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, 1996

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, 1997, was approximately $2.9 billion.

As of February 28, 1997, there were outstanding 118,436,579 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, 1997, is incorporated by reference in Part III of this Form 10-K.

TABLE OF CONTENTS

- ------------

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

PART I

ITEM 1. BUSINESS OF ITT INDUSTRIES

ITT Industries, Inc. ("ITT Industries"), an Indiana corporation incorporated on September 5, 1995 as, and originally named, ITT Indiana, Inc., is the successor pursuant to a statutory merger of ITT Corporation, a Delaware corporation ("ITT Delaware"), into ITT Industries effective December 20, 1995. ITT Delaware, originally incorporated in Maryland in 1920 as International Telephone and Telegraph Corporation, was reincorporated in Delaware in 1968 and 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 ("ITT Hartford"), both of which were wholly-owned subsidiaries of ITT Delaware. In connection with the Distribution, ITT Destinations changed its name to ITT Corporation ("ITT Corporation"). Reference is made to "-- CERTAIN RELATIONSHIPS AMONG ITT INDUSTRIES, ITT CORPORATION and ITT HARTFORD AFTER THE DISTRIBUTION."

ITT Industries has its World Headquarters at 4 West Red Oak Lane, White Plains, NY 10604 and has approximately 59,000 employees based in over 40 countries. Unless the context otherwise indicates, references herein to ITT Industries include its subsidiaries. The telephone number for ITT Industries is 914-641-2000.

ITT Industries, with 1996 sales of approximately $8.7 billion, is a worldwide enterprise engaged directly and through its subsidiaries in the design and manufacture of a wide range of engineered products, focused on the three principal business segments of ITT Automotive, ITT Defense & Electronics and ITT Fluid Technology. See "BUSINESS SEGMENT INFORMATION" in the "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for information concerning ITT Community Development Corporation, ITT Semiconductors, other non-core businesses, and businesses which have been sold.

The table below shows in percentage terms ITT Industries' consolidated net sales and operating income attributable to each of its ongoing lines of business for the last three years:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
NET SALES			
ITT Automotive	66%	66%	64%
ITT Defense & Electronics	19	19	21
ITT Fluid Technology	15	15	15
	100%	100%	100%
OPERATING INCOME			
ITT Automotive	60%	62%	63%
ITT Defense & Electronics	20	18	18
ITT Fluid Technology	20	20	19
	100%	100%	100%

BUSINESS AND PRODUCTS

ITT Automotive

ITT Automotive, with 1996 sales of approximately $5.5 billion, is one of the largest independent suppliers of components, systems and modules to vehicle manufacturers worldwide and also is a supplier of related products to the aftermarket. Through operations located in Europe, North America and South America, and joint ventures and licensees throughout the world, ITT Automotive designs, engineers and manufactures a broad range of automotive components and systems, and is now introducing modules, under two major worldwide product groupings -- Brake and Chassis Systems and Body and Electrical Systems.

The Brake and Chassis Systems group, which had 1996 sales of approximately $3.3 billion, produces anti-lock brake systems ("ABS") and traction control systems ("TCS"), chassis systems, foundation brake components, fluid handling products and shock absorbers. Sales of four-wheel ABS and TCS exceeded $1.0 billion in 1996 for the fourth consecutive year. ABS remains the largest product line of ITT Automotive with 22%, 24% and 27% of total sales in 1996, 1995 and 1994, respectively.

The Body and Electrical Systems group, which had 1996 sales of approximately $2.2 billion, produces automotive products, such as door and window assemblies, wiper module assemblies, seat systems, air management systems, switches and fractional horsepower direct current motors. In 1994, ITT Automotive strengthened its previously established position as a leading producer of electric motors and wiper systems through the acquisition from General Motors of its motors and actuators business unit, now renamed ITT Automotive Electrical Systems, Inc. ("ESI"). ESI accounted for 19% of ITT Automotive's sales in 1996.

The following table illustrates the percentage sales by group for the periods specified:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Brake and Chassis Systems	61%	61%	64%
Body and Electrical Systems	39	39	36
	100%	100%	100%

ITT Automotive markets products using various recognizable brand names in the automotive industry, including Teves(R) and Ate(R) (brake components and systems), SWF(R) (wiper systems, electric motors and switches) and Koni(R) (shock absorbers).

ITT Automotive provides modules which are pre-assembled components and units installed in a particular location of a vehicle. Presently, ITT Automotive provides corner modules, which contain brake components, knuckles, bearings and other smaller items, and windshield wiper modules, which contain wiper arms, blades, linkages, motors, a washer fluid reservoir and a pump motor. ITT Automotive is also developing new product lines such as complete axle assemblies and automotive stability management

systems ("ASMS"). ASMS provides functions such as traction control, anti-lock braking, electronic brake-force distribution and control of engine torque, and is designed to provide assistance in braking, starting, steering and achieving control of the vehicle under various driving conditions. There can be no assurance as to how extensive ITT Automotive's presence in such product areas will be.

The principal customers for products of ITT Automotive are the top vehicle manufacturers worldwide. Of these manufacturers, ITT Automotive's largest customers are General Motors, Ford, Volkswagen, Chrysler, Mercedes and BMW, contributing 25.3%, 14.4%, 9.1%, 8.6%, 6.2% and 5.8%, respectively, of ITT Automotive's 1996 sales. In addition, approximately 7% of ITT Automotive's 1996 net sales, which included brake parts, shocks and struts and windshield wiper components, were to customers in the aftermarket.

The level of activity of ITT Automotive is generally dependent upon the condition of major economies throughout the world. Of particular importance are light vehicle production levels in markets served by ITT Automotive and the amount of ITT Automotive products included in the vehicles being produced. See "-- COMPETITION."

ITT Automotive companies have approximately 33,800 employees in 72 facilities located in 18 countries.

ITT Defense & Electronics

ITT Defense & Electronics, with 1996 sales of approximately $1.6 billion, develops, manufactures and supports high technology electronic systems and components for worldwide defense and commercial markets with operations in North America, Europe and Asia. Defense market products include tactical communications equipment, airborne electronic warfare systems, night vision devices, radar, space payloads, and operations and maintenance services. Commercial products and services include interconnect products (such as connectors, switches and cable assemblies), night vision devices, and space launch services.

ITT Defense & Electronics concentrates its efforts 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, particularly 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. In addition, through its global technical services business, management believes that ITT Defense & Electronics may benefit from trends to commercialize and outsource military support services.

In the interconnect market ITT Cannon maintains a position as one of the world's largest connector companies based on revenue and is a leading supplier to the military/aerospace and industrial sectors. Its products include electronic connectors, switches, test accessories and cable assemblies for information systems, industrial, military/aerospace, and transportation applications.

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

In operations and maintenance services ITT Federal Services Corporation provides military base operations support, equipment and facility maintenance, and training services for government sites around the world.

ITT Night Vision provides United States and allied soldiers with the capability to conduct night combat operations with the production of advanced goggles for airborne and ground applications. ITT Night Vision was awarded 100% of the United States Army's Generation III night vision production needs through 1998. ITT Night Vision also produces a commercial line of night vision products for law

enforcement and marine applications. Radar, produced by ITT Gilfillan, includes ship and air defense radar and air traffic control systems.

ITT Avionics produces airborne electronic warfare systems such as the Airborne Self-Protection Jammer ("ASPJ") to help protect aircraft from radar-guided self-propelled weapons. ITT Avionics was selected by the U.S. Army to develop the next-generation fully integrated airborne electronic warfare system for rotary wing aircraft called Suite of Integrated Radio Frequency Countermeasures ("SIRFC"). ITT Avionics, teamed with Lockheed Martin Sanders, was also awarded the development contract for the United States Integrated Defensive Countermeasures ("IDECM") program for fixed wing aircraft such as the F/A-18 E/F fighter fleet.

The following table illustrates the percentage sales by product line for the periods specified:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Interconnect	33%	33%	30%
Tactical Communications/Space Payloads	27	28	28
Operations and Maintenance Services	19	18	16
Night Vision/Radar	12	10	16
Airborne Electronic Warfare	6	9	7
Other	3	2	3
	100%	100%	100%

ITT Defense & Electronics sells its products to a wide variety of governmental and non-governmental entities located throughout the world.

Approximately 64% of 1996 net sales of ITT Defense & Electronics was to governmental entities, of which approximately 86% was to the United States Government (principally in defense programs).

A substantial portion of the work of ITT Defense & Electronics 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% of 1996 net sales for ITT Defense & Electronics.

Sales to non-governmental entities have remained at approximately one-third of total sales from 1994 through 1996. Certain products sold by ITT Defense & Electronics have particular commercial application, including night vision products and those products already sold to the commercial sector, such as connectors and switches. In addition, ITT Defense & Electronics has entered into a partnership with California Commercial Spaceport, Inc. to form Spaceport Systems International ("SSI"). It is currently planned that SSI will build and operate a commercial satellite launch facility at Vandenberg Air Force Base in California to launch commercial and government satellite payloads into low polar earth orbits.

Order backlog for ITT Defense & Electronics in 1996 reached $2.3 billion, compared with $2.0 billion for 1995 and $2.1 billion for 1994.

The level of activity in ITT Defense & Electronics is affected by different factors in its two major businesses. At Defense, significant factors are overall defense budgets and the portion of those defense budgets devoted to products and services of the type provided by ITT Defense & Electronics. At Electronics, a significant factor is the overall condition of the economies in the markets served. See "-- COMPETITION."

ITT Defense & Electronics companies have approximately 14,300 employees in 71 facilities in 14 countries.

ITT Fluid Technology

ITT Fluid Technology, with 1996 sales of approximately $1.3 billion, is a worldwide enterprise engaged in the design, development, production and sale of products, systems and services used to move, handle, transfer, control and contain fluids. With sales to more than 120 countries, ITT

Fluid Technology is a leading supplier of pumps, valves, heat exchangers, mixers, instruments and controls for the management of fluids.

The majority of ITT Fluid Technology's sales are in North America and Western Europe. Principal markets are water and wastewater treatment, industrial and process, and construction. Industrial and process market activity includes strong market positions in chemical processing and in selected segments of the oil and gas and mining markets. Construction market activity includes heating, ventilation and air conditioning ("HVAC") segments of the residential and non-residential construction market and in construction dewatering. ITT Fluid Technology also has significant niche positions in leisure marine, aerospace, and pharmaceutical and biotechnology markets and in markets for fire protection and whirlpool bath pumps.

Sales are made directly and through independent distributors and representatives. ITT Fluid Technology is structured in five divisions, each of which is briefly described below. No single customer accounted for more than 2% of 1996 net sales for ITT Fluid Technology.

ITT Flygt, with 1996 sales of approximately $626 million, is a pioneer in submersible technology and is the world leader in submersible pumping and mixing products. About half of Flygt's worldwide sales come from municipal wastewater treatment markets. Other sales are to construction, mining, and industrial markets.

Fluid Handling, with 1996 sales of approximately $250 million, offers a range of dry-mount pumps and heat exchangers, and a wide variety of control and accessory products for liquid based heating and cooling systems. The division holds market leadership positions in a number of product/market sectors under long established brand names such as Bell & Gossett,(R) McDonnell & Miller,(R) and ITT Standard(R).

Industrial Products, with 1996 sales of approximately $218 million, offers a broad line of pumps and valves for industrial, process and heavy duty commercial application world-wide. Brand names include A-C(R) Pump, Marlow(R), Richter(TM), Fabri-Valve(R), Pure-Flo(R), and others.

Controls & Instruments, with 1996 sales of approximately $133 million, offers flow measurement instruments and systems, specialty valves, temperature and pressure switches, and other control products to niche markets including aerospace, and certain segments of the energy sector. Brand names include Barton(R), Neo-Dyn(R) and Conoflow(R).

Marine & Specialty Products, with 1996 sales of approximately $73 million, is a leading market participant, with pumps and associated products for the leisure marine and pool and whirlpool bath markets, and has a growing presence in certain industrial niches with a wide range of specialty pumps and accessories. Brand names include Jabsco(R) and Marlow(R).

The following table illustrates the percentage sales by division for the periods specified:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Flygt	48%	48%	46%
Fluid Handling	19	18	*
Industrial Products	17	16	*
Controls & Instruments	10	12	*
Marine & Specialty Products	6	6	*
	100%	100%	100%

- ---------------

* Breakdown not available. Prior to 1996 these units were organized in two divisions.

Management of ITT Industries believes that ITT Fluid Technology has a solid technology base and proven expertise in applying its products to meet customer needs and that the continuing development of new products will enable ITT Fluid Technology to maintain and build market leadership positions in served markets.

The level of activity in ITT Fluid Technology is dependent upon the condition of the economies in the markets served and, in the case of municipal markets, the ability of municipalities to fund projects for products and services of the type provided by ITT Fluid Technology. See "-- COMPETITION."

ITT Fluid Technology companies have approximately 8,100 employees in 40 facilities located in 18 countries, with sales in over 120 countries.

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

GEOGRAPHIC MARKETS

Approximately one-half of ITT Industries' sales are to customers outside the United States. The geographic sales mix of ITT Industries is illustrated (in percentage terms) by the following table for the periods specified:

	1996	1995	1994
United States	47%	48%	50%
Canada and Mexico	6	6	6
Total North America	53	54	56
Europe	41	40	39
Asia/Pacific and Other	6	6	5
	100%	100%	100%

The geographic sales base of ITT Automotive is predominantly in Europe and North America. In 1996, approximately 47% of sales of ITT Automotive were to customers in the United States and Canada and 48% of sales were to customers in Western Europe. Management of ITT Industries sees growth opportunities in South America, Mexico and Asia, particularly in China. In addition to its wholly-owned facilities, ITT Automotive also is involved in other joint venture and licensing arrangements throughout the world as a means of serving its international customer base.

The geographic sales base of ITT Defense & Electronics is predominantly the United States, which accounted for approximately 72% of 1996 sales. Management of ITT Defense & Electronics is attempting to increase its international business and sees growth opportunities in the Asia/Pacific region, Europe and the Middle East. ITT Cannon has a 90% joint venture in China and a wholly-owned subsidiary in Japan to supply connectors and switches for, in large part, consumer electronics products in those markets.

The geographic sales base of ITT Fluid Technology is broad. In 1996, under one-half of the sales of ITT Fluid Technology was derived from the United States while 34% was derived from Western Europe. The geographic sales mix differs among products and among divisions of ITT Fluid Technology. Management of ITT Industries sees growth opportunities in Eastern Europe and Central Asia, Africa/Middle East, Latin America and the Asia/Pacific region. In China, ITT Fluid Technology has manufacturing and distribution facilities to produce and sell submersible pumps for the sewage handling and mining markets. 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.

See "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further geographical information and information with respect to export sales.

COMPETITION

Substantially all of ITT Industries' operations are in highly competitive businesses, although 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 and reliability are primary factors in markets served by the various segments of ITT Industries' businesses.

ITT Automotive

Competition is intense in the global automotive industry. This competitive environment has resulted in increased pressure to reduce prices and, therefore, costs. Since purchased items represent a major portion of the total costs of vehicle manufacturers, vehicle manufacturers are expected to continue to pressure suppliers such as ITT Automotive to provide cost reductions through a variety of means. Suppliers such as ITT Automotive are also likely to continue to experience competitive pricing pressures as vehicle manufacturers adopt manufacturing strategies such as the use of worldwide common platforms for the manufacture of automobiles.

ITT Defense & Electronics

ITT Defense & Electronics competes in two business sectors. In Defense, 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. ITT Defense & Electronics has adjusted to these changes by focusing on the defense electronics and services markets, by making process improvements and through capacity rationalization. In Electronics, primarily interconnects, competitive pressures continue on a global basis. In most of the markets served by ITT Defense & Electronics competition is based primarily upon price, quality, technological expertise, cycle time and service.

ITT Fluid Technology

The ITT Fluid Technology business is affected by strong competition, changing economic conditions, significant industry overcapacity that leads to intense pricing pressures, public bidding in some markets and weather conditions as they affect construction activity. Management of ITT Fluid Technology 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.

EXPOSURE TO CURRENCY FLUCTUATIONS

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

CYCLICALITY

Many of the markets in which ITT Industries' businesses operate are cyclical and can be affected by general economic conditions in those markets. For example, a large percentage of the ITT Industries' 1996 net sales was derived from sales to automobile manufacturers. The automobile industry is highly cyclical, although cycles in the major markets of North America and Europe are not necessarily concurrent. A decline in the demand for new automobiles and industry production levels could have an adverse effect on ITT Industries. ITT Industries also manufactures and sells products used in other historically cyclical industries, such as the construction, mining and minerals and aerospace industries, and thus could be adversely affected by negative cycles affecting those and other industries.

GOVERNMENTAL REGULATION AND RELATED MATTERS

A number of ITT Industries' businesses are subject to governmental regulation by law or through contractual arrangements. ITT Industries' businesses in the defense segment 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 ITT Industries' executive officers. Most of such contracts are subject to termination by the respective governmental parties on various grounds, although such terminations rarely occur.

