shall set forth the following:

(i) the specific reason or reasons for the denial;

(ii) specific reference to pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(iv) an explanation of the Plan's claim review procedure.

If special circumstances require an extension of time for processing the claim, written notice of an extension shall be furnished to the claimant prior to the end of the initial period of 90 days following the date on which the claim is filed. Such an extension may not exceed a period of 90 days beyond the end of said initial period.

If the claim has not been granted and written notice of the denial of the claim or that an extension has been granted is not furnished within 90 days following the date on which the claim is filed, the claim shall be deemed denied for the purpose of proceeding to the claim review procedure.

(c) Claim Review Procedure

The claimant or his authorized representative shall have 60 days after receipt of written notification of denial of a claim to request a review of the denial by making written request to the Administrative Committee, and may review pertinent documents and submit issues and comments in writing within such 60-day period.

Not later than 60 days after receipt of the request for review, the Administrative Committee shall render and furnish to the claimant a written decision, which shall include specific reasons for the decision and shall make specific references to pertinent Plan provisions on which it is based. If special circumstances require an extension of time for processing, the decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review, provided that written notice and explanation of the delay are given to the claimant prior to commencement of the extension. Such decision by the Administrative Committee shall not be subject to further review. If a decision on review is not furnished to a claimant within the specified time period, the claim shall be deemed to have been denied on review.

(d) Exhaustion of Remedy

No claimant shall institute any action or proceeding in any state or federal court of law or equity or before any administrative tribunal or arbitrator for a claim for benefits under the Plan until the claimant has first exhausted the procedures set forth in this section.

7.09 PAYMENT OF EXPENSES

All administrative expenses of the Plan and all benefits under the Plan shall be paid from the general assets of the Company, except as otherwise may be provided herein.

7.10 CONSTRUCTION

(a) The Plan is intended to constitute an unfunded deferred compensation arrangement for a select group of management or highly compensated employees and, therefore, is exempt from the requirements of parts 2, 3 and 4 of Subtitle B of Title I of ERISA (pursuant to Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA), and all rights hereunder shall be governed by ERISA. Subject to the preceding sentence, the Plan shall be construed, regulated and administered in accordance with the laws of the State of New York, subject to the provisions of applicable federal laws.

(b) The masculine pronoun shall mean the feminine wherever appropriate.

(c) The illegality of any particular provision of this document shall not affect the other provisions, and the document shall be construed in all respects as if such invalid provision were omitted.

ARTICLE 8. ADMINISTRATION

8.01

(a) The Administrative Committee appointed from time to time by the Compensation and Personnel Committee to serve at the pleasure of the Compensation and Personnel Committee shall have the exclusive responsibility and complete discretionary authority to control the operation, management and administration of the Plan, with all powers necessary to enable it properly to carry out such responsibilities, including, but not limited to, the power to interpret the Plan and any related documents, to establish procedures for making any elections called for under the Plan, to make factual determinations regarding any and all matters arising hereunder, including, but not limited to, the right to determine eligibility for benefits, the right to construe the terms of the Plan, the right to remedy possible ambiguities, inequities, inconsistencies or omissions, and the right to resolve all interpretive, equitable or other questions arising under the Plan. The decisions of the Administrative Committee or such other party as is authorized under the terms of any grantor trust on all matters shall be final, binding and conclusive on all persons to the extent permitted by law.

(b) To the extent permitted by law, all agents and representatives of the Administrative Committee shall be indemnified by the Corporation and held harmless against any claims and the expenses of defending against such claims, resulting from any action or conduct relating to the administration of the Plan, except claims arising from gross negligence, willful neglect or willful misconduct.