ENVIRONMENTAL MATTERS

ITT Industries is 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 ITT Industries' companies closely monitor all of their respective environmental responsibilities, together with trends in environmental laws. ITT Industries has established an internal program to assess compliance with applicable environmental requirements for all of its 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 15 years ITT Industries has conducted regular, thorough audits of its major operating facilities. As a result, management of ITT Industries believes that ITT Industries' companies are in substantial compliance with current environmental requirements. Management does not believe, based on current circumstances, that it will incur compliance costs pursuant to such requirements that will have a material adverse effect on ITT Industries' financial position, results of operations or cash flows.

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

RAW MATERIALS

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

RESEARCH, DEVELOPMENT AND ENGINEERING

The businesses of ITT Industries require substantial commitment of resources to research, development and engineering activities which are conducted in laboratory and engineering facilities at most of its major manufacturing subsidiaries. Because ITT Industries believes that continued leadership in technology is essential to its future, most ITT Industries' funds dedicated to research and development are applied to areas of high technology, such as aerospace, automotive braking and electrical systems, and applications involving electronic components.

For a further discussion of the research, development and engineering expenditures of ITT Industries, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- LIQUIDITY AND CAPITAL RESOURCES".

INTELLECTUAL PROPERTY

While ITT Industries owns and controls 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 its business, management of ITT Industries believes that its business, as a whole, is not materially dependent upon any one intellectual property or related group of such properties. ITT Industries is 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 ITT Industries.

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

ITT Industries has obtained the exclusive right and license from ITT Corporation to use the "ITT" name, mark and logo with respect to the businesses that ITT Industries operated on the date of Distribution and in the operation of any businesses closely related thereto, as well as the non-exclusive right to use the "ITT" name, mark and logo in the operation of any new business it operates so long as such new business is not included in ITT Corporation's or ITT Hartford's businesses on the date of Distribution or businesses closely related thereto. These rights and licenses are perpetual, subject to the

maintenance of certain quality standards and other terms of the operative license agreement and are considered by ITT Industries' management to be of material importance to ITT Industries.

EMPLOYEES

As of December 31, 1996, ITT Industries and its subsidiaries employed an aggregate of approximately 59,000 people. Of this number, approximately 26,000 are employees in the United States, of whom approximately 40% are represented by labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

DISCONTINUED OPERATIONS

Effective December 19, 1995, ITT Delaware made a distribution to its shareholders of its former subsidiary ITT Destinations which conducted its hospitality, entertainment and information services businesses and its former subsidiary ITT Hartford which conducted its insurance businesses. Both ITT Destinations, renamed ITT Corporation, and ITT Hartford have been reflected as "Discontinued Operations".

In 1994, ITT Delaware announced plans to seek offers for the purchase of its former subsidiary (ITT Financial Corporation, "ITT Financial") which conducted its commercial and consumer finance, related insurance and other financial services businesses, including a mortgage banking operation. ITT Financial merged into ITT Delaware effective May 1, 1995, and indebtedness of ITT Financial was assumed by ITT Delaware and subsequently by ITT Industries. ITT Financial has been reflected as a "Discontinued Operation" in the financial statements of ITT Industries.

In 1994, ITT Delaware completed the distribution to its shareholders of all the outstanding common shares of its former forest products subsidiary (formerly ITT Rayonier Incorporated, "Rayonier"). The former subsidiary has been reflected as a "Discontinued Operation" in the "CONSOLIDATED INCOME STATEMENTS." See "NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS" contained herein.

CERTAIN RELATIONSHIPS AMONG ITT INDUSTRIES, ITT CORPORATION AND ITT HARTFORD AFTER THE DISTRIBUTION

ITT Delaware, ITT Corporation and ITT 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 ITT Industries, ITT Corporation and ITT Hartford subsequent to the Distribution.

The Distribution Agreement provides for, among other things, assumptions of liabilities and cross-indemnities designed to allocate generally the financial responsibility for the liabilities arising out of or in connection with (i) the automotive, defense & electronics, and fluid technology businesses to ITT Industries and its subsidiaries, (ii) the hospitality, entertainment and information services businesses to ITT Corporation and its subsidiaries and (iii) the insurance businesses to ITT Hartford and its subsidiaries. The Distribution Agreement also provides for the allocation generally 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 Corporation and ITT Hartford. The Distribution Agreement provides that neither ITT Industries, ITT Corporation or ITT Hartford will take any action that would jeopardize the intended tax consequences of the Distribution.

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

A number of members of the Board of Directors of ITT Industries also serve on the Board of Directors of ITT Corporation and ITT Hartford.

ITEM 2. PROPERTIES

ITT Industries, whose principal executive offices are in leased premises located in White Plains, NY, considers the many offices, plants, warehouses and other properties that it owns or leases to be in good condition. These properties are located in several states in the United States, as well as in numerous countries throughout the world. ITT Industries believes the properties to be adequate for the needs of its businesses.

ITEM 3. LEGAL PROCEEDINGS

ITT Industries and its subsidiaries are responsible, in whole or in part, or are alleged so to be responsible for environmental investigation and remediation at approximately 70 sites in North America and Europe. Of those sites, ITT Industries has received notice that it is considered a Potentially Responsible Party ("PRP") at approximately 60 sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under CERCLA or its state equivalent. In many of these proceedings, ITT Industries' liability is considered de minimis. At approximately 20 of these sites, formerly operated by subsidiaries of the Company, liability and/or defense costs are to be divided equally among ITT Industries, ITT Corporation and ITT Hartford pursuant to the Distribution Agreement. The remaining cases are generally actions either 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.

ITT Industries is involved in an environmental proceeding in California 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. ITT Industries and other allegedly responsible parties have completed an allocation among the PRPs to fund the clean-up required by the EPA. However, confirmation of the allocation award was challenged by Lockheed Martin Corporation, and the parties are awaiting a final ruling. Lockheed Martin filed a cost recovery suit regarding this matter in the Federal District Court for the Southern District of California naming ITT Industries and two other entities. Lockheed Martin's suit was dismissed on technical grounds with leave to refile. ITT Industries has filed a suit against its insurers in the California Superior

Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al. for recovery of costs it has incurred in connection with this and other environmental matters. ITT Industries already 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.

ITT Delaware and its former subsidiaries, Rayonier and Southern Wood Piedmont Company ("SWP"), are named defendants in a lawsuit filed in 1991 in the U.S. District Court for the Southern District of Georgia, Ernest L. Jordan, Sr. et. al. v. Southern Wood Piedmont Company, et al., in which plaintiffs allege property damage and personal injury based on alleged exposure to toxic chemicals used by SWP in its former wood preserving operations, sought certification as a class action and asked for compensatory and punitive damages in the amount of $700 million. The Court disposed of plaintiffs' claim of class action, and plaintiffs amended their complaint by adding over 100 individual residents. Plaintiffs subsequently amended their complaint to eliminate any reference to specific monetary damages. Three other suits arising out of former wood preserving operations of SWP also included ITT Delaware among the named defendants. One of these cases has been dismissed. In another of such cases a directed verdict in favor of defendants was affirmed. Motions for summary judgment are being submitted in the remaining cases. Under an agreement entered into by ITT Delaware and Rayonier in connection with the distribution of Rayonier stock to ITT Delaware's shareholders in February 1994, ITT Delaware is entitled to be indemnified by Rayonier for any expenses or losses incurred by ITT Delaware in connection with the aforementioned suits, as well as in any other legal proceedings arising out of Rayonier or SWP operations. ITT Industries continues to have the benefit of such agreement after the Distribution. In connection with the Distribution, ITT Industries, ITT Corporation and ITT Hartford agreed that certain liabilities, including those related to Rayonier, would be shared equally among the three companies. Management does not believe that any of the remaining matters discussed in this paragraph will result in a material adverse effect on ITT Industries' financial position, results of operations or cash flows.

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 OF ITT INDUSTRIES -- CERTAIN RELATIONSHIPS AMONG ITT INDUSTRIES, ITT CORPORATION AND ITT HARTFORD AFTER THE DISTRIBUTION" for information concerning the allocation of certain liabilities.

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

No matter was submitted to a vote of shareholders of ITT Industries during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF ITT INDUSTRIES

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

NAME	AGE AT FEBRUARY 1, 1997	POSITION	YEAR OF INITIAL ELECTION AS AN OFFICER	DATE OF ELECTION TO PRESENT POSITION
Ralph D. Allen..................	55	Vice President, Director of Investor Relations	1981	12/19/95

Travis Engen......................	52	Chairman, President and Chief Executive and Director	1987	12/19/95
Donald E. Foley...................	45	Vice President and Treasurer	1996	5/21/96
Louis J. Giuliano.................	50	Senior Vice President	1988	12/19/95
Martin Kamber.....................	48	Senior Vice President, Director of Corporate Development	1995	12/19/95
Heidi Kunz........................	42	Senior Vice President and Chief Financial Officer	1995	12/19/95
Richard J. Labrecque..............	58	Senior Vice President	1985	3/1/96
Vincent A. Maffeo.................	46	Senior Vice President and General Counsel	1995	12/19/95
Thomas R. Martin..................	43	Vice President, Director of Corporate Relations	1996	9/10/96
Richard W. Powers.................	55	Vice President, Director of Taxes	1991	12/19/95
James P. Smith, Jr................	54	Senior Vice President, Director of Human Resources	1995	12/19/95
Richard J. Townsend...............	46	Vice President and Controller	1997	3/11/97

Each of the above-named officers was elected to his or her present position to serve at the pleasure of the Board of Directors. Mr. Engen has an employment agreement with ITT Industries providing, among other things, for his employment as Chairman and Chief Executive through December 31, 1999.

Throughout the past five years, all of the above-named officers have held executive positions with ITT Industries or with its predecessor, ITT Delaware, bearing at least substantially the same responsibilities as those borne in their present offices, except that (i) Mr. Engen, prior to his election as Chairman, President and Chief Executive, was Executive Vice President of ITT Delaware (1991); (ii) Mr. Foley, prior to his election as Vice President and Treasurer, was Assistant Treasurer of International Paper Company; (iii) Mr. Kamber, prior to his election as Senior Vice President, Director of Corporate Development, was Vice President, Corporate Development, of ITT Automotive, Inc. (1993) and Executive Assistant to the President, Chief Operating Officer and Executive Vice President of ITT Delaware; (iv) Ms. Kunz, prior to her election as Senior Vice President and Chief Financial Officer, was Vice President (1994) and Treasurer (1993) of General Motors Corporation and, prior to that, Assistant Treasurer of General Motors Corporation; (v) Mr. Labrecque, prior to his election as Senior Vice President, was Vice President of ITT Delaware; (vi) Mr. Maffeo, prior to his election as Senior Vice President and General Counsel, was Vice President and General Counsel of ITT Automotive, Inc. (1992) and, prior to that, was Vice President and General Counsel of ITT Defense, Inc.; (vii) Mr. Martin, prior to his election as Vice President, Director of Corporate Relations, was Vice President of Corporate Communications of Federal Express Corp. (1995) and, prior to that, was Managing Director of Public Relations of Federal Express Corp. (viii) Mr. Powers, prior to his election as Vice President, Director of Taxes, was Vice President of ITT Delaware; (ix) Mr. Smith, prior to his election as Senior Vice President, was Executive Vice President of ITT

Sheraton Corporation (1993) and Senior Vice President of ITT Sheraton Corporation; and (x) Mr. Townsend, prior to his election as Vice President and Controller, was Assistant Corporate Controller of IBM Corporation (1995) and, prior to that, held various other management positions in the IBM organization.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

COMMON STOCK -- MARKET PRICES AND DIVIDENDS

	1996		1995	
	HIGH	LOW	HIGH	LOW
	IN DOLLARS			
Three Months Ended				
March 31..	$27.75	$22.25	$104.00*	$ 86.63*
June 30...	28.63	24.75	119.50*	99.63*
September 30..	26.00	21.50	128.50*	112.00*
December 31...	25.75	22.75	127.50**	117.00**

	24.00***	21.25***

- ---------------

* ITT Delaware.

** ITT Delaware through December 19.

*** ITT Industries from December 20.

On December 19, 1995, ITT Delaware made the Distribution to its shareholders consisting of all outstanding shares of its subsidiaries ITT Destinations (renamed ITT Corporation, a Nevada corporation) and ITT Hartford. The above table reflects the range of market prices of Common Stock of (i) ITT Delaware as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security was traded (under the trading symbol "ITT") prior to the Distribution on December 19, 1995, and (ii) ITT Industries 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 "IIN"), from December 20, 1995 through December 31, 1996. During the period from January 1, 1997 through February 28, 1997, the high and low reported market prices of ITT Industries Common Stock were $26.38 and $23.88, respectively.

ITT Delaware declared dividends of $.495 per common share in each of the first and second quarters of 1995. No cash dividends were declared in the third and fourth quarters of 1995. ITT Industries declared dividends of $.15 per common share in each of the four quarters of 1996 and in the first quarter of 1997.

The payment and level of future cash dividends by ITT Industries will be subject to the discretion of the Board of Directors of ITT Industries, and dividend decisions will be based on, and affected by, a number of factors, including the operating results and financial requirements of ITT Industries. Although management of ITT Industries presently contemplates that for the foreseeable future dividends will be paid at the present dividend rate, there can be no assurance that such dividends will be paid.

There were 56,958 holders of record of ITT Industries Common Stock on February 28, 1997.

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

ITEM 6. SELECTED FINANCIAL DATA
IN MILLIONS, EXCEPT PER SHARE

	1996	1995	1994	1993	1992	1991
RESULTS AND POSITION						
Net sales	$8,718.1	$8,884.2	$ 7,757.7	$ 6,621.2	$ 6,845.0	$ 6,429.7
Operating income	508.4	446.2	417.7	229.5	19.0	157.8
Income from continuing operations(a)	222.6	20.7	201.6	134.8	655.0	231.0
Income from continuing operations, as adjusted(b)	222.6	185.0	201.6	134.8	33.0	231.0
Net income (loss)	222.6	707.9	1,021.8	912.8	(884.8)	748.6
Expenditures on plant additions	406.3	449.6	407.0	336.7	350.5	348.0
Depreciation and amortization	433.0	423.2	373.0	323.0	315.0	295.2
Total assets	5,491.2	5,879.2	11,035.2	12,980.9	12,559.7	13,283.1
Total assets, excluding discontinued operations	5,491.2	5,879.2	5,577.0	5,063.0	5,746.0	4,589.0
Long-term debt	583.2	961.2	1,712.5	1,993.9	2,272.0	2,323.4
Total debt	1,418.8	1,606.7	2,640.6	2,970.5	2,792.2	2,717.6
Cash dividends declared per common share	.60	.99	1.98	1.98	1.84	1.72
EARNINGS (LOSS) PER SHARE(c)						
Income from continuing operations						
Primary	$ 1.85	$ .03	$ 1.46	$ .83	$ 5.34	$ 1.58
Fully diluted	$ 1.85	$ .09	$ 1.46	$ .88	$ 4.77	$ 1.58
Net income (loss)						

Primary	$ 1.85	$ 6.16	$ 8.57	$ 7.32	$ (7.93)	$ 5.84
Fully diluted	$ 1.85	$ 5.93	$ 8.02	$ 6.90	$ (6.90)	$ 5.49

SIGNIFICANT RATIOS FOR 1996 AND 1995(d)		
Ratios prior to 1995 are not considered relevant to ITT Industries.		
Return on total capital	14.6%	12.3%
Return on shareholders' equity	31.2%	31.1%
Debt to total capitalization	64.0%	71.9%
Book value per share	$ 6.75	$ 5.35

- ---------------

(a) The 1995 income from continuing operations included a charge of $164.3, after tax, for losses from the planned disposal of certain non-core operations. Included in 1992 income was a gain of $622.0, after tax, from the sale of an equity interest in Alcatel N.V.

(b) Income from continuing operations excluding the items in note (a) above.

(c) The reported net loss in 1992 causes the calculation of the fully diluted loss per share in 1992 to be anti-dilutive. In such a case, generally accepted accounting principles suggest the fully diluted loss per share to be the same as the primary loss per share; however, the Company has presented the actual calculated amount in order that all calculations and comparisons with previously reported and future amounts be on a consistent basis. In 1993 and 1995, a similar situation exists in regard to the impact of the ESOP on income from continuing operations per share.

(d) Excluding the 1995 item in note (a) above, together with discontinued operations, extraordinary items, and the effect of the ESOP on debt and equity.

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

On December 19, 1995, ITT Corporation, a Delaware corporation ("ITT Delaware"), made a distribution (the "Distribution") to its shareholders consisting of all the shares of common stock of ITT Destinations, Inc., a Nevada corporation which held ITT Delaware's interests in hospitality, entertainment, and information services businesses ("ITT Destinations") and all the shares of common stock of ITT Hartford Group, Inc., which held ITT Delaware's interests in insurance businesses ("ITT Hartford"). Effective December 20, 1995, pursuant to a statutory merger, ITT Delaware merged into ITT Industries, Inc., an Indiana corporation ("ITT Industries"), with ITT Industries as the surviving corporation (the "Company") and, ITT Destinations then changed its name to ITT Corporation.

In this discussion and analysis of the financial condition and results of operations of ITT Industries, ITT Corporation and ITT Hartford, their respective subsidiaries, affiliated companies and other assets and liabilities that were transferred to those companies, shall be collectively referred to as "Discontinued Operations."