APPENDIX A

SPECIAL PROVISIONS APPLICABLE TO CERTAIN PARTICIPANTS WHO DEFERRED BASE SALARY UNDER THIS PLAN

This Appendix A is applicable only with respect to a Participant who deferred all or a portion of his Base Salary under the provisions of this Plan and who (i) lost matching or other employer contributions under the ITT Industries Investment and Savings Plan for Salaried Employees (or any predecessor plan) due to the deferral of his Base Salary under this Plan, or (ii) had salary deferrals attributable to such Base Salary credited on his behalf to the ITT Industries Excess Savings Plan (or a predecessor plan) prior to January 1, 1996.

SECTION 1. - DEFINITIONS

1.01 "ACCOUNTS" shall mean the Deferred Account, Floor Contribution Account and the Matching Contribution Account.

1.02 "DEFERRED ACCOUNT" shall mean the bookkeeping account maintained for each Participant covered under this Appendix A to record the portion of Base Salary deferred under this Plan which was credited as a Salary Deferral under the ITT Industries Excess Savings Plan (or any predecessor plan) prior to January 1, 1996.

1.03 "MATCHING CONTRIBUTION ACCOUNT" shall mean the bookkeeping account maintained for each Participant covered under this Appendix A to record the Excess Matching Contribution (as defined under the ITT Industries Excess Savings Plan) credited on such Participant's behalf due to his deferral of Base Salary under this Plan.

1.04 "FLOOR CONTRIBUTION ACCOUNT" shall mean the bookkeeping account maintained for each Participant covered under this Appendix A to record the Excess Floor Contributions (as defined under the ITT Industries Excess Savings Plan) credited on such Participant's behalf due to his deferral of Base Salary under this Plan.

SECTION 2. - INVESTMENT OF ACCOUNTS

2.01 A Participant shall have no choice or election with respect to the investments of his Accounts. There shall be credited or debited an amount of earnings or losses on the balance of the Participant's Accounts which would have been credited had the Participant's Accounts been invested in the Stable Value Fund maintained under the ITT Industries Investment and Savings Plan for Salaried Employees.

SECTION 3. - VESTING OF ACCOUNTS

3.01 A Participant shall be fully vested in his Deferred Account and Floor Contribution Account. The Participant shall vest in the amounts credited to his Matching Contribution Account at the same rate and under the same conditions at which such contributions would have vested under the ITT Industries Investment and Savings Plan for Salaried Employees had they been contributed thereunder. In the event the Participant terminates employment prior to vesting in all or any part of the amount credited on his behalf to his Matching Contribution Account, such contributions and earnings thereon shall be forfeited and shall not be restored in the event the Participant is subsequently reemployed by the Company.

3.02 Notwithstanding any provisions of this Plan or Appendix A to the contrary, upon the occurrence of an Acceleration Event, (as such term is defined in Article I of the Plan) a Participant shall become fully vested in the amounts credited to his Matching Contribution Account.

SECTION 4. - COMMENCEMENT OF PAYMENT

4.01 A Participant shall be entitled to receive payment of his Deferred Account, Floor Contribution Account and the vested portion of his Matching Contribution Account, as determined under Section 3.01, upon his termination of employment for any reason, other than death. The distribution of such Accounts shall be made as soon as practicable following such termination of employment.

4.02. In the event of the death of a Participant prior to the full payment of his Accounts, the unpaid portion of his Accounts shall be paid to his Beneficiary (as defined in Section 1.05 of the Plan) as soon as practicable following his date of death.

SECTION 5. - METHOD OF PAYMENT

5.01 Payment of a Participant's Deferred Account, Floor Contribution Account, and the vested portion of his Matching Contribution Account shall be made in a single lump sum payment.

SECTION 6. - PAYMENT UPON THE OCCURRENCE OF AN ACCELERATION EVENT

6.01 Upon the occurrence of an Acceleration Event, all Participants shall automatically receive the entire balance of their Accounts in a single lump sum payment. Such lump sum payment shall be made as soon as practicable on or after the Acceleration Event. If the Participant dies after such Acceleration Event, but before receiving such payment, it shall be made to his Beneficiary.