RESULTS OF OPERATIONS

In 1996, net sales were $8.7 billion, which was 1.9% less than the $8.9 billion of 1995, due mainly to lower sales from companies held for disposition. Among the three principal business segments, Automotive sales decreased 1.5%, Defense & Electronics increased .8%, and Fluid Technology increased 4.3%. Sales in 1995 were up 14.5% over 1994, with increases of 19.4% at Automotive, 4.0% at Defense & Electronics, and 11.0% at Fluid Technology.

Costs, expenses, and earnings as a percentage of net sales were as follows:

	1996	1995	1994

Cost of sales	79.7%	80.5%	79.8%
Research, development, and engineering expenses	6.1%	5.8%	5.4%
Selling, general, and administrative expenses	8.5%	8.6%	9.2%
Operating income	5.8%	5.0%	5.4%
Income from continuing operations, as adjusted	2.6%	2.1%	2.8%

Cost of sales as a percentage of net sales in 1996 was 79.7% compared to 80.5% in 1995. This decrease in cost of sales reflects cost reductions at Automotive for ABS systems and lower costs, due to manufacturing improvements and improved cost structure, at Defense & Electronics. Cost of sales as a percentage of sales increased to 80.5% in 1995 from 79.8% in 1994, due to higher material costs in the Fluid Technology and Defense and Electronics businesses.

The Company's expenditures for research, development, and engineering totaled $535.2 million in 1996, $513.9 million in 1995, and $417.4 million in 1994, approximately 50% of which was pursuant to customer contracts in each year. ITT Industries' research and development expenditure levels, excluding those pursuant to customer contracts, are expected to remain at approximately 3% of sales for the foreseeable future, although there can be no assurance that such level of expenditures will occur. Research, development, and engineering expenditures have funded numerous product developments, such as anti-lock brake and wiper systems, electronic countermeasures, and tactical radio communications technology, which have resulted in increased market share and significant contract awards.

In 1996, gross margin increased 3.3% at the three principal business segments and decreased 53.1% at the companies held for disposition, for a total company increase of 1.6% over 1995. Within the three principal business segments, Automotive increased 3.2%, Defense & Electronics increased 4.3% and Fluid Technology increased 2.5%. Gross margin in 1995 of 13.7% had declined from the 1994 level of 14.8%.

Selling expenses were $430.0 million in 1996, compared to $427.5 million in 1995, an increase of .6%. However, within this total, increases of 5.3% at Automotive and 6.1% at Fluid Technology were offset by decreases of 2.7% at Defense & Electronics and 33.0% at the companies held for disposition. Selling expenses in total were 4.9% of sales in 1996 and 4.8% in 1995. Selling expenses as a percentage of net sales were .4% lower in 1995 from the 5.2% reported in 1994.

Administrative and general expenses as a percentage of sales were 3.6% in 1996, a decrease of .2% from the 3.8% in 1995. This decrease is due to the lower headquarters expenses of ITT Industries as an independent entity in 1996 compared to its apportioned share of headquarters expenses of ITT Delaware in 1995. Administrative and general expenses decreased to 3.8% in 1995 from 4.0% in 1994 due to overall cost control efforts.

Other operating income (expenses) includes gains and losses from foreign exchange transactions, restructuring and other charges. In 1996, other operating income of $13.3 million consisted of $5.8 million from foreign exchange gains and $7.5 million from gains on sales of assets partially offset by restructuring costs, compared with a loss of $1.5 million in 1995 and a loss of $16.6 million in 1994.

Income from continuing operations of ITT Industries in 1996 was $222.6 million or $1.85 per fully diluted share compared with $185.0 million or $1.57 per fully diluted share in 1995 (adjusted to eliminate charges associated with the planned disposal of certain non-core units). Income from continuing operations similarly adjusted in 1994 amounted to $219.3 million or $1.76 per fully diluted share. After deducting one-time charges for costs and losses associated with the planned disposal of certain operations, reported income from continuing operations in 1995 was $20.7 million, or $.09 per fully diluted share, compared with $201.6 million, or $1.46 per fully diluted share, in 1994. These charges, which after tax amounted to $164.3 million in 1995, are principally related to ITT Community Development Corporation (a business unit that develops real estate), ITT Semiconductors (a business unit that manufactures semiconductor devices), and certain minor Automotive product lines. Operating income in 1996 was $508.4 million, an increase of 13.9% over the $446.2 million reported in the prior year. Operating income from ITT Industries' three principal business segments was $560.5 million in 1996, up slightly over the $553.0 million reported in 1995. The increase in operating income is attributable to improvements in Defense & Electronics and Fluid Technology offset by a slight decrease in the Automotive segment. Operating income in 1995 improved 6.8% over the $417.7 million reported in 1994, due to successful cost control efforts, the smooth integration of acquisitions and strong product sales. After tax income from Discontinued Operations totaled $994.2 million (including $403.4 million reflecting the gain on the sale of ITT Financial) and $831.4 million for 1995 and 1994, respectively, and represents the results of ITT Hartford, ITT Corporation, ITT Financial and, in 1994, ITT Rayonier, partially offset by charges, in 1995, related to the Distribution. These charges, net of tax, included $39.0 million related to the restructuring of the Company's headquarters (including ITT Sheraton and Caesars World headquarters), and $109.2 million related to the Distribution (including legal and advisory fees, taxes, and other costs). Net income was $222.6 million in 1996 compared to $707.9 million or $5.93 per fully diluted share in 1995 (which also reflects an extraordinary charge of $307.0 million for the early retirement of debt prior to the Distribution) and $1.0 billion or $8.02 per fully diluted share in 1994.

Interest expense decreased to $169.0 million in 1996 from $175.2 million in 1995, partially reflecting a reduction in debt levels, and a restructuring of the debt portfolio. Interest income decreased to $32.7 million in 1996, from $40.0 million in 1995, generally as a result of maintaining lower cash balances by using available cash to reduce debt. Interest expense, net of interest income, increased to $135.2 million in 1995 from $47.7 million in 1994, reflecting the absence of $32.0 million of interest income on a note receivable related to the sale of Alcatel N.V. which was collected in 1994, higher borrowings in connection with the acquisition of Electrical Systems, Inc. ("ESI") in March 1994, and allocations of total corporate interest expense in connection with the Distribution.

Miscellaneous expense, net, of $1.1 million in 1996, was due primarily to the losses from equity investments. In 1995 and 1994, miscellaneous expense, net, includes a provision for the expected loss on the disposal of ITT Semiconductors, portions of ITT Community Development Corporation, and certain other non-core business units of ITT Industries.

The effective income tax rate was 40.0% in 1996, compared with 39.6% in 1995, excluding the charges and the related tax benefit for the disposition of non-strategic assets (including these charges and the related tax benefit, the effective income tax rate for 1995 was 70.8%). Income tax expense, excluding $71.2 million of tax benefit on charges related to the disposition of non-strategic assets, increased by $27.0 million, to $148.4 million in 1996, due to the higher pretax earnings. The effective income tax rate in 1994 was 42.3%.

Business Segments -- Sales and operating income before corporate expenses (principally the service charges from affiliated companies) for each of ITT Industries' three major business segments were as follows ($ in millions):

	AUTOMOTIVE		
	1996	1995	1994
Sales	$5,492.6	$5,574.8	$4,667.5
Operating income	$ 337.1	$ 343.6	$ 336.5

Automotive's sales decreased 1.5% in 1996, primarily due to original equipment manufacturer ("OEM") pricing pressures and unfavorable foreign exchange translation, partially offset by a slight increase in Western European vehicle production. Sales increased 19.4% in 1995, reflecting in part, the full year impact of the March 1994 acquisition of ESI. Excluding this acquisition, sales improved 14.7% driven by increasing dollar content of ITT Industries product per vehicle manufactured, foreign exchange translation, and a slight increase in European vehicle production. Sales to two customers (General Motors Corporation and Ford Motor Corporation) accounted for approximately 40%, 42%, and 44% of 1996, 1995, and 1994 sales, respectively.

Operating income declined 1.9% in 1996 as a result of lower sales prices, the costs associated with the launch of the ABS MK 20 line of products, the effects of the General Motors Corporation strikes, restructuring costs (primarily to relocate some production facilities to lower cost locations), and an increase in selling, general, and administrative expenses. Operating income improved 2.1% in 1995 as a result of increased sales volume and continued cost reductions, while margins declined due to lower sales prices, the costs associated with the launch of a new ABS MK 20 line of products, and increases in engineering expense due to systems and module product development.

	DEFENSE & ELECTRONICS		
	1996	1995	1994
Sales	$1,571.6	$1,559.3	$1,498.9
Operating income	$ 110.2	$ 96.6	$ 95.8

Defense & Electronics' sales increased less than one percent over 1995, but order input was at a ten-year high in the Defense business. Defense & Electronics' operating income in 1996 was up 14.1% over 1995 because of strong improvements in profitability at both the Defense and Electronics businesses. The profitability improvement at the Defense operations is due to continued manufacturing improvements, while the Electronics business benefited from the consolidation of production facilities, improved cost structure, and the launch of new commercial products. Sales increased 4.0% in 1995 over 1994 due principally to improved sales of ITT Cannon connector products in mobile communications and information systems. However, Defense & Electronics' operating income in 1995 was up marginally over 1994 because strong improvements in profitability of connectors were largely offset by the absence in 1995 of one-time favorable adjustments on completed contracts in 1994. Defense & Electronics' order backlog was $2.3 billion at December 31, 1996 compared with $2.0 billion at year-end 1995 and $2.1 billion at year-end 1994. Export sales in the Defense business increased by 15.0% over 1995 and now account for 14.7% of Defense segment sales. In 1995, export sales increased by 45% over 1994. Approximately 64%, 65%, and 66% of 1996, 1995, and 1994 sales, respectively, were to governmental entities, of which approximately 86%, 90%, and 90%, respectively, were to the U.S. government.

	FLUID TECHNOLOGY		
	1996	1995	1994
Sales	$1,301.3	$1,248.0	$1,124.5
Operating income	$ 113.2	$ 112.8	$ 99.2

Fluid Technology's 1996 sales increase of 4.3% over 1995 was driven by global business development activities. Sales outside the U.S., Canada, and Western Europe grew at a rate of 27.7% over the previous year and now account for 14.2% of Fluid Technology's sales. Fluid Technology also continued to focus on several growth segments in its industry including pharmaceutical & biotechnology and aerospace controls. Weak market conditions in France and Germany and the sale of the ITT General Controls product line partially offset higher sales volume at the other units. Operating income in 1996 was relatively flat due to growth in emerging markets and cost control actions partially offset by the loss of operating income due to the sale of the ITT General Controls product line, and an increase in selling, general, and administrative expenses. In 1995, sales and operating income increased at all units, most significantly at ITT Flygt due to higher volume and favorable foreign exchange. New product initiatives, global business development activities, and improvements in the mining, pharmaceutical, pulp and paper, and chemical industries contributed to the strong performance in 1995. Operating income for 1995 increased by 13.7% over the prior year. Operating margins outpaced sales growth due to reengineering and cost improvement programs, volume leverage, and operating improvement at certain underperforming operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash from continuing operating activities was $596.7 million in 1996 compared with $619.0 million in 1995. This change reflects timing differences with respect to tax payments and receipts and working capital requirements.

In 1996, cash of $200.4 million was generated from the sale of land and other assets, including a portion of ITT Community Development Corporation and the ITT General Controls product line. In 1995, the Company realized $12.7 billion of proceeds from the sale of assets at ITT Financial. Proceeds were used mainly to repay $11.6 billion of indebtedness.

Many of ITT Industries' businesses require substantial investment in plant and tooling in order to produce their products. Historically, ITT Industries' businesses have generated sufficient operating cash flow to fund such investments. Spending on plant additions totaled $406.3 million in 1996, compared with $449.6 million in 1995 and $407.0 million in 1994. Approximately 63% of the 1996 total was incurred at Automotive for anti-lock braking systems, including the latest variation of low cost ABS technology, foundation brakes and brake actuation technology, electrical systems and motors, and facilities in developing countries, including the Czech Republic and Hungary. At December 31, 1996, contractual commitments have been made for capital expenditures totalling $199.0 million. Total spending on plant additions in future periods is expected to approximate 1996 levels. In addition, certain facilities and equipment are utilized by ITT Industries' businesses through operating leases. Rental expenses for operating leases in 1996 were $92.8 million. As of December 31, 1996, minimum rental commitments under operating leases were $108.8 million for 1997, $95.5 million for 1998, and a total of $209.3 million from 1999 through 2001 and are expected to be funded through the operating cash flows of ITT Industries.

ITT Industries increased investments in joint ventures in China by $16.7 million in 1996. The Company's acquisition spending in 1995 totaled $15.5 million for a small acquisition at Automotive, and $418.0 million in 1994, consisting of Automotive's purchase of ESI from General Motors Corporation and Fluid Technology's acquisition of Richter Chemie-Technik.

ITT Industries' 1997 cash flows after gross plant additions are expected to be sufficient to cover working capital needs, interest, taxes, and dividends to shareholders. In 1996, working capital cash requirements increased due primarily to the reduction of unusually high accounts payable from the prior year and the build-up of reserve inventory in anticipation of a possible strike (that did not occur) at one of the Automotive production facilities. Efficiencies in the use of working capital resulted in a minimal increase in cash requirements in 1995 and 1994 despite substantial sales growth.

External borrowings by ITT Industries were $1.4 billion at December 31, 1996 compared with $1.6 billion at December 31, 1995, and $2.6 billion at December 31, 1994. The 1994 amount includes $562.1 million of ESOP debt, which was repaid in 1995, and also reflects allocations of corporate debt between ITT Industries and Discontinued Operations. Cash and cash equivalents totaled $121.9 million at December 31, 1996 compared with $94.2 million at year-end 1995 and $322.1 million at year-end 1994.

Shareholders' equity increased $172.5 million in 1996, due primarily to growth in retained earnings. Excluding the dividend of the Discontinued

Operations, shareholders' equity increased $625.6 million in 1995, due to growth in retained earnings.

In 1995, the Company terminated the ESOP portion of the ITT Investment and Savings Plan for Salaried Employees and the trustee of the ESOP completed the sale of 5.3 million unallocated shares of ITT common stock in the ESOP. The sales proceeds were used to repay the debt associated with the

ESOP, which totaled $541.0 million. In addition, proceeds from the sale of ITT Financial assets were used to repay outstanding borrowings.

In 1995, the Company completed a tender offer for an aggregate $4.1 billion of its debt securities, with $3.4 billion of the aggregate principal amount of the securities having been tendered. The premium paid for the securities tendered resulted in an after tax loss of $307.0 million ($472.3 million pretax).

The Company uses derivative financial instruments selectively as part of its financing and risk management strategies. Interest rate risk relative to the Company's debt portfolio is managed through interest rate swap agreements. The multinational operations of ITT Industries also create exposure to foreign currency fluctuation. Foreign currency risk relative to ITT Industries' net investment in a foreign country, foreign denominated debt, or a specific foreign denominated transaction, is managed in part through currency swaps and forward exchange contracts. Foreign currency transaction gains or losses were not significant in the periods discussed above.

The notional amounts of derivative contracts represent the basis upon which pay and receive amounts are to be calculated and therefore are not reflective of credit risk. Credit risk is limited to the amounts calculated to be due or owed by ITT Industries on such contracts. ITT Industries expects to continue to use interest rate and currency swaps to reduce its costs of borrowing in the future. Forward contracts are also used to protect revenues and inventories against adverse currency fluctuations.

INCOME TAXES

As a global company, ITT Industries provides and pays taxes in numerous jurisdictions, some of which impose income taxes in excess of equivalent U.S. domestic rates. Credit for non-U.S. income taxes paid are generally available against U.S. taxation when earnings are remitted, or deemed to be remitted. In all years other than 1996, credits for income taxes paid in foreign jurisdictions were fully utilizable in the United States in the consolidated tax return of the Company, including Discontinued Operations. After the Distribution, the full utilization of foreign tax credits was not achievable, and, to the extent foreign tax credits were not used to reduce the Company's U.S. tax obligation, a higher effective income tax rate was incurred.

Tax burdens and benefits that relate to periods on or before the Distribution are shared in accordance with a tax allocation agreement between the Company, ITT Hartford, and ITT Corporation.

ENVIRONMENTAL MATTERS

ITT Industries 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 Water Act, the Clean Air Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. The management of ITT Industries believes that ITT Industries is in substantial compliance with these and all other applicable environmental requirements. Environmental compliance costs are accounted for primarily as normal operating expenses. The management of ITT Industries does not believe that such environmental compliance costs will have a material adverse effect on ITT Industries' financial position, results of operations, or cash flows.

In estimating the costs of environmental investigation and remediation, ITT Industries 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 ITT Industries' 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, ITT Industries establishes reserves in accordance with generally accepted accounting principles. Insurance recoveries are recorded as a reduction of environmental charges when fixed and determinable and are included in the "Other assets" caption on the balance sheet. Although the outcome of ITT Industries' 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 ITT Industries' financial position, results of operations, or cash flows.

EFFECT OF INFLATION

The rate of inflation has not had a material effect on the revenues or operating results of ITT Industries during the three most recent fiscal years.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements and Schedules elsewhere herein.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF ITT INDUSTRIES

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.

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 ITT Industries."

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) There were no reports on Form 8-K filed by ITT Industries during the last quarter of the period covered by this report.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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 the Annual Report. The consolidated financial statements are prepared in accordance with generally accepted accounting principles and, where necessary, include amounts that are based on management's informed judgments and estimates. Other information in the Annual Report is consistent with the 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, operational, financial, and 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.

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, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, as described in the accompanying Index to Consolidated Financial Statements and Schedule. These consolidated 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 consolidated financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITT Industries, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in the accompanying notes to consolidated financial statements, effective January 1, 1994, the Company changed its methods of accounting for certain investments in debt and equity securities, workers' compensation liabilities, and marketing and start-up costs.

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 28, 1997

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
IN MILLIONS, EXCEPT PER SHARE

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Net sales	$8,718.1	$8,884.2	$7,757.7
Cost of sales	6,948.4	7,155.0	6,189.7
Research, development, and engineering expenses	535.2	513.9	417.4
Gross margin	1,234.5	1,215.3	1,150.6
Selling, general, and administrative expenses	739.4	767.6	716.3
Other operating (income) expenses	(13.3)	1.5	16.6
Operating income	508.4	446.2	417.7
Interest expense	(169.0)	(175.2)	(115.2)
Interest income	32.7	40.0	67.5
Miscellaneous expense, net	(1.1)	(240.1)	(20.9)
Income from continuing operations before income tax expense	371.0	70.9	349.1
Income tax expense	(148.4)	(50.2)	(147.5)
Income from continuing operations	222.6	20.7	201.6
Discontinued operations:			
Operating income, net of tax of $297.2 and $328.0	--	590.8	831.4
Gain on sale of ITT Financial operations, net of tax of $263.9	--	403.4	--
Extraordinary items, net of tax benefit of $165.3	--	(307.0)	--
Cumulative effect of accounting changes, net of tax benefit of $8.0	--	--	(11.2)
Net income	$ 222.6	$ 707.9	$1,021.8
EARNINGS (LOSS) PER SHARE			
Income from continuing operations			
Primary	$ 1.85	$ .03	$ 1.46
Fully diluted	$ 1.85	$ .09	$ 1.46
Discontinued operations			
Primary	--	8.87	7.21
Fully diluted	--	8.45	6.65
Extraordinary items			
Primary	--	(2.74)	--
Fully diluted	--	(2.61)	--
Cumulative effect of accounting changes			
Primary	--	--	(.10)
Fully diluted	--	--	(.09)
Net income			
Primary	$ 1.85	$ 6.16	$ 8.57
Fully diluted	$ 1.85	$ 5.93	$ 8.02
AVERAGE COMMON EQUIVALENT SHARES -- PRIMARY	120.4	112.1	115.2
AVERAGE COMMON EQUIVALENT SHARES -- FULLY DILUTED	120.4	117.7	124.9

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
IN MILLIONS, EXCEPT FOR SHARES AND PER SHARE

	DECEMBER 31, 1996	1995
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 121.9	$ 94.2
Receivables, net	1,189.8	1,256.7
Inventories, net	856.9	908.4
Other current assets	120.5	242.8
Total current assets	2,289.1	2,502.1
Plant, property, and equipment, net	2,166.7	2,235.8
Deferred U.S. income taxes	205.1	217.7
Goodwill, net	349.8	362.9
Other assets	480.5	560.7
	$5,491.2	$5,879.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 731.8	$ 781.0
Accrued expenses	874.2	1,072.5
Accrued taxes	96.8	161.9
Notes payable and current maturities of long-term debt	835.6	645.5
Total current liabilities	2,538.4	2,660.9
Pension liability	780.3	806.1
Postretirement health and life	346.4	327.6
Long-term debt	583.2	961.2
Deferred foreign, state and local income taxes	109.5	121.1
Other liabilities	334.2	375.6
	4,692.0	5,252.5
Shareholders' Equity:		
Cumulative preferred stock: Authorized 50,000,000 shares, no par value, none issued	--	--
Common stock: Authorized 200,000,000 shares, $1 par value per share Outstanding 118,436,579 shares and 117,068,833 shares	118.4	117.1
Capital surplus	418.2	398.5
Cumulative translation adjustments	111.2	111.1
Retained earnings	151.4	--
	799.2	626.7
	$5,491.2	$5,879.2

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS IN MILLIONS

	YEARS ENDED DECEMBER 31, 1996	1995	1994
OPERATING ACTIVITIES			
Net income	$ 222.6	$ 707.9	$1,021.8
Discontinued operations:			
Operating income	--	(590.8)	(831.4)
Gain on sale of ITT Financial operations	--	(403.4)	--
Extraordinary items	--	307.0	--
Cumulative effect of accounting changes	--	--	11.2
Income from continuing operations	222.6	20.7	201.6
Adjustments to income from continuing operations:			
Depreciation	399.4	390.3	343.5
Amortization	33.6	32.9	29.5
Reserves for divestments -- pretax	--	244.9	--
Change in receivables, inventories, accounts payable, and accrued expenses	(136.5)	(6.0)	(18.0)
Change in accrued and deferred taxes	78.1	30.6	87.0
Other, net	(.5)	(94.4)	(6.6)
Cash from continuing operations	596.7	619.0	637.0

Cash from (used for) discontinued operations	(123.8)	(411.0)	1,152.0
Cash from operating activities	472.9	208.0	1,789.0
INVESTING ACTIVITIES			
Additions to plant, property, and equipment	(406.3)	(449.6)	(407.0)
Acquisitions	--	(15.5)	(418.0)
Proceeds from sale of assets	200.4	12,675.5	853.0
Other, net	(16.7)	(2.3)	(15.0)
Cash from (used for) investing activities	(222.6)	12,208.1	13.0
FINANCING ACTIVITIES			
Short-term debt, net	(111.4)	(803.0)	(66.0)
Long-term debt issued	1.1	250.0	--
Long-term debt repaid	(66.5)	(342.0)	(381.0)
Repayment of ITT Financial obligations	--	(11,640.0)	--
Repurchase of common stock	(11.4)	(35.2)	(1,016.0)
Dividends paid	(53.4)	(193.3)	(280.4)
Other, net	31.1	96.8	(3.9)
Cash used for financing activities	(210.5)	(12,666.7)	(1,747.3)
EXCHANGE RATE EFFECTS ON CASH AND CASH EQUIVALENTS	(12.1)	22.7	28.0
Increase (decrease) in cash and cash equivalents	27.7	(227.9)	82.7
Cash and cash equivalents -- beginning of year	94.2	322.1	239.4
CASH AND CASH EQUIVALENTS -- END OF YEAR	$ 121.9	$ 94.2	$ 322.1
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 158.7	$ 147.0	$ 112.0
Income taxes	$ 37.1	$ 314.0	$ 243.0

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS, CAPITAL STOCK, AND CAPITAL SURPLUS IN MILLIONS, EXCEPT FOR SHARES AND PER SHARE

	RETAINED EARNINGS YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Balance -- Beginning of Year	$ --	$ 6,749.3	$ 7,588.0
Net income	222.6	707.9	1,021.8
Dividends declared --			
Cumulative preferred stock, net of tax benefit	--	(14.6)	(35.5)
Common stock -- $.60, $.99, and $1.98 per share	(71.2)	(104.6)	(227.6)
Common stock of ITT Hartford and ITT Corporation(a)	--	(7,338.0)	--
Common stock of ITT Rayonier	--	--	(621.0)
Repurchases of common stock	--	--	(976.4)
Balance -- End of Year	$151.4	$ --	$ 6,749.3

	CUMULATIVE PREFERRED STOCK		COMMON STOCK		
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL SURPLUS
Balance -- December 31, 1993	9,581,329	$ 673.2	117,560,877	$ 117.6	$ --
Redemption of ESOP Series preferred stock	(179,555)	(13.4)	--	--	--
Stock conversions	(99,345)	(4.8)	116,428	.1	4.7
Stock incentive plans	--	--	283,463	.3	18.0
Repurchases	--	--	(12,288,516)	(12.3)	(22.7)
Balance -- December 31, 1994	9,302,429	655.0	105,672,252	105.7	--
Redemption of ESOP Series preferred stock	(120,652)	(9.0)	--	--	(10.2)
Conversion of ESOP Series preferred stock	(8,636,231)	(644.2)	9,660,766	9.7	634.5
Stock conversions	(522,647)	(1.8)	661,671	.7	1.1
Stock redemption	(22,899)	--	--	--	(1.9)
Stock incentive plans	--	--	1,451,346	1.4	123.9
Repurchases	--	--	(377,202)	(.4)	(34.8)
Distribution of ITT Hartford and ITT					

Corporation(a)	--	--	--	--	(314.1)
Balance -- December 31, 1995	--	--	117,068,833	117.1	398.5
Stock incentive plans	--	--	1,889,878	1.8	31.7
Repurchases	--	--	(522,132)	(.5)	(12.0)
Balance -- December 31, 1996	--	$ --	118,436,579	$ 118.4	$ 418.2

- ---------------

(a) Dividend of ITT Hartford and ITT Corporation was applied against retained earnings to the extent available and then against capital surplus.

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, UNLESS OTHERWISE STATED

1. DISTRIBUTION OF ITT CORPORATION AND ITT HARTFORD

On December 19, 1995, ITT Corporation, a Delaware corporation ("ITT Delaware") made a distribution (the "Distribution") to its shareholders consisting of all the shares of common stock of ITT Destinations, Inc., a Nevada corporation which held ITT Delaware's interests in the hospitality, entertainment, and information services businesses ("ITT Destinations") and all the shares of common stock of ITT Hartford Group, Inc., a Delaware corporation and a wholly-owned subsidiary which held ITT Delaware's interests in the insurance businesses ("ITT Hartford"). Effective December 20, 1995, pursuant to a statutory merger, ITT Delaware merged into ITT Industries, Inc. an Indiana Corporation ("ITT Industries"), with ITT Industries as the surviving corporation (the "Company"), and ITT Destinations then changed its name to ITT Corporation. For purposes of these consolidated financial statements, all references to ITT Corporation and ITT Hartford include those companies, their subsidiaries, affiliated companies and other assets and liabilities that were transferred to those companies.

In the accompanying consolidated financial statements for all periods presented, ITT Corporation, ITT Hartford, and other previously discontinued operations of the Company are reported as Discontinued Operations.

2. ACCOUNTING POLICIES

Consolidation Principles: The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all majority-owned subsidiaries. All significant intercompany transactions have been eliminated.

Revenue Recognition: The Company recognizes sales as products are shipped to customers. Sales from long-term contracts are recognized on the percentage of completion method, generally based on the ratio of units delivered to total units. Expected losses on long-term contracts are recognized currently.

Research and Development: Significant costs are incurred each year in connection with research, development, and engineering 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 50% was expended pursuant to customer contracts for each of the three years ended December 31, 1996.

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: Inventories are generally valued at the lower of cost (first-in, first-out) or market. A full absorption procedure is employed using standard cost techniques. The standards are customarily reviewed and adjusted annually. Potential losses from obsolete and slow-moving inventories are provided for in the current period.

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. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed using undiscounted cash flows. Based upon the Company's review, no impairment has occurred as of December 31, 1996.

Goodwill: The excess of cost over the fair value of net assets acquired is amortized on a straight-line basis over 40 years. Accumulated amortization was $43.2 and $32.0 at December 31, 1996 and 1995, respectively. The Company continually reviews goodwill to assess recoverability from future

operations using undiscounted cash flows. Based upon the Company's review, no impairment has occurred as of December 31, 1996.

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 (losses) from foreign currency transactions are reported currently in other operating expenses and were $5.8, $(4.5), and $3.7 in 1996, 1995, and 1994, 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. The Company and its subsidiaries do not utilize these instruments for speculative purposes.

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

Foreign exchange contracts and foreign currency swaps are accounted for as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments. Other such foreign exchange contracts and swaps are marked to market on a current basis.

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 or other third parties. Accruals for insurance or other third party recoveries are recorded as "Other assets" when it is probable that a claim will be realized.

Earnings Per Share: Fully diluted earnings per share is based on the weighted average of common stock and common stock equivalents which include stock options. The proceeds received upon exercise of the options will be used to acquire common stock of the Company. Fully diluted earnings per share, in 1995 and 1994, also reflects the conversion of convertible preferred stock, including the ESOP Series. Net income applicable to fully diluted earnings per share consists of reported net income or loss adjusted, in 1995 and 1994, for the amount, net of tax, that the Company would have to pay, in excess of common stock dividends, to extinguish the related ESOP debt.

Primary earnings per share is based on the weighted average of common stock and common stock equivalents. Net income applicable to primary earnings per share consists of reported net income adjusted, in 1995 and 1994, for dividend requirements on preferred stock not considered common stock equivalents, net of the related tax benefits. The ESOP was terminated in 1995 and all ESOP series preferred stock was converted to shares of the Company's common stock (see "EMPLOYEE BENEFIT PLANS").

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates.

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

3. CHANGES IN ACCOUNTING PRINCIPLES

In 1994, the Company made several accounting changes, all of which were included in cumulative effect of accounting changes and related solely to Discontinued Operations. During the first quarter of 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS 115, the Company's portfolios were classified as "available for sale" and accordingly, investments were reflected at fair value with the corresponding impact included as a component of shareholders' equity.

The amortized cost basis of mortgage-backed interest-only investments that were determined to have other-than-temporary impairment losses at the time of initial adoption of SFAS 115 was written down to fair value. The writedown totaled $36.5 after tax or $.29 per fully diluted share.

Also in the first quarter of 1994, the Company changed its method used to discount long-term tabular workers' compensation liabilities from a statutory interest rate to an appropriate market interest rate. A benefit of $42.2 after tax or $.33 per fully diluted share was recorded.

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

During the fourth quarter of 1994, the Company changed its method of accounting to expense certain marketing and start-up costs at ITT Educational Services, which had previously been deferred and amortized. A charge of $16.9 after tax or $.13 per fully diluted share was recorded.

The Company's cash flows were not impacted by these changes in accounting principles.

4. RECEIVABLES

Receivables consist of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Trade	$1,194.3	$1,254.0
Accrued for completed work	32.5	42.0
Less -- reserves	(37.0)	(39.3)
	$1,189.8	$1,256.7

5. INVENTORIES

Inventories consist of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Finished goods	$ 401.6	$ 417.1
Work in process	434.7	421.1
Raw materials	301.2	333.4
Less -- reserves	(81.6)	(85.3)
-- progress payments	(199.0)	(177.9)
	$ 856.9	$ 908.4

6. OTHER CURRENT ASSETS

At December 31, 1996, other current assets consist primarily of advance payments on contracts and prepaid expenses. At December 31, 1995, other current assets consist mainly of tax refund claims, advance payments on contracts, and other prepaid expenses.

7. PLANT, PROPERTY, AND EQUIPMENT

Plant, property, and equipment consist of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Land and improvements	$ 101.7	$ 116.2
Buildings and improvements	807.7	887.3

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

Machinery and equipment	3,448.7	3,423.7
Construction work in progress	264.5	296.8
Other	469.2	331.4
	5,091.8	5,055.4
Less -- accumulated depreciation and amortization	(2,925.1)	(2,819.6)
	$ 2,166.7	$ 2,235.8

8. OTHER ASSETS

At December 31, 1996, other assets consist primarily of prepaid pension and employee benefit plan costs, equity investments, and expected recoveries from third parties in relation to environmental and other claims. At December 31, 1995, other assets consist mainly of prepaid pension and employee benefit plan costs, equity investments, tax refund claims, and expected recoveries from third parties in relation to environmental and other claims.

9. INCOME TAX

Income tax data from continuing operations is as follows:

	1996	1995	1994
Pretax income			
U.S.	$141.2	$(81.5)	$ 186.2
Foreign	229.8	152.4	162.9
	$371.0	$ 70.9	$ 349.1
Provision (benefit) for income tax			
Current			
U.S. Federal	$ 55.8	$ 9.3	$ 170.4
State and local	5.4	7.9	2.9
Foreign	88.9	37.5	83.7
	150.1	54.7	257.0
Deferred			
U.S. Federal	(2.1)	(28.0)	(98.0)
State and local	(.3)	.1	(.7)
Foreign and other	.7	23.4	(10.8)
	(1.7)	(4.5)	(109.5)
Total income tax expense	$148.4	$ 50.2	$ 147.5

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

	1996	1995	1994
Tax provision at U.S. statutory rate	35.0%	35.0%	35.0%
Foreign tax rate differential	2.5	3.5	4.0
Taxes on repatriation of foreign earnings	3.1	26.5	2.7
State income taxes, net of Federal benefit	.9	7.3	.4
Other	(1.5)	(1.5)	.2
Effective income tax expense rate	40.0%	70.8%	42.3%

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. The December 31, 1996 and 1995 balance sheets include net U.S. Federal deferred tax assets of $205.1 and $217.7, respectively, and net foreign and other deferred tax liabilities of $(109.5) and $(121.1), respectively.