EXHIBIT 12

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CALCULATION OF RATIO OF EARNINGS TO TOTAL FIXED CHARGES AND CALCULATION OF EARNINGS TO TOTAL FIXED CHARGES AND PREFERRED DIVIDEND REQUIREMENTS
(IN MILLIONS)

	YEARS ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
Earnings:					
Income (loss) from continuing operations	$264.5	$232.9	$ (97.6)	$ 11.9	$ 66.4
Add (deduct):					
Adjustment for distributions in excess of (less than) undistributed equity earnings and losses(a)	(3.5)	(3.1)	1.1	2.1	(0.8)
Income taxes (benefits)	155.4	136.8	(62.4)	7.6	44.3
	416.4	366.6	(158.9)	21.6	109.9
Fixed Charges:					
Interest and other financial charges	93.1	84.8	125.8	133.2	169.0
Interest factor attributable to rentals(b)	18.5	17.3	15.1	17.7	15.8
	111.6	102.1	140.9	150.9	184.8
Earnings, as adjusted, from continuing operations	$528.0	$468.7	$ (18.0)	$172.5	$294.7
Fixed Charges:					
Fixed charges above	$111.6	$102.1	$ 140.9	$150.9	$184.8
Interest capitalized	--	--	--	1.1	1.1
Total fixed charges	111.6	102.1	140.9	152.0	185.9
Dividends on preferred stock (pre-income tax basis)	--	--	--	--	--
Total fixed charges and preferred dividend requirements	$111.6	$102.1	$ 140.9	$152.0	$185.9
Ratios:					
Earnings, as adjusted, from continuing operations to total fixed charges(c)	4.73	4.59	--	1.13	1.59
Earnings, as adjusted, from continuing operations to total fixed charges and preferred dividend requirements(c)	4.73	4.59	--	1.13	1.59

Notes:

a) The adjustment for distributions in excess of (less than) undistributed equity earnings and losses represents the adjustment to income for companies in which at least 20% but less than 50% equity is owned.

b) One-third of rental expense is deemed to be representative of the interest factor in rental expense.

c) No ratios are shown for those periods in which earnings were insufficient to cover fixed charges and combined fixed charges and preferred stock dividends. As a result of the net loss incurred for the year ended December 31, 1998, earnings were inadequate to cover fixed charges and preferred stock dividends by $158.9 million.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Set forth below are the names of subsidiaries, divisions and related organizations of ITT Industries, Inc., the respective jurisdiction in which each was organized (in the case of subsidiaries), and the name under which each does business (if other than the name of the entity itself).

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
ITT Industries, Inc.	Indiana	
CONNECTORS & SWITCHES		
C & K Components, Inc.	Massachusetts	
C & K Components (Hong Kong) Ltd.	Hong Kong	
C & K Components SA	Costa Rica	
C & K Holdings (Hong Kong) Ltd.	Hong Kong	
C & K Holdings (United Kingdom) Ltd.	United Kingdom	
C & K Switches Ltd.	United Kingdom	
CableCom Electronics (Shenzhen)Co., Ltd.	Taiwan	
CableCom International Limited	Hong Kong	
Great American Gumball Corporation	California	ITT Cannon Santa Clara
ITT Cannon Division	N/A	ITT Cannon/MobileCom, ITT Cannon RF Products, ITT Cannon Switch Products and Cannon SanTeh
ITT Cannon GmbH	Germany	
ITT Cannon (Hong Kong) Ltd	Hong Kong	
ITT Cannon International, Inc.	Delaware	ITT Cannon/Network Systems & Services
ITT Cannon Italy S.p.A.	Italy	
ITT Cannon, Ltd.	Japan	
ITT Cannon Mexico, Inc.	Delaware	
ITT Cannon de Mexico S.A. de C.V.	Mexico	
ITT Cannon (Zhenjiang) Electronics, Ltd.	China	
ITT Datacommunications Limited	United Kingdom	ITT Cannon Network Systems & Services
ITT Industries Hungary Manufacturing and Trading Limited Liability Company	Hungary	
ITT Industries SAS	France	
ITT Schadow Division	N/A	
Man Machine Interface Division	N/A	
Nantong San Teh Coating Technology Co. Ltd.	China	
Nantong San Teh Xing Electronic Industry Co. Ltd.	China	
Nantong San Teh Xing Precision Mechanical Engineering Co. Ltd.	China	
Rudolf Schadow GmbH	Germany	
San Teh Precision Engineering Pte. Ltd.	Singapore	
San Teh Products Co. Ltd.	Hong Kong	
San Teh Xing (China) Group Co. Ltd.	China	
San Teh Xing (Tian Jin) Industrial Co., Ltd.	China	
STX PTE. LTD.	Singapore	
Xiamen San Teh Precision Mechanical Engineering Co. Ltd.	China	
Xiamen San Teh Xing Electronic & Science Technology Industry Co.	China	
DEFENSE PRODUCTS & SERVICES		
Advanced Engineering & Sciences Division	N/A	
Felec Services, Inc.	Delaware	

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
Gilcron Corporation............................	Delaware	
ITT Aerospace/Communications Division..........	N/A	
ITT Antarctic Services, Inc.	Delaware	
ITT Arctic Services, Inc.	Delaware	
ITT Avionics Division..........................	N/A	
ITT Avionics Systems International, Inc.	Delaware	
ITT Commercial Services, Inc.	Delaware	
ITT Defence Ltd.	United Kingdom	
ITT Defense Division...........................	N/A	
ITT Defense International, Inc.	Delaware	
ITT Employment and Training Systems, Inc.	Delaware	
ITT Federal Services Arabia Ltd.	Saudi Arabia	
ITT Federal Services Corporation...............	Delaware	
ITT Federal Services GmbH......................	Germany	
ITT Federal Services International Corporation.................................	Delaware	
ITT Federal Services International, Ltd.	Cayman Islands	
ITT FSC Investment Corporation.................	Delaware	
ITT FSC Management Corporation.................	Delaware	
ITT Gilfillan Division.........................	N/A	
ITT Gilfillan Inc.	Delaware	
ITT Job Training Services, Inc.	Delaware	
ITT Night Vision Division......................	N/A	
ITT Systems Division...........................	N/A	
ITT Systems & Sciences Corporation.............	Delaware	
K and M Electronics, Inc.	Massachusetts	
PUMPS AND COMPLEMENTARY PRODUCTS		
AC Custom Pumps Division.......................	N/A	
Anadolu Flygt Pompa Sanayi Ve Ticaret..........	Turkey	
Avis Werberg GmbH..............................	Austria	
Bombas Goulds de Argentina.....................	Argentina	Goulds
Bombas Goulds de Mexico........................	Mexico	Goulds
Bombas Goulds de Venezuela, C.A.	Venezuela	Goulds
Distribuidora Arbos, C.A.	Venezuela	
Flygt Argentina SA.............................	Argentina	Flygt
Flygt do Brazil................................	Brazil	Flygt
Flygt Chile....................................	Chile	Flygt
Flygt Hellas SA................................	Greece	Flygt
Flygt Huolto OY................................	Finland	Flygt
Flygt Korea Ltd................................	Korea	Flygt
Flygt Portugal Technologia Agua do Ambiente....	Portugal	Flygt
Flygt Pumpet OY................................	Finland	Flygt
Goulds Pumps Canada, Inc.	Canada	Goulds
Goulds Pumps Delaware Inc.	Delaware	Goulds
Goulds Pumps Europe BV.........................	The Netherlands	Goulds
Goulds Pumps Financial Services Ltd.	Ireland	Goulds
Goulds Pumps Holdings Inc.	Delaware	Goulds
Goulds Pumps, Incorporated.....................	Delaware	Goulds
Goulds Pumps Investments Inc...................	Canada	Goulds
Goulds Pumps (IPG) Inc.	Delaware	Goulds
Goulds Pumps (Ireland) Limited.................	Ireland	Goulds
Goulds Pumps Korea Co., Ltd.	Korea	Goulds