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

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

	DECEMBER 31,			
	1996		1995	
	U.S. FEDERAL	FOREIGN & OTHER	U.S. FEDERAL	FOREIGN & OTHER
Employee benefits	$120.9	$ 31.4	$119.4	$ 29.9
Accelerated depreciation	(41.7)	(153.7)	(42.2)	(172.1)
Reserves	87.0	16.3	120.4	40.2
Long-term contracts	14.9	--	11.1	--
Uniform capitalization	12.6	--	15.5	--
Other	11.4	(3.5)	(6.5)	(19.1)
	$205.1	$(109.5)	$217.7	$(121.1)

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of approximately $549.4 since these amounts are permanently reinvested.

As of December 31, 1996, the company has approximately $7.2 of foreign tax credit carryforwards available to reduce future tax liabilities. These credits will expire December 31, 2001.

Shareholders' equity at December 31, 1996 and 1995 reflects tax benefits related to the exercise of stock options of approximately $5.7 and $22.5, respectively.

10. DEBT

Debt consists of the following:

	DECEMBER 31,	
	1996	1995
Commercial paper	$ --	$ 295.0
Bank loans and other short-term	488.1	171.9
Long-term	930.7	1,139.8
	1,418.8	1,606.7
Less -- current maturities	(835.6)	(645.5)
	$ 583.2	$ 961.2

The weighted average interest rate for bank loans and other short-term borrowings was 3.69% and 5.39% at December 31, 1996 and 1995, respectively. The weighted average interest rate for commercial paper was 5.76% at December 31, 1995. The fair value of the Company's commercial paper and bank

loans and other short-term loans approximates carrying value. The estimated fair value of long-term debt at December 31, 1996 and 1995 was $989.9 and $1.2 billion, respectively, based on discounted cash flows using the Company's incremental borrowing rates for similar arrangements. The Company maintains a revolving credit agreement which expires in November, 2000, with sixty-one domestic and foreign banks providing aggregate commitments of $1.5 billion. These commitments, which were unused at December 31, 1996, were made to ITT Industries and certain of its subsidiaries and are intended to assure their working capital needs and for general corporate purposes. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate (LIBOR), plus a spread dependent on the Company's debt rating. The provisions of these agreements require the Company to maintain certain financial ratios and restrict indebtedness. Commitment fees on these revolving credit agreements range from .060% to .150% of the total commitment, based on the Company's current debt ratings.

Long-term debt maturities and interest rate percentages as of December 31, 1996 were:

	BELOW 6.0	6.0-6.99	7.0-7.99	8.0-8.99	9.0-9.99	OVER 10.0	TOTAL
1997	$6.5	$ 16.5	$157.1	$ 28.1	$26.1	$109.4	$ 343.7
1998	1.4	26.4	.2	36.0	--	--	64.0
1999	1.2	15.8	--	.1	--	29.9	47.0
2000	.7	--	--	.1	--	--	.8
2001	.1	58.6	--	13.4	18.5	--	90.6
Thereafter	.7	75.6	286.5	41.3	31.9	--	436.0
Total -- 1996	$10.6	$192.9	$443.8	$119.0	$76.5	$139.3	$ 982.1
Total -- 1995	$64.9	$209.5	$476.6	$220.8	$81.8	$156.8	$1,210.4

The above balances as of December 31, 1996 and 1995 include amortizable debt discounts of $51.4 and $70.6, respectively. Assets pledged to secure indebtedness (including mortgage loans) amount to approximately $15.7 as of December 31, 1996.

11. EARLY EXTINGUISHMENT OF DEBT

In 1995, the Company announced the completion of a tender offer for an aggregate of $4.1 billion of its debt securities, with $3.4 billion, or 82% of the aggregate principal amount, having been tendered. The tender offer was financed with the proceeds of commercial paper borrowings of approximately $3.7 billion. The tender offer resulted in the Company paying a tender premium of $307.0 after tax ($472.3 pretax) or $2.61 per fully diluted share in the third quarter of 1995. This charge was recorded as an extraordinary loss on the early extinguishment of debt.

12. CAPITAL STOCK

ITT Industries 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 ITT Industries 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 one 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.

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

During 1996, an independent agent purchased 522,132 shares of Common Stock at then market prices to satisfy stock option exercises. In 1995, the Company repurchased 377,202 common shares for $35.2. During 1994, the Company repurchased 12,288,516 common shares for $1.0 billion. The excess over par value was charged to capital surplus to the extent available and then to retained earnings. The 1995 and 1994 common shares were repurchased under a systematic stock repurchase program implemented in 1994.

At December 31, 1994, there were 8,756,883 shares of ESOP series preferred stock outstanding with a stated value of $653.2. In 1995, the Company terminated the ESOP portion of the Company's Investment and Savings Plan and the trustee of the ESOP converted the preferred stock held by the trustee to 9,660,766 shares of the Company's common stock.

At December 31, 1994, there were 545,546 Series N preferred shares outstanding which were redeemed in 1995.

As of December 31, 1996, 26,711,429 shares of Common Stock were held in treasury.

13. FOREIGN CURRENCY

Translation adjustments recorded as a separate component of shareholders' equity were:

	DECEMBER 31,		
	1996	1995	1994
Balance -- Beginning of year	$111.1	$(112.7)	$(205.9)
Translation of foreign currency financial statements	(11.7)	30.8	110.1
Hedges of net foreign investments	11.8	(1.0)	(16.9)
Distribution of ITT Corporation and ITT Hartford	--	194.0	--
Balance -- End of year	$111.2	$ 111.1	$(112.7)

14. LEASES AND RENTALS

As of December 31, 1996, minimum rental commitments under operating leases were $108.8, $95.5, $82.5, $67.1, and $59.7 for 1997 through 2001, respectively. For the remaining years, such commitments amounted to $94.7, aggregating total minimum lease payments of $508.3.

Rental expenses under operating leases were $92.8, $86.9, and $73.8 for 1996, 1995, and 1994, respectively.

15. MISCELLANEOUS EXPENSE

Miscellaneous expense includes the following:

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

	1996	1995	1994
Provision for loss on disposition of businesses	$ --	$(235.5)	$ (17.7)
Other expense	(1.1)	(4.6)	(3.2)
	$ (1.1)	$(240.1)	$ (20.9)

16. EMPLOYEE BENEFIT PLANS

Pension Plans: The Company and its subsidiaries sponsor numerous 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.

Total pension expense for 1996, 1995, and 1994 was:

	1996	1995	1994
Defined Benefit Plans			
Service cost	$ 68.4	$ 68.0	$ 78.2
Interest cost	239.1	239.7	218.4
Return on assets			
Actual	(387.2)	(425.7)	(44.2)
Deferred	176.8	222.9	(150.9)
Net amortization	27.3	5.4	20.5
Net periodic pension cost	124.4	110.3	122.0
Other	3.9	4.0	3.8
Total pension expense	$ 128.3	$ 114.3	$ 125.8

U.S. pension expense included in the net periodic pension cost in the table above was $58.4, $42.7, and $60.0 for 1996, 1995, and 1994, respectively.

The following table sets forth the funded status of the Company's pension plans, amounts recognized in the Company's balance sheets, and the principal weighted average assumptions inherent in their determination:

	DECEMBER 31, 1996		DECEMBER 31, 1995	
	DOMESTIC	FOREIGN	DOMESTIC	FOREIGN
Actuarial present value of benefit obligations:				
Vested benefit obligation	$2,190.7	$ 799.8	$2,152.7	$ 829.0
Accumulated benefit obligation	$2,303.1	$ 826.8	$2,265.6	$ 858.8
Projected benefit obligation	$2,462.7	$ 851.0	$2,424.4	$ 936.5
Plan assets at fair value	2,441.8	183.3	2,242.9	193.2
Projected benefit obligation in excess of plan assets	(20.9)	(667.7)	(181.5)	(743.3)
Unrecognized net (gain)/loss	132.9	(58.7)	321.1	(8.6)
Unrecognized net (asset)/obligation	(17.2)	24.6	(26.1)	31.2
Pension asset (liability) recognized in the balance sheet (net)	$ 94.8	$(701.8)	$ 113.5	$(720.7)
Discount rate	7.75%	7.29%	7.50%	7.66%
Rate of return on invested assets	9.75%	9.33%	9.75%	9.22%
Salary increase assumption	5.00%	2.91%	5.00%	4.23%

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

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

Savings Plans: The Company sponsors numerous 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 $16.7, $14.7, and $14.0 for the years ended 1996, 1995, and 1994, respectively.

The ITT Investment and Savings Plan for Salaried Employees (the "Plan") included an Employee Stock Ownership Plan ("ESOP") feature. In connection with the Distribution, the Company terminated

the ESOP portion of the Plan. As a result of the termination, in 1995, the trustee of the ESOP converted the preferred stock held by the trustee to Company common stock. The trustee then completed the sale of 5.3 million shares into the open market. The sales proceeds were used to repay the debt associated with the ESOP and the remainder was allocated pro rata to participants in the Plan. The Company changed the name of the Plan to the ITT Industries Investment and Savings Plan for Salaried Employees and transferred the balances related to employees of ITT Corporation and ITT Hartford to plans created by those companies.

Postretirement Health and Life: The Company and its subsidiaries provide health care and life insurance benefits for certain eligible retired employees.

The Company has prefunded a portion of the health care and life insurance obligations through trust funds where such prefunding can be accomplished on a tax effective basis. The plan's assets are comprised of a broad range of domestic and foreign securities, fixed income investments, and real estate. Postretirement health care and life insurance benefits expense was comprised of the following in 1996, 1995, and 1994:

	1996	1995	1994
Service cost	$ 10.4	$ 8.3	$ 8.5
Interest cost	34.9	31.9	29.5
Return on assets			
Actual	(19.8)	(29.7)	2.7
Deferred	5.7	17.9	(13.7)
Net amortization	(4.7)	(6.1)	(4.3)
Net postretirement benefit expense	26.5	22.3	22.7
Gains from curtailments	(5.3)	--	--
Net expense	$ 21.2	$ 22.3	$ 22.7

The following table sets forth the funded status of the postretirement benefit plans other than pensions, amounts recognized in the Company's balance sheet, and the principal weighted average assumptions inherent in their determination:

	DECEMBER 31,	
	1996	1995
Accumulated postretirement benefit obligation	$ 480.7	$ 440.3
Plan assets at fair value	163.0	150.2

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

Accumulated postretirement benefit obligation in excess of plan assets	(317.7)	(290.1)
Unrecognized net (gain)/loss	5.8	(1.0)
Unrecognized past service liability	(34.5)	(36.5)
Liability recognized in the balance sheet	$(346.4)	$(327.6)
Discount rate	7.75%	7.50%
Rate of return on invested assets	9.75%	9.75%
Ultimate health care trend rate	6.00%	6.00%

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 9.3% for 1996, decreasing ratably to 6.0% in the year 2001. Increasing the table of health care trend rates by one percent per year would have the effect of increasing the accumulated postretirement benefit obligation by $46.6 and the annual expense by $5.5. To the extent that the actual experience differs from the inherent assumptions, the effect will be amortized over the average future service of the covered active employees.

17. DISCONTINUED OPERATIONS

Summarized income statement data for ITT Corporation and ITT Hartford is as follows (data for 1995 reflects earnings through December 19, 1995, and for 1994, reflects earnings for the full year):

ITT CORPORATION

	1995	1994
Revenues	$ 6,154.7	$ 4,760.3
Operating income	602.0	292.6
Income before cumulative effect of accounting changes	154.8	74.1

ITT HARTFORD

	1995	1994
Revenues	$11,726.7	$11,102.2
Operating income	692.7	852.3
Income before cumulative effect of accounting changes	535.2	632.0

Company interest expense was allocated to Discontinued Operations based upon the amount of debt to be repaid with the proceeds from those operations or refinanced by those operations. In addition, results of Discontinued Operations included $109.2 of legal and advisory fees, taxes, and other costs related to the Distribution and $39.0 after tax of severance and other costs related to the restructuring of the Company's headquarters operations in connection with the Distribution.

As a result of the Distribution, the Discontinued Operations were not included in the consolidated Federal income tax return of ITT Industries after December 19, 1995. The allocation of the tax burdens and benefits, which occurred on or prior to December 19, 1995, were determined in accordance with a tax allocation agreement between the Company, ITT Hartford, and ITT Corporation.

In 1995, gross proceeds totalling $12.7 billion were realized from the sale of the businesses comprising ITT Financial. Proceeds from these transactions were used primarily to repay ITT Financial debt. The Company recognized an after tax gain of $403.4 ($667.3 pretax) or $3.44 per fully diluted share in the second quarter of 1995, including a provision for the remaining asset sales and closedown costs of ITT Financial.

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

Summarized income statement data is as follows:

	1995	1994
Revenues	$476.3	$1,451.8
Operating income	79.8	162.5
Income before cumulative effect of accounting changes	49.0	113.6
Gain on sale, net of tax	403.4	--

On February 28, 1994, all of the shares of common stock of ITT Rayonier, ITT Delaware's wholly-owned Forest Products subsidiary (approximately 29.6 million shares) were distributed to holders of Company common stock and holders of Company cumulative preferred stock, $2.25 Convertible Series N, on the basis of one share of Rayonier common stock for every four shares of Company common stock held and one share of Rayonier common stock for every 3.1595 shares of Company Series N held. Sales and income from Rayonier operations totaled $147.0 and $11.7, respectively, for the two months ended February 28, 1994.

18. 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.

The Company's credit risk associated with these interest rate and foreign exchange contracts is generally limited to the unrealized gain on those contracts with a positive fair 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 its positions with, and the credit quality of, these financial institutions and does not expect non-performance by any counterparty.

Financing Strategies and Interest Rate Risk Management: ITT Industries maintains a global debt portfolio to fund its operations. The Company and its subsidiaries use interest rate swaps and cross currency interest rate swaps in order to effectively manage the Company's debt portfolio and related financing costs.

At December 31, 1996, the Company held interest rate swaps with notional principal values totaling 410 million Deutsche marks. These swaps, with original maturities ranging from 1998 to 2000, require the Company to pay fixed rates averaging approximately 6.8% and receive floating rates based on German LIBOR, which averaged approximately 3.2% and 4.1% at December 31, 1996 and 1995, respectively. Certain of these swaps, with notional principal values totaling 260 million Deutsche marks, have been recorded at fair value as they are no longer effective as hedges. These swaps will be terminated in 1997.

The cross currency interest rate swaps, with notional values totalling approximately $506 and maturities ranging from one year to twenty-five years, effectively convert specific long-term U.S. dollar denominated fixed rate borrowings with an average interest rate of approximately 8.9% to equivalent Deutsche mark denominated variable rate debt (based on German LIBOR) with an average interest rate of approximately 6.2% on December 31, 1996.

DOLLARS IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED

Foreign Currency Risk Management: ITT Industries has significant foreign operations and conducts business in various foreign currencies. ITT Industries and its subsidiaries may periodically hedge net investments in currencies other than their own functional currency, and contractual non-functional currency cash flows and obligations, including intercompany financings. ITT Industries regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At December 31, 1996, ITT Industries held foreign currency forward and swap contracts with notional amounts totalling approximately $1.2 billion to hedge foreign currency exposures. Approximately $.9 billion of these contracts represent cross currency contracts to sell one foreign currency for another foreign currency. The Company's most significant foreign currency exposures are in Belgian francs and German marks. These contracts all have maturities prior to July 31, 1998, with the majority of the contracts maturing within one year.

Fair Value of Derivative Financial Instruments: The fair values of the Company's derivative financial instruments are as follows:

	(PAYABLE)/RECEIVABLE			
	DEC. 31, 1996		DEC. 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Interest rate swaps	$(13.3)	$(22.4)	$ --	$(22.3)
Cross currency interest rate swaps	$ 11.0	$ 13.5	$ --	$ --
Currency swaps/forwards	$(12.0)	$(15.2)	$(30.8)	$(41.3)

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

Currency and Interest Rate Swap Agreements: The fair value of currency and 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.

Foreign Exchange Contracts: The fair value associated with the foreign currency contracts has been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date.

19. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are 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 result 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, ITT Industries is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. As of December 31, 1996, ITT Industries or its subsidiaries are responsible, or are alleged to be responsible for environmental investigation and remediation at sites in North America and Europe. ITT Industries 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, ITT Industries' liability is considered de minimis. In Glendale, California, ITT Industries is involved in an EPA administrative proceeding relating to the San Fernando Valley aquifer. ITT Industries is one of numerous PRP's who is alleged by the EPA to have contributed to the contamination of the aquifer. Currently, ITT Industries is involved in an allocation among the PRP's to fund the clean-up required by the EPA. ITT Industries has filed a suit against its insurers for recovery of the costs it has incurred in connection with this and other environmental matters.

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in the "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 ITT Industries' 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.

20. 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 remaining options become exercisable over a three-year period commencing with the date of the grant. The exercise price per share is the fair market value on the date each option is granted. During 1996, the Company made shares available for the exercise of stock options from shares held by the Company in treasury and from purchasing shares in the open market. Management's current intention is to make 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, 1996, 1995, and 1994, and changes during the years then ended is presented below (shares in thousands):

	1996		1995		1994	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE

Outstanding at beginning of year	11,619	$15.76	5,588	$ 73.60	3,514	$71.60
Granted	2,114	25.32	2,148	108.07	2,212	84.14
Exercised	(1,879)	15.08	(1,478)	66.47	(260)	49.66
Canceled or expired	(90)	24.11	(4,087)	88.59	(182)	68.25
ITT Corporation and ITT Hartford spin-off adjustment	--	--	9,448	--	--	--
Rayonier spin-off adjustment	--	--	--	--	304	--
Outstanding at end of year	11,764	$17.53	11,619	$ 15.76	5,588	$73.60
Options exercisable at year-end	7,817	$15.14	6,942	$ 13.85	1,914	$54.14
Weighted-average fair value of options granted during the year	$ 6.87		$ 30.01		$ 25.13	

The Company accounts for these plans pursuant to Accounting Principles Board Opinion 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 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:

	1996	1995
Net income		
As reported	$222.6	$707.9
Pro forma	214.8	705.1
Primary earnings per share		
As reported	$ 1.85	$ 6.16
Pro forma	1.78	6.14
Fully diluted earnings per share		
As reported	$ 1.85	$ 5.93
Pro forma	1.78	5.91

Because the method of accounting prescribed by SFAS 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 1996, 1995, and 1994: dividend yield of 2.40%; expected volatility of 23%; expected life of six years; and risk-free interest rate of 6.15%, 6.46%, and 7.40%, respectively.

In December 1995, in conjunction with the Distribution, those individuals who became employees of ITT Hartford and ITT Corporation were offered substitute awards in the respective stock of their new employer, and any stock awards or options held by them in respect of ITT Industries are reflected as canceled in the table above. For the remaining holders of unexercised options, including employees of ITT Industries, retirees, and certain other former employees of the Company, the number of shares subject to options was increased and the option exercise price was decreased immediately following the Distribution to preserve, as closely as possible, the economic value of the options that existed prior to Distribution.

In March 1994, the number and exercise price of all options then outstanding were similarly adjusted to recognize the effect of the Rayonier spin-off.

The following table summarizes information about the Company's stock options at December 31, 1996 (shares in thousands):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
$ 7.91- 9.89	1,716	4.2 years....	$ 8.76	1,716	$ 8.76
12.80-17.91	5,042	7.3 years....	15.71	4,473	15.70
20.32-28.38	5,006	8.7 years....	22.36	1,628	20.32
	11,764	....		7,817	

As of December 31, 1996, 2,964,000 shares were available for future grants. Effective January 1, 1997, option shares available for future grants increased to 5,142,000 as a result of the allotment formula established in the 1994 Incentive Stock Plan. The incentive stock plans also provide for awarding restricted stock subject to a restriction period in which the stock cannot be sold, exchanged, or pledged. During 1996, pursuant to the ITT Industries, Inc. 1996 Restricted Stock Plan for Non-Employee Directors, the Company awarded 10,396 restricted shares with five-year restriction periods, in lieu of the annual retainer for such directors.

BUSINESS SEGMENT INFORMATION
IN MILLIONS

	NET SALES			OPERATING INCOME		
	1996	1995	1994	1996	1995	1994
Automotive........................	$5,492.6	$5,574.8	$4,667.5	$ 337.1	$ 343.6	$ 336.5
Defense & Electronics.............	1,571.6	1,559.3	1,498.9	110.2	96.6	95.8
Fluid Technology..................	1,301.3	1,248.0	1,124.5	113.2	112.8	99.2
Dispositions and other............	352.6	502.1	466.8	1.5	(9.3)	(34.4)
Total segments..................	8,718.1	8,884.2	7,757.7	562.0	543.7	497.1
Other.............................	--	--	--	(53.6)	(97.5)	(79.4)
	$8,718.1	$8,884.2	$7,757.7	$ 508.4	$ 446.2	$ 417.7

	IDENTIFIABLE ASSETS			GROSS PLANT ADDITIONS			DEPRECIATION		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
Automotive................	$2,857.7	$2,901.9	$ 2,732.5	$256.7	$275.9	$272.1	$240.8	$237.2	$204.6
Defense & Electronics......	797.1	817.7	783.5	60.1	69.3	54.5	64.9	62.4	56.9
Fluid Technology...........	779.9	807.0	727.8	45.1	46.9	43.4	40.7	40.0	37.9
Dispositions and other	512.7	600.4	678.4	44.1	58.5	48.7	50.9	49.6	43.8
Total segments...........	4,947.4	5,127.0	4,922.2	406.0	450.6	418.7	397.3	389.2	343.2
Net Assets of Discontinued Operations..............	--	--	5,458.0	--	--	--	--	--	--
Other.....................	543.8	752.2	655.0	3.4	3.1	.2	2.1	1.1	.3
	$5,491.2	$5,879.2	$11,035.2	$409.4	$453.7	$418.9	$399.4	$390.3	$343.5

Automotive: ITT Automotive is one of the largest independent suppliers of systems and components to vehicle manufacturers worldwide and also supplies related products to the aftermarket. Through operations located in Europe, North America, and South America, and joint ventures and licensees in Asia, ITT Automotive designs, engineers, and manufactures a broad range of automotive systems and components under two major worldwide product groupings.

The Brake and Chassis Systems group produces anti-lock brake systems ("ABS") and traction control systems ("TCS"), chassis systems, foundation brake components, fluid handling products, and Koni(R) shock absorbers.

The Body and Electrical Systems group produces automotive products, such as door and window assemblies, wiper module assemblies, seat systems, air management systems, switches, and fractional horsepower DC motors.

Sales to two customers (General Motors Corporation and Ford Motor Corporation) accounted for approximately 40%, 42%, and 44% of 1996, 1995, and 1994 sales, respectively.

Defense & Electronics: ITT Defense & Electronics companies develop, manufacture, and support high technology electronic systems and components for defense and commercial markets on a worldwide basis, with operations in North America, Europe, and Asia. Defense market products include tactical communications equipment, electronic warfare systems, night vision devices, radar, space payloads, and operations and maintenance services. Commercial products include interconnect products (such as connectors, switches, and cable assemblies) and night vision devices.

Companies in the electronics sector of this segment operate in several European countries, Japan, and North America and produce a wide variety of electronic connectors, switches, and components which are used in industrial, professional, and telecommunications equipment as well as in consumer appliances and automobiles. Approximately 64%, 65%, and 66% of 1996, 1995, and 1994 sales, respectively, were to governmental entities, of which approximately 86%, 90%, and 90%, respectively, were to the U.S. government.

Fluid Technology: ITT Fluid Technology is a worldwide enterprise engaged in the design, development, production, and sale of products, systems and services used to move, handle, transfer, control, and contain fluids of all kinds. ITT Fluid Technology is a leading supplier of pumps, valves, heat

exchangers, mixers, instruments, and controls for management of fluids, with sales in more than 100 countries.

The majority of ITT Fluid Technology's sales are in North America and Western Europe. Principal markets are water and wastewater treatment, industrial and process, and construction.

"Dispositions and other" include the operating results of units other than "Discontinued Operations," including ITT Community Development Corporation, ITT Semiconductors, other non-core businesses, and businesses which have been sold. "Other" in the Operating Income table primarily includes service charges from affiliated companies and other corporate charges. "Other" in the Identifiable Assets table consists primarily of corporate assets. Intercompany sales, which are priced on an arm's-length basis and eliminated in consolidation, are not material.

GEOGRAPHICAL INFORMATION (BY COUNTRY OF ORIGIN) -- TOTAL SEGMENTS
IN MILLIONS

	NET SALES			OPERATING INCOME			IDENTIFIABLE ASSETS		
	1996	1995	1994	1996	1995	1994	1996	1995	1994
U.S.	$4,388.7	$4,497.4	$4,064.6	$270.6	$254.6	$223.9	$2,401.3	$2,457.3	$2,463.1
Western Europe	3,818.0	3,832.1	3,204.6	234.1	260.6	223.7	2,207.1	2,354.9	2,167.9
Canada and Other	511.4	554.7	488.5	57.3	28.5	49.5	339.0	314.8	291.2
Total Segments	$8,718.1	$8,884.2	$7,757.7	$562.0	$543.7	$497.1	$4,947.4	$5,127.0	$4,922.2

QUARTERLY RESULTS FOR 1996 AND 1995
IN MILLIONS, EXCEPT PER SHARE; (UNAUDITED)

	THREE MONTHS ENDED				
	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	YEAR
1996					
Net sales	$2,200.9	$2,241.2	$2,044.8	$2,231.2	$8,718.1
Cost of sales(a)	1,907.8	1,907.9	1,755.2	1,912.7	7,483.6
Net income	40.0	67.7	43.7	71.2	222.6
Net income per share --					
-- Primary(b)	$ .33	$ .56	$ .36	$ .59	$ 1.85
-- Fully diluted(b)	$ .33	$ .56	$ .36	$ .59	$ 1.85
1995					
Net sales	$2,247.7	$2,337.3	$2,047.9	$2,251.3	$8,884.2
Cost of sales(a)	1,942.3	2,012.2	1,775.9	1,938.5	7,668.9
Income (loss) from continuing operations	44.8	46.3	(54.2)	(16.2)	20.7
Net income (loss)	228.4	611.6	(174.5)	42.4	707.9
Earnings per share --					
Income (loss) from continuing operations					
-- Primary(b)	$ .34	$ .35	$ (.47)	$ (.14)	$ .03
-- Fully diluted	$ .34	$ .35	$ (.46)	$ (.14)	$ .09
Net income (loss)					
-- Primary(b)	$ 2.05	$ 5.61	$ (1.52)	$ .34	$ 6.16
-- Fully diluted	$ 1.91	$ 5.17	$ (1.49)	$ .34	$ 5.93

- ---------------

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

(b) Quarterly and full year earnings per share amounts were calculated independently based on the average common equivalent shares applicable to each period. Because of the issuance of common stock upon the exercise of stock options in 1996, and the conversion of ESOP Series preferred stock to common stock in 1995, the sum of the four quarters does not equal the calculation for the full year for either 1996 or 1995.

EXPORT SALES
IN MILLIONS

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

MANUFACTURING LOCATION	SALES DESTINATION	1996	1995	1994
United States	Canada	$ 265.6	$ 345.7	$ 312.3
	Western Europe	64.0	65.1	44.9
	Other	169.0	123.0	82.3
		498.6	533.8	439.5
Canada	United States	93.2	192.2	171.8
	Other	10.8	9.3	10.1
		104.0	201.5	181.9
Western Europe	United States	94.1	120.7	97.6
	Western Europe	1,105.5	1,051.1	837.9
	Other	269.5	248.7	178.5
		1,469.1	1,420.5	1,114.0
Other		43.3	24.6	13.0
		$2,115.0	$2,180.4	$1,748.4

VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

		ADDITIONS (DEDUCTIONS)			
	BALANCE JANUARY 1	CHARGED TO COSTS AND EXPENSES	TRANSLATION ADJUSTMENT	WRITE-OFFS/ PAYMENTS OTHER	BALANCE DECEMBER 31
YEAR ENDED DECEMBER 31, 1996					
Trade Receivables -- Allowance for doubtful accounts	$ 39.3	$ 3.7	$ (.8)	$ (5.2)	$ 37.0
Accumulated depreciation of plant, property, and equipment	2,819.6	399.4	(99.4)	(194.5)(a)	2,925.1
YEAR ENDED DECEMBER 31, 1995					
Trade Receivables -- Allowance for doubtful accounts	$ 36.8	$ 2.2	$ 2.3	$ (2.0)	$ 39.3
Accumulated depreciation of plant, property, and equipment	2,515.7	390.3	78.5	(164.9)(a)	2,819.6
YEAR ENDED DECEMBER 31, 1994					
Trade Receivables -- Allowance for doubtful accounts	$ 33.0	$ 4.3	$ 1.0	$ (1.5)	$ 36.8
Accumulated depreciation of plant, property, and equipment	2,186.0	343.5	144.0	(157.8)(a)	2,515.7

- ---------------

(a) Principally retirements as well as companies sold during the year.

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 RICHARD J. TOWNSEND

RICHARD J. TOWNSEND
VICE PRESIDENT AND CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)

March 26, 1997

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
TRAVIS ENGEN ------------------------- TRAVIS ENGEN (PRINCIPAL EXECUTIVE OFFICER)	Chairman, President and Chief Executive and Director	March 26, 1997
HEIDI KUNZ ------------------------- HEIDI KUNZ (PRINCIPAL FINANCIAL OFFICER)	Senior Vice President and Chief Financial Officer	March 26, 1997

SIGNATURE	TITLE	DATE	SIGNATURE	TITLE	DATE
RAND V. ARASKOG RAND V. ARASKOG	Director	March 26, 1997	S. PARKER GILBERT S. PARKER GILBERT	Director	March 26, 1997
ROBERT A. BURNETT ROBERT A. BURNETT	Director	March 26, 1997	EDWARD C. MEYER EDWARD C. MEYER	Director	March 26, 1997
CURTIS J. CRAWFORD CURTIS J. CRAWFORD	Director	March 26, 1997	SIDNEY TAUREL SIDNEY TAUREL	Director	March 26, 1997

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3		
	(a) ITT Industries, Inc.'s Articles of Incorporation......................	Incorporated by reference to Exhibit 3.1 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(b) Agreement and Plan of Merger dated November 1, 1995...................	Incorporated by reference to Exhibit A to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(c) 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).
	(d) Articles of Amendment Setting Forth the Designations, Voting Powers, Preferences and Relative, Participating, Optional and Other Special Rights and Qualifications, Limitations or Restrictions of Series A Participating Cumulative Preferred Stock....................	Incorporated by reference to Exhibit 4.5 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(e) ITT Industries, Inc.'s By-laws........	Incorporated by reference to Exhibit 3.2 to ITT Industries' Form 8-B dated December 20, 1995 (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)	Incentive Bonus Plan..................	Incorporated by reference to ITT Delaware's Form SE dated March 29, 1989 relating to ITT Delaware's Form 10-K for the fiscal year ended December 31, 1988 (CIK No. 216228, File No. 1-5627).

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(d)	Form of Travis Engen's employment agreement...........................	Incorporated by reference to Exhibit 10.16 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(e)	First Amendment to Employment Agreement between ITT Industries and Travis Engen........................	Filed herewith.
(f)	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).
(g)	ITT Industries, Inc. 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).
(h)	Form of indemnification agreement with directors...........................	Filed herewith.
(i)	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).
(j)	ITT Industries Special Senior Executive Severance Pay Plan.........	Filed herewith.
(k)	1994 ITT Industries, Inc. 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).
(l)	ITT Industries, Inc. 1996 Restricted Stock Plan for Non-Employee Directors, as amended...............	Filed herewith.
(m)	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).
(n)	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).
(o)	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).

EXHIBIT NUMBER	DESCRIPTION	LOCATION
	(p) 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).
	(q) Five-year Competitive Advance and Revolving Credit Facility Agreement dated as of November 10, 1995.......	Incorporated by reference to Exhibit 10.9 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
11	Statement re computation of per share earnings.................................	Filed herewith.
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.
27	Financial data schedule.....................	Filed herewith.
99	Additional exhibits.........................	None.

EXHIBIT 10(E)

FIRST AMENDMENT TO
EMPLOYMENT AGREEMENT
DATED AS OF DECEMBER 5, 1995
BETWEEN ITT INDUSTRIES, INC. AND
D. TRAVIS ENGEN

WHEREAS, ITT Industries, Inc., an Indiana corporation ("Industries"), entered into an employment agreement with D. Travis Engen dated as of December 5, 1995 (the "Agreement"); and,

WHEREAS, Industries and you desire to amend the Agreement in certain respects;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein set forth and for other consideration herein described, the parties hereto agree as follows:

1. Paragraph 4 of the Agreement shall be amended by changing the paragraph heading to "Termination" and by adding the following at the end thereof:

Following an Acceleration Event (as defined herein), no act or omission on your part shall be considered "willful" for purposes of this Paragraph 4 unless it is done or omitted in bad faith or without reasonable belief that the action or omission was in the best interests of Industries.

Following an Acceleration Event, you shall have the right to terminate your employment for Good Reason (as defined herein). For purposes hereof:

(A) "Good Reason" shall mean:

(i) without your express written consent and excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by Industries or its affiliates promptly after receipt of notice thereof given by you, (A) a failure to pay or reduction in your annual base salary (as described in Paragraph 3(a) hereof) or any bonus or incentive compensation opportunities or any reduction in any material compensation or benefits arrangement provided to you or in which you participate, (B) your assignment to any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by paragraph (1) hereof, (C) any other action by Industries or any of its affiliates which results in a diminution in your position, authority, duties or responsibilities, or (D) any failure by Industries to comply with any of the provisions of paragraph 3(b) hereof;

(ii) without your express written consent, Industries requiring your work location to be other than within twenty-five (25) miles of White Plains, New York;

(iii) any failure by Industries to obtain an express written assumption of this Agreement by any successor to Industries. For purposes hereof, a determination by you that you have "Good Reason" hereunder shall be final and binding on the parties hereto absent a showing of bad faith on your part.