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
Goulds Pumps (NY) Inc.	New York	Goulds
Goulds Pumps (PA) Inc.	Delaware	Goulds
Goulds Pumps (Philippines), Inc.	Philippines	Goulds
Goulds Pumps Polska Co. Ltd.	Poland	Goulds
Goulds Pumps (TX), L.P.	Texas	Goulds
Goulds Pumps World Sales (VI) Ltd.	Virgin Islands	Goulds
Grindex AB....................................	Sweden	
ITT Bell & Gosset Division.....................	N/A	Bell & Gosset
ITT Fluid Technology Asia Pte Ltd.	Singapore	
ITT Fluid Technology Division..................	N/A	
ITT Fluid Technology International.............	Delaware	
ITT Fluid Technology International Asia Pacific Pte Ltd.	Singapore	
ITT Fluid Technology International Hong Kong...	Hong Kong	
ITT Fluid Technology International, Pty........	Australia	
ITT Fluid Technology International (Thailand), Ltd.	Thailand	
ITT Fluid Technology SA........................	Chile	
ITT Flygt AB..................................	Sweden	Flygt
ITT Flygt ApS.................................	Denmark	Flygt
ITT Flygt A/S.................................	Norway	Flygt
ITT Flygt B.V.	The Netherlands	Flygt
ITT Flygt BVBA................................	Belgium	Flygt
ITT Flygt Corporation.........................	Delaware	Flygt
ITT Flygt GmbH................................	Austria	Flygt
ITT Flygt HK Ltd.	Hong Kong	Flygt
ITT Flygt Kft.................................	Hungary	Flygt
ITT Flygt Limited.............................	Australia	Flygt
ITT Flygt Lituanica...........................	Lithuania	Flygt
ITT Flygt Ltd.	Ireland	Flygt
ITT Flygt Ltd.	United Kingdom	Flygt
ITT Flygt Pumpen GmbH.........................	Germany	Flygt
ITT Flygt (PTY) Ltd.	S. Africa	Flygt
ITT Flygt SAS.................................	France	Flygt
ITT Flygt SDC SAS.............................	France	Flygt
ITT Flygt Srl.................................	Italy	Flygt
ITT Flygt sp zoo..............................	Poland	Flygt
ITT Flygt (Shenyang) Pumps Ltd................	China	Flygt
ITT Flygt Werk GmbH...........................	Germany	Flygt
ITT Goulds Benelux BV.........................	The Netherlands	Goulds
ITT Grindex Pumps Division....................	N/A	
ITT Heat Transfer Division....................	N/A	
ITT Industrieholding GmbH & Co. Kg............	Germany	
ITT Industries Holding AB.....................	Sweden	
ITT McDonnell & Miller Division...............	N/A	McDonnell & Miller
Lowara Deutschland GmbH.......................	Germany	Lowara
Lowara France S.A.	France	Lowara
Lowara (Ireland) Limited......................	Ireland	Lowara
Lowara Nederland B.V.	The Netherlands	Lowara
Lowara Portugal...............................	Portugal	Lowara
Lowara Srl	Italy	Lowara
Lowara UK Limited.............................	England	Lowara
Nanjing Goulds Pumps Ltd.	China	Goulds