(B) An "Acceleration Event" shall occur if (i) 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 Industries or a subsidiary of Industries or any employee benefit plan sponsored by Industries or a subsidiary of Industries, is the beneficial owner directly or indirectly of twenty percent or more of the outstanding Common Stock, $1 par value, of Industries (the "Stock"); (ii) any person (within the meaning of Section 13(d) of the Act), other than Industries or a subsidiary of Industries, or any employee benefit plan sponsored by Industries or a subsidiary of Industries, shall purchase shares pursuant to a tender offer or exchange offer to acquire any Stock of Industries (or securities convertible into 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 Stock of Industries (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of

rights to acquire Stock); (iii) the stockholders of Industries shall approve (A) any consolidation or merger of Industries in which Industries is not the continuing or surviving corporation or pursuant to which shares of Stock of Industries would be converted into cash, securities or other property, other than a merger of Industries in which holders of Stock of Industries 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 (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of Industries, or (iv) there shall have been a change in a majority of the members of the Board of Directors of Industries within a 12-month period unless the election or nomination for election by Industries' 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.

(C) Following an Acceleration Event, the term "Industries" as used in this Agreement shall also include any successor company to Industries, any successor to any affiliate of Industries, and any affiliate of any such successor company.

If you are terminated by Industries within two years after an Acceleration Event, the only basis upon which the Severance Benefits shall not be provided to you is upon a termination of employment for cause.

2. Paragraph 5 (f) is amended to provide as follows:

(f) Termination Allowance Under A Severance Plan or Policy. If you would otherwise ordinarily receive a termination allowance under an Industries' severance plan or termination allowance policy, including, without limitation, the ITT Industries, Inc. Senior Executive Severance Pay Plan, a copy of which is attached hereto as Exhibit I, were you deemed to be covered under and eligible for such Plan, exceeding the amount of base salary remaining under this Agreement at the time of notice by Industries of its intent to terminate your full-time employment, Industries will pay you a termination allowance, in accordance with the terms of the Industries' severance plan or termination allowance policy, in lieu of salary continuation under this Agreement. In no case will both termination allowance and amounts under this Agreement (whether lump sum or salary continuation) be paid.

3. A new Paragraph 5A is added to the Agreement to read as follows:

5A. Termination After An Acceleration Event

Notwithstanding Paragraph 5 hereof, if within two years following an Acceleration Event, your employment with Industries is involuntarily terminated other than for cause or is terminated by you for Good Reason, then Industries will pay you the following severance benefits ("Severance Benefits"):

Severance Pay -- The sum of (x) three times your highest annual base salary rate (as provided in Paragraph 3(a) hereof) (whether or not deferred) at any time during the three year period immediately preceding your termination of employment, and (y) three times the highest bonus paid or awarded (whether or not deferred) to you in respect of the three years preceding an Acceleration Event.

Benefits and Perquisites

-- Continued health and life insurance benefits and perquisites (including, without limitation, any Industries provided automobile and any tax or financial advisory services) for a three year period following your termination of employment at the same cost to you, and at the same coverage levels, provided to you (and your eligible dependents) immediately prior to your termination of employment.

-- Payment of a lump sum amount ("Pension Lump Sum Amount") equal to the difference between (i) the total lump sum value of your pension benefit under the ITT Industries Salaried Retirement Plan, Industries' Excess Pension Plan IA and Industries' Excess Pension Plan IB ("Pension Plans") as of your termination of employment and (ii) the total lump sum value of your pension benefit under the Pension Plans after crediting you with an additional three years of age and three years of eligibility and benefit service to you and applying the annual base salary and highest bonus determined above under "Severance Pay" with respect to each of the additional three years of service so credited for purposes of determining Final Average Compensation under the Pension Plans. The above total lump sum values shall

be determined in the manner provided in such Excess Pension Plans of Industries for determination of lump sum benefits upon the occurrence of an Acceleration Event, as defined in said Plans.

-- Crediting of an additional three years of age and three years of eligibility service for purposes of Industries' retiree health and retiree life insurance benefits.

-- Payment of a lump sum amount ("Savings Plan Lump Sum Amount") equal to three times the following amount: the annual base salary rate determined above under "Severance Pay" times the highest rate of Company Contributions (not to exceed 3 1/2%) with respect to you under the ITT Industries Investment and Savings Plan for Salaried Employees and/or the ITT Industries Excess Savings Plan (including matching contributions and floor contributions) at any time during the three year period immediately preceding your termination of employment.

With respect to the provision of benefits and perquisites during the above described three year period, if, for any reason at any time Industries is unable to treat you as being eligible for ongoing participation in any Industries employee benefit plans or perquisites in existence immediately prior to your termination of employment of and if, as a result thereof, you do not receive a benefit or perquisite or receive a reduced benefit or perquisite, Industries shall provide such benefits or perquisites by (i) direct payment to you of the amounts you would have received from such benefit plan or perquisite you continued to be eligible or (ii) at Industries' option, making available equivalent benefits or perquisites from other sources.

Severance Pay shall be paid in cash, in a non-discounted lump sum within five business days after the date your employment terminates. The Pension Lump Sum Amount and the Savings Plan Lump Sum Amount shall be paid in cash within thirty calendar days after the date your employment terminates.

In cases where Severance Benefits are provided under this Agreement, pay in lieu of any unused current year vacation entitlement will be paid to you in a lump sum, in cash within five business days after the date your employment terminates.

If, upon the termination of your employment after an Acceleration Event, you would otherwise ordinarily receive, under an Industries' severance plan or termination allowance policy, including, without limitation, the ITT Industries, Inc. Senior Executive Severance Pay Plan and the ITT Industries, Inc. Special

Senior Executive Severance Pay Plan, a copy of which is attached hereto as Exhibit II, were you deemed to be covered under and eligible for either of such Plans, (i) severance pay, salary continuation pay, termination pay or similar pay or allowance ("Plan Severance Pay") exceeding the Severance Pay hereunder and/or (ii) employee benefits, perquisites or outplacement services ("Plan Severance Benefits") exceeding the corresponding other Severance Benefits, Industries will pay you or provide to you the Plan Severance Pay and/or the Plan Severance Benefits in lieu of, respectively, the Severance Pay hereunder or the corresponding other Severance Benefits. In no case will both Plan Severance Pay and the Severance Pay hereunder be paid or will both Plan Severance Benefits and the corresponding other Severance Benefits be provided.

Upon the termination your employment after an Acceleration Event, you may elect, in your sole discretion, to receive the base salary and incentive bonus and other compensation and benefits pursuant to Paragraph 5 hereof ("Paragraph 5 Benefit") in lieu of the Severance Benefits and in lieu of any Plan Severance Pay and/or Plan Severance Benefits, whichever is otherwise payable under the preceding paragraph. In no case will both the Paragraph 5 Benefit and the Severance Benefits or the Plan Severance Pay and/or Plan Severance Benefits, whichever is otherwise payable under the preceding paragraph, be paid.

4. Paragraph 13 of the Agreement shall be amended by adding the following at the end thereof:

Industries shall pay all legal fees, costs of litigation, prejudgment interest, and other expenses which are incurred in good faith by you as a result of Industries' refusal to provide any of the Severance Benefits to which you become entitled under this Agreement, or as a result of Industries' (or any third party's) contesting the validity, enforceability, or interpretation of this Agreement, or as a result of any conflict

between you and Industries pertaining to this Agreement. Industries shall pay such fees and expenses from its general assets.

5. A new Paragraph 14 is added to the Agreement, to read as follows:

14. Excise Tax

In the event that it shall be determined that any payment or distribution by Industries to you or for your benefit (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this paragraph 14, such payments or distributions being referred to herein as "Payments") would give rise to your liability for the excise tax imposed by Section 4999 of the Internal Revenue Code, as amended (the "Code"), or that any interest or penalties are incurred by you with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then you shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that after your payment of all Federal, state and local taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income and employment taxes (and any interest and penalties imposed with respect to such taxes) and Excise Tax imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For this purpose, you shall be deemed to be in the highest marginal rate of Federal, state and local taxes. This payment shall be made as soon as possible following the date of your termination of employment, but in no event later than thirty calendar days of such date.

In the event the Gross-Up Payment shall fail to make you whole on an after-tax basis, the Gross-Up Payment shall be recalculated ("Recalculated Gross-Up Payment"), using your actual effective tax rate, once it is known for the calendar year in which the Gross-Up Payment is made, and Industries shall reimburse you for the full amount of any amount by which the Recalculated Gross-Up Payment exceeds the Gross-Up Payment ("Additional Gross-Up Payment").

The Gross-Up Payment and any Additional Gross-Up Payment shall be paid out of the general assets of Industries.

In the event the Internal Revenue Service subsequently adjusts the excise tax computation herein described, Industries shall reimburse you for the full amount necessary to make you whole on an after-tax basis (less any amounts received by you that you would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

6. A new Paragraph 15 is added to the Agreement, to read as follows:

15. Miscellaneous

Severance Benefits under this Agreement are paid entirely by Industries from its general assets.

In the event of your death while any amount is still payable to you hereunder had you continued to live, all such amounts shall be paid in accordance with this Agreement to your designated heirs or, in the absence of such designation, to your estate.

7. Except as hereinabove amended by this First Amendment, the Agreement is hereby ratified and confirmed and the Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this First Amendment to the Agreement, and this First Amendment shall be effective, as of the 11th day of March, 1997.

D. TRAVIS ENGEN

D. Travis Engen

ITT INDUSTRIES, INC.

By: JAMES P. SMITH

James P. Smith
Senior Vice President -- Director,
Human Resources

EXHIBIT 10(h)

DIRECTOR'S INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made as of , 19 between ITT Industries, Inc., an Indiana corporation (the "Corporation"), and (the "Indemnitee").

WITNESSETH THAT:

WHEREAS, it is in the Corporation's best interest to attract and retain capable directors;

WHEREAS, both the Corporation and the Indemnitee recognize the increased risk of litigation and other claims being asserted against directors of public corporations in today's environment;

WHEREAS, it is now and has always been the policy of the Corporation to indemnify the members of its Board of Directors so as to provide them with the maximum possible protection available in accordance with applicable law;

WHEREAS, Article 4 of the Corporation's By-laws and applicable law expressly recognize that the right of indemnification provided therein shall not be exclusive of any other rights to which any indemnified person may otherwise be entitled; and

WHEREAS, the Corporation's By-laws, its Articles of Incorporation and applicable law permit contracts between the Corporation and the members of its Board of Directors covering indemnification;

NOW THEREFORE, the parties hereto agree as follows:

1. Indemnity. In consideration of the Indemnitee's agreement to serve or continue to serve as a Director of the Corporation, or, at the request of the Corporation, as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Designated Director"), for so long as he or she is duly elected and continues to serve in accordance with the Corporation's By-laws, the Corporation hereby agrees to hold the Indemnitee harmless and to indemnify the Indemnitee to the fullest extent permitted by applicable law from and against any and all expenses, liabilities or losses asserted against or incurred by the Indemnitee in his or her capacity as a Director of the Corporation or a Designated Director or arising out of his or her status in either such capacity.

2. Maintenance of Insurance. (a) Subject only to the provisions of Section 2(b) hereof, the Corporation hereby agrees that, so long as the Indemnitee shall continue to serve as a Director of the Corporation, and thereafter so long as the Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that the Indemnitee was a Director of the Corporation, the Corporation will provide insurance coverage comparable to that presently provided under the Corporation's Directors' and Officers' Liability Insurance policies (the "insurance policies") in effect at the date hereof. (b) However, the Corporation shall not be required to maintain all or any of such insurance policies or comparable insurance coverage if, in the business judgment of the Board of Directors of the Corporation, (i) the premium cost for such insurance is substantially disproportionate to the amount of coverage, or (ii) the coverage provided by such insurance is so limited by exclusions that there is insufficient benefit from such insurance or (iii) such insurance is otherwise not reasonably available.

3. Additional Indemnity. Subject only to the exclusions set forth in

Section 4 hereof, the Corporation hereby further agrees to hold harmless and indemnify the Indemnitee:

(1) to the fullest extent provided under Article 4 of the Corporation's By-laws as in effect at the date hereof; and

(2) in the event the Corporation does not maintain in effect the insurance coverage provided under Section 2 hereof, to the full extent of the coverage which would otherwise have been provided for the benefit of the indemnitee pursuant to the insurance policies in effect at the date hereof.

4. Limitations on Additional Indemnity. No indemnity pursuant to Section 3 hereof shall be paid by the Corporation:

(1) except to the extent the aggregate of losses to be indemnified thereunder exceed the amount of such losses for which the Indemnitee is indemnified or insured pursuant to either Section 1 or 2 hereof;

(2) in respect of remuneration paid to, or indemnification of, the Indemnitee, if it shall be determined by a final judgment or other final adjudication that such remuneration or indemnification was or is prohibited by applicable law;

(3) for any transaction from which the Indemnitee derived an improper personal benefit;

(4) for any breach of the Indemnitee's duty to act in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interest of the Corporation; or

(5) in respect of acts or omissions which involve intentional misconduct or a knowing violation of law by the Indemnitee.

5. Continuation of Indemnity. All agreements and obligations of the Corporation contained herein shall continue during the period the Indemnitee is a Director of the Corporation and shall continue thereafter so long as the Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that the Indemnitee was a Director of the Corporation or a Designated Director.

6. Notification and Defense of Claim. Promptly after receipt by the Indemnitee of notice of the commencement of any action, suit or proceeding, the Indemnitee shall, if a claim in respect thereof is to be made against the Corporation under this Agreement, notify the Corporation of the commencement thereof; but an omission so to notify the Corporation will not relieve it from any liability which it may have to the Indemnitee otherwise than under this Agreement, including without limitation, its liability under the Corporation's Articles of Incorporation and By-laws. With respect to any such action, suit or proceeding:

(1) the Corporation shall be entitled to participate therein at its own expense;

(2) except as otherwise provided below, to the extent that it may wish, the Corporation jointly with any other indemnifying party shall be entitled to assume the defense thereof, with counsel satisfactory to the Indemnitee. After notice from the Corporation to the Indemnitee of its election so to assume the defense thereof, the Corporation will not be liable to the Indemnitee under this Agreement for any legal or other expenses subsequently incurred by the Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Indemnitee shall have the right to employ its counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from the Corporation of its

assumption of the defense thereof shall be at the expense of the indemnitee unless (i) the employment of counsel by the Indemnitee has been authorized by the Corporation, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and the Indemnitee in the conduct of the defense of such action, or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Corporation. The Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Corporation or as to which the Indemnitee shall have made the conclusion provided for in (ii) above; and

(3) the Corporation shall not be liable to indemnify the Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Corporation shall not settle any action or claim in any manner that would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. Neither the Corporation nor the Indemnitee will unreasonably withhold their consent to any proposed settlement.

7. Advancement and Repayment of Expenses. Expenses incurred in connection with any action, suit or proceeding involving the Indemnitee and in respect of which a claim is made against

the Corporation under this Agreement shall be paid promptly by the Corporation in advance of the final disposition of such action, suit or proceeding upon written request of the Indemnitee. The Indemnitee agrees that the Indemnitee will reimburse the Corporation for all reasonable expenses advanced, paid or incurred by the Corporation on behalf of the Indemnitee in respect of a claim against the Corporation under this Agreement in the event and only to the extent that it shall be ultimately determined that the Indemnitee is not entitled to be indemnified by the Corporation for such expenses under the provisions of applicable law, the Corporation's Articles of Incorporation, the Corporation's By-laws, this Agreement or otherwise. The Corporation's obligations to advance expenses under this Section 7 shall not be subject to any conditions or requirements not contained in this Section.

8. Enforcement. If a claim under this Agreement is not paid in full by the Corporation within ninety days after a written request has been received by the Corporation, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the Indemnitee shall also be entitled to be reimbursed for all expenses actually and reasonably incurred by the Indemnitee in connection with the prosecution of such claim.

9. Severability. If any provision of this Agreement shall be held to be or shall, in fact, be invalid, inoperative or unenforceable as applied to any particular case or in any particular jurisdiction, for any reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other distinguishable case or jurisdiction, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatsoever. The invalidity, inoperability or unenforceability of any one or more phrases, sentences, clauses or Sections contained in this Agreement shall not affect any other remaining part of this Agreement.

10. Governing Law; Binding Effect; Amendment or Termination. (a) This Agreement shall be governed by and interpreted in accordance with the laws of the State of Indiana.

(b) This Agreement shall be binding upon the Indemnitee and upon the Corporation and its successors and assigns, and shall inure to the benefit of the Indemnitee and his or her heirs, personal representatives, executors and administrators, and to the benefit of the Corporation and its successors and assigns.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ITT INDUSTRIES, INC.

By

Senior Vice President
and General Counsel

Indemnitee

EXHIBIT 10(J)

ITT INDUSTRIES
SPECIAL SENIOR EXECUTIVE SEVERANCE PAY PLAN

1. PURPOSE

The purpose of this ITT Industries Special Senior Executive Severance Pay Plan ("Plan") is to assist in occupational transition by providing Severance Benefits, as defined herein, for employees covered by this Plan whose employment is terminated under conditions set forth in this Plan within two years after an Acceleration Event, as defined herein.

2. COVERED EMPLOYEES

Covered employees under this Plan ("Special Severance Executives") are full-time, regular salaried employees of ITT Industries, Inc. ("ITT Industries") and of any subsidiary company ("ITT Industries Subsidiary") (collectively or individually as the context requires "Company") in Bands A and B at any time within the two year period immediately preceding an Acceleration Event and such other employees of the Company who shall be designated as covered employees thereunder by the Compensation and Personnel Committee of ITT Industries' Board of Directors.