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
OY Flygt Nova AB	Finland	Flygt
PT Sam McCoy	Indonesia	
Pumpenfabrik Ernst Vogel GmbH	Austria	Vogel
Sam McCoy Engineering Pte Ltd.	Singapore	
Sam McCoy Engineering SDN BHD	Malaysia	
Sam McCoy Manufacturing SDN BHD	Malaysia	
Sanitaire Division	Delaware	Sanitaire
Shanghai Goulds Pumps Co. Ltd.	China	
Tecnicas de Filtracion Bombeo SA	Spain	
Trimate Industries Ltd.	New Zealand	
Vogel Pumpen Drv	Hungary	
SPECIALTY PRODUCTS		
AGJ Holding AB	Sweden	
A.G. Johansons Metallfabrik AB	Sweden	
Flojet Division	California	
Flojet (Europe) Limited	England	
Fulton-Rohr GmbH & Co. KG	Germany	
Hisan do Brasil LTDA	Brazil	
Hisan, Inc.	Michigan	
Hisan of Canada, Ltd.	Ontario	
Hydro Air Industries Division	N/A	
ITT Aerospace Controls Division	N/A	
ITT Automotive Europe Beteiligungs GmbH	Germany	
ITT Automotive Europe GmbH & Co. KG	Germany	
ITT Automotive Fluid Handling Systems, S.A. de C.V.	Mexico	
ITT Automotive, Inc.	Delaware	
ITT Automotive Italy S.r.l	Italy	
ITT Conoflow Division	N/A	
ITT Engineered Valves Division	N/A	
ITT Industries Fluid Handling Do Brasil Limitada	Brazil	
ITT Industries Galfer S.r.l	Italy	
ITT Industries Italia S.r.l	Italy	
ITT Industries Vermoegensverwaltungs GmbH	Germany	
ITT Jabsco Division	N/A	Jabsco
ITT Pure-Flo (UK) Ltd.	United Kingdom	
ITT Specialty Products Division	N/A	
Jabsco GmbH	Germany	Jabsco
Koni B.V.	The Netherlands	Koni
Koni France SARL	France	Koni
NHK Jabsco	Japan	Jabsco
Rule Industries, Inc.	Massachusetts	Rule
S.S.L. S.r.l	Italy	
OTHER		
Admiral Corporation	Florida	Admiral
Carbon Industries, Inc.	West Virginia	Carbon
Computer & Equipment Leasing Corporation	Wisconsin	
Corporp A&F, Inc.	Delaware	
Howard Corporation	North Carolina	
International Standard Electric Corporation	Delaware	
ITT AES Enterprises, Inc.	Delaware	
ITT Automotive Enterprises, Inc	Delaware	

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
ITT Benefits Management, Inc	Delaware	
ITT Canada Company	Nova Scotia	
ITT Community Development Corporation	Delaware	
ITT Delaware Investments, Inc.	Delaware	
ITT Gesellschaft fur Beteiligungen mbH	Germany	
ITT Industriebeteiligungsgesellschaft mbH	Germany	
ITT Industries (China) Investment Company, Limited	China	
ITT Industries Holding SARL	Luxembourg	
ITT Industries Limited	United Kingdom	
ITT Industries Luxembourg SARL	Luxembourg	
ITT Industries NV	Belgium	
ITT Industries World Sales Limited	Bermuda	
ITT Industries of Canada Ltd.	Canada	
ITT Manufacturing Enterprises, Inc.	Delaware	
ITT Remediation Management, Inc	Delaware	
ITT Resource Development Corporation	Delaware	
ITT Transportation Distribution Services Division	N/A	
Paul N. Howard Company	North Carolina	
Sunsport Recreation, Inc.	Florida	
Winifrede Railroad Corporation	West Virginia	

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Note: The names of certain subsidiaries have been omitted since, considered in the aggregate, they would not constitute a "significant subsidiary" as of the end of the year covered by this report.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To ITT Industries, Inc.:

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on (i) Form S-3 (File No. 33-45756) and (ii) Form S-8 (File Nos. 33-53771, 333-1109, 333-64161, 333-66293, 333-84917, 333-41806, and 333-41808).

ARTHUR ANDERSEN LLP

Stamford, Connecticut
March 26, 2001