"Bands A and B" shall have the meaning given such terms under the executive classification system of the ITT Industries Human Resources Department as in effect immediately preceding an Acceleration Event. After the occurrence of an Acceleration Event, the terms "ITT Industries", "ITT Industries Subsidiary" and "Company" as used herein shall also include, respectively and as the context requires, any successor company to ITT Industries or any successor company to any ITT Industries Subsidiary and any affiliate of any such successor company.

3. DEFINITIONS

An "Acceleration Event" shall occur if (i) 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 ITT Industries or a subsidiary of ITT Industries or any employee benefit plan sponsored by ITT Industries or a subsidiary of ITT Industries, is the beneficial owner directly or indirectly of twenty percent or more of the outstanding Common Stock, $1 par value, of ITT Industries (the "Stock"); (ii) any person (within the meaning of Section 13(d) of the Act), other than ITT Industries or a subsidiary of ITT Industries, or any employee benefit plan sponsored by ITT Industries or a subsidiary of ITT Industries, shall purchase shares pursuant to a tender offer or exchange offer to acquire any Stock of ITT Industries (or securities convertible into 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 Stock of ITT Industries (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire Stock); (iii) the stockholders of ITT Industries shall approve (A) any consolidation or merger of ITT Industries in which ITT Industries is not the continuing or surviving corporation or pursuant to which shares of Stock of ITT Industries would be converted into cash, securities or other property, other than a merger of ITT Industries in which holders of Stock of ITT Industries 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 (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of ITT Industries, or (iv) there shall have been a change in a majority of the members of the Board of Directors of ITT Industries within a 12-month period unless the election or nomination for election by ITT Industries' 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.

"Cause" shall mean action by the Special Severance Executive involving willful malfeasance or gross negligence or the Special Severance Executive's failure to act involving material nonfeasance that would tend to have a materially adverse effect on the Company. No act or omission on the part of the Special

Severance Executive shall be considered "willful" unless it is done or omitted in bad faith or without reasonable belief that the action or omission was in the best interests of the Company.

"Good Reason" shall mean (i) without the Special Severance Executive's express written consent and excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company or its affiliates promptly after receipt of notice thereof given by the Special Severance Executive, (A) a reduction in the Special Severance Executive's annual base salary (whether or not deferred) or annual bonus (as measured by the highest bonus paid or awarded, whether or not deferred, in respect of the three calendar years preceding an Acceleration Event, including, among the bonuses taken into account for this purpose, any bonus paid or awarded by reason of an Acceleration Event, without regard to whether such bonus is paid, whether or not deferred, during such three year period or after an Acceleration Event) or any reduction in any material compensation or benefits arrangement, (B) the assignment to the Special Severance Executive of any duties inconsistent in any respect with the Special Severance Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or (C) any other action by the Company or its affiliates which results in a diminution in such position, authority, duties or responsibilities; (ii) without the Special Severance Executive's express written consent, the Company's requiring the Special Severance Executive's work location to be other than within twenty-five (25) miles of the location where such Special Severance Executive was principally working immediately prior to the Acceleration Event; or (iii) any failure by the Company to obtain the express written assumption of this Plan from any successor to the Company.

4. SEVERANCE BENEFITS UPON TERMINATION OF EMPLOYMENT

If, within two years after an Acceleration Event, the Company terminates the employment of a Special Severance Executive other than for Cause or if the Special Severance Executive terminates his or her employment for Good Reason, he or she shall receive the severance benefits set forth in Section 5 hereof ("Severance Benefits"). For purposes hereof, a determination by a Special Severance Executive that he or she has "Good Reason" hereunder shall be final and binding on the parties hereto absent a showing of bad faith on the Special Severance Executive's part.

5. SEVERANCE BENEFITS

Severance Benefits for Special Severance Executives in Band A:

Severance Pay -- The sum of (x) three times the highest annual base salary rate paid (whether or not deferred) to the Special Severance Executive at any time during the three year period immediately preceding the Special Severance Executive's termination of employment, and (y) three times the highest bonus paid or awarded (whether or not deferred) to the Special Severance Executive in respect of the three years preceding an Acceleration Event, including, among the bonuses taken into account for this purpose, any bonus paid or awarded by reason of an Acceleration Event, without regard to whether such bonus is paid (whether or not deferred) during such three year period or after an Acceleration Event.

Benefits and Perquisites

-- Continued health and life insurance benefits and perquisites (including, without limitation, any Company provided automobile and any tax or financial advisory services) for a three year period following the Special Severance Executive's termination of employment at the same cost to the Special Severance Executive, and at the same coverage levels, as provided to the Special Severance Executive (and the Special Severance Executive's eligible dependents) immediately prior to his or her termination of employment.

-- Payment of a lump sum amount ("Pension Lump Sum Amount") equal to the difference between (i) the total lump sum value of the Special Severance Executive's pension benefit under the ITT Industries Salaried Retirement Plan and, as applicable, Excess Pension Plan IA, Excess Pension Plan IB and/or Excess Pension Plan II of the Company (or corresponding pension arrangements outside the United States) ("Pension Plans") as of the Special Severance Executive's termination of employment and (ii) the total lump sum value of the Special Severance Executive's pension benefit under the Pension Plans after crediting an additional three years of age and three years of eligibility and benefit service to

the Special Severance Executive and applying the highest annual base salary rate and highest bonus determined above under "Severance Pay" with respect to each of the additional three years of service so credited for purposes of determining Final Average Compensation under the Pension Plans. The above total lump sum values shall be determined in the manner provided in the Excess Pension Plans of the Company for determination of lump sum benefits upon the occurrence of an Acceleration Event, as defined in said Plans. This provision shall apply to any Special Severance Executive having a pension benefit under any of the Pension Plans as of the Special Severance Executive's termination of employment.

-- Crediting of an additional three years of age and three years of eligibility service for purposes of the Company's retiree health and retiree life insurance benefits. This provision shall apply to any Special Severance Executives covered under such benefits any time during the three year period immediately preceding the Special Severance Executive's termination of employment.

-- Payment of a lump sum amount ("Savings Plan Lump Sum Amount") equal to three times the following amount: the highest annual base salary rate determined above under "Severance Pay" times the highest percentage rate of Company Contributions (not to exceed 3 1/2%) with respect to the Special Severance Executive under the ITT Industries Investment and Savings Plan for Salaried Employees and/or the ITT Industries Excess Savings Plan (or corresponding savings plan arrangements outside the United States) ("Savings Plans") (including matching contributions and floor contributions) at any time during the three year period immediately preceding the Special Severance Executive's termination of employment. This provision shall apply to any Special Severance Executive who is a member of any of the Savings Plans at any time during such three year period.

Outplacement -- Outplacement services for one year.

Severance Benefits for Special Severance Executives in Band B:

Severance Pay -- The sum of (x) two times the highest annual base salary rate paid (whether or not deferred) to the Special Severance Executive at any time during the three year period immediately preceding the Special Severance Executive's termination of employment and (y) two times the highest bonus paid or awarded (whether or not deferred) to the Special Severance Executive in respect of the three years preceding an Acceleration Event, including, among the bonuses taken into account for this purpose, any bonus paid or awarded by reason of an Acceleration Event, without regard to whether such bonus is paid (whether or not deferred) during such three year period or after an Acceleration Event.

Benefits and Perquisites

-- Continued health and life insurance benefits and perquisites (including, without limitation, any Company provided automobile and any tax or financial advisory services) for a two year period following the Special Severance Executive's termination of employment at the same cost to the Special Severance Executive, and at the same coverage levels, as provided to the Special Severance Executive (and the Special Severance Executive's eligible dependents) immediately prior to his or her termination of employment.

-- Payment of a lump sum amount ("Pension Lump Sum Amount") equal to the difference between (i) the total lump sum value of the Special Severance Executive's pension benefit under the ITT Industries Salaried Retirement Plan and, as applicable, Excess Pension Plan IA, Excess Pension Plan IB and/or Excess Pension Plan II of the Company (or corresponding pension arrangements outside the United States) ("Pension Plans") as of the Special Severance Executive's termination of employment and (ii) the total lump sum value of the Special Severance Executive's pension benefit under the Pension Plans after crediting an additional two years of age and two years of eligibility and benefit service to the Special Severance Executive and applying the highest annual base salary rate and highest bonus determined above under "Severance Pay" with respect to each of the additional two years of service so credited for purposes of determining Final Average Compensation under the Pension Plans. The above total lump sum values shall be determined in the manner provided in the Excess Pension Plans of the Company for determination of lump sum benefits upon the occurrence of an Acceleration Event, as defined in said Plans. This provision shall apply to any Special Severance Executive having a pension

benefit under any of the Pension Plans as of the Special Severance Executive's termination of employment.

-- Crediting of an additional two years of age and two years of eligibility service for purposes of the Company's retiree health and retiree life insurance benefits. This provison shall apply to any Special Severance Executives covered under such benefits any time during the three year period immediately preceding the Special Severance Executive's termination of employment.

-- Payment of a lump sum amount ("Savings Plan Lump Sum Amount") equal to two times the following amount: the highest annual base salary rate determined above under "Severance Pay" times the highest percentage rate of Company Contributions (not to exceed 3 1/2%) with respect to the Special Severance Executive under the ITT Industries Investment and Savings Plan for Salaried Employees and/or the ITT Industries Excess Savings Plan (or corresponding savings plan arrangements outside the United States) ("Savings Plans") (including matching contributions and floor contributions) at any time during the three year period immediately preceding the Special Severance Executive's termination of employment. This provision shall apply to any Special Severance Executive who is a member of any of the Savings Plans at any time during such three year period.

Outplacement -- Outplacement services for one year.

With respect to the provision of benefits and perquisites during the above described respective three and two year periods, if, for any reason at any time the Company is unable to treat the Special Severance Executive as being eligible for ongoing participation in any Company employee benefit plans or perquisites in existence immediately prior to the termination of employment of the Special Severance Executive, and if, as a result thereof, the Special Severance Executive does not receive a benefit or perquisite or receives a reduced benefit or perquisite, the Company shall provide such benefits or perquisites by (i) direct payment to the Special Severance Executive of the amounts the Special Severance Executive would have received from such benefit plan or perquisite had the Special Severance Executive continued to be eligible or (ii) at the Company's option, making available equivalent benefits or perquisites from other sources.

6. FORM OF PAYMENT OF SEVERANCE PAY AND LUMP SUM PAYMENTS

Severance Pay shall be paid in cash, in a non-discounted lump sum within five business days after the date the employment of the Special Severance

Executive terminates. The Pension Lump Sum Amount and the Savings Plan Lump Sum Amount shall be paid in cash within thirty calendar days after the date the employment of the Special Severance Executive terminates.

7. TERMINATION OF EMPLOYMENT FOR CAUSE

The only basis upon which the Severance Benefits shall not be provided to a Special Severance Executive terminated by the Company within two years after an Acceleration Event is upon a termination of employment for Cause, as defined herein.

8. ADMINISTRATION OF PLAN

This Plan shall be administered by ITT Industries, who shall have the exclusive right to interpret this Plan, adopt any rules and regulations for carrying out this Plan as may be appropriate and decide any and all matters arising under this Plan, including but not limited to the right to determine appeals. Subject to applicable Federal and state law, all interpretations and decisions by ITT Industries shall be final, conclusive and binding on all parties affected thereby.

Notwithstanding the preceding paragraph, following an Acceleration Event, any controversy or claim arising out of or relating to this Plan, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules and the entire cost thereof shall be borne by the Company. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The Company shall pay all legal fees, costs of litigation, prejudgment interest, and other expenses which are incurred in good faith by the Special Severance Executive as a result of the Company's refusal to provide any of the Severance Benefits to which the Special Severance

Executive becomes entitled under this Plan, or as a result of the Company's (or any third party's) contesting the validity, enforceability, or interpretation of this Plan, or as a result of any conflict between the Special Severance Executive and the Company pertaining to this Plan. The Company shall pay such fees and expenses from the general assets of the Company.

9. TERMINATION OR AMENDMENT

ITT Industries may terminate or amend this Plan ("Plan Change") at any time except, that following an Acceleration Event, no Plan Change that would adversely affect any Special Severance Executive may be made without the prior written consent of such Special Severance Executive affected thereby.

10. OFFSET

Any Severance Benefits provided to a Special Severance Executive under this Plan shall be offset by reducing (x) any Severance Pay hereunder by any severance pay, salary continuation pay, termination pay or similar pay or allowance and (y) any other Severance Benefits hereunder by corresponding employee benefits, perquisites or outplacement services, which the Special Severance Executive receives or is entitled to receive, (i) under the ITT Industries, Inc. Senior Executive Severance Pay Plan; (ii) pursuant to any other Company policy, practice, program or arrangement; (iii) pursuant to any Company employment agreement or other agreement with the Company; or (iv) by virtue of any law, custom or practice excluding, however, any unemployment compensation in the United States, unless the Special Severance Executive voluntarily expressly waives (which the Special Severance Executive shall have the exclusive right to do) in writing any such respective entitlement.

11. EXCISE TAX

In the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Special Severance Executive (whether paid or payable or distributed or distributable pursuant to the terms of this

Plan or otherwise, but determined without regard to any additional payments required under this paragraph 11, such payments or distributions being referred to herein as "Payments") would give rise to liability of the Special Severance Executive for the excise tax imposed by Section 4999 of the Internal Revenue Code, as amended (the "Code"), or that any interest or penalties are incurred by the Special Severance Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Special Severance Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that after payment by the Special Severance Executive of all Federal, state and local taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income and employment taxes (and any interest and penalties imposed with respect to such taxes) and Excise Tax imposed upon the Gross-Up Payment, the Special Severance Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For this purpose, the Special Severance Executive shall be deemed to be in the highest marginal rate of Federal, state and local taxes. This payment shall be made as soon as possible following the date of the Special Severance Executive's termination of employment, but in no event later than thirty calendar days of such date.

In the event the Gross-Up Payment shall fail to make the Special Severance Executive whole on an after-tax basis, the Gross-Up Payment shall be recalculated ("Recalculated Gross-Up Payment"), using the Special Severance Executive's actual effective tax rate, once it is known for the calendar year in which the Gross-Up Payment is made, and the Company shall reimburse the Special Severance Executive for the full amount of any amount by which the Recalculated Gross-Up Payment exceeds the Gross-Up Payment ("Additional Gross-Up Payment") .

The Gross-Up Payment and any Additional Gross-Up Payment shall be paid out of the general assets of the Company.

In the event the Internal Revenue Service subsequently adjusts the excise tax computation herein described, the Company shall reimburse the Special Severance Executive for the full amount necessary to make the Special Severance Executive whole on an after-tax basis (less any amounts received by the Special Severance Executive that the Special Severance Executive would not have received had the

computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

12. MISCELLANEOUS

The Special Severance Executive shall not be entitled to any notice of termination or pay in lieu thereof.

In cases where Severance Benefits are provided under this Plan, pay in lieu of any unused current year vacation entitlement will be paid to the Special Severance Executive in a lump sum, in cash within five business days after the date the employment of the Special Severance Executive terminates.

Severance Benefits under this Plan are paid entirely by the Company from its general assets.

This Plan is not a contract of employment, does not guarantee the Special Severance Executive employment for any specified period and does not limit the right of the Company to terminate the employment of the Special Severance Executive at any time.

If a Special Severance Executive should die while any amount is still payable to the Special Severance Executive hereunder had the Special Severance Executive continued to live, all such amounts shall be paid in accordance with this Plan to the Special Severance Executive's designated heirs or, in the absence of such designation, to the Special Severance Executive's estate.

The numbered section headings contained in this Plan are included solely for convenience of reference and shall not in any way affect the meaning of any provision of this Plan.

If, for any reason, any one or more of the provisions or part of a provision contained in this Plan shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of a provision of this Plan not held so invalid, illegal or unenforceable, and each other provision or part of a provision shall to the full extent consistent with law remain in full force and effect.

13. ADOPTION DATE

This Plan was adopted by ITT Industries on March 11, 1997 ("Adoption Date") and does not apply to any termination of employment which occurred or which was communicated to the Special Severance Executive prior to the Adoption Date.

EXHIBIT 10(l)

ITT INDUSTRIES, INC. 1996 RESTRICTED STOCK PLAN FOR NON-EMPLOYEE DIRECTORS

ARTICLE I -- PLAN ADMINISTRATION AND ELIGIBILITY

1.1 PURPOSE

The purpose of the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors (the "Plan") is to attract and retain persons of ability as directors of ITT Industries, Inc. (the "Company") and to provide them with a closer identity with the interests of the Company's stockholders by paying the Annual Retainer in common stock of the Company.

1.2 ADMINISTRATION

The Plan shall be administered by the Compensation and Personnel Committee of the Board of Directors (hereinafter referred to as the "Committee"). The Committee shall have the responsibility of interpreting the Plan and establishing and amending such rules and regulations necessary or appropriate for the administration of the Plan. All interpretations of the Plan or any Restricted Stock awards issued under it shall be final and binding upon all persons having an interest in the Plan. No member of the Committee shall be liable for any action or determination taken or made in good faith with respect to this Plan or any award granted hereunder.

1.3 ELIGIBILITY

Directors of the Company who are not employees of the Company or any of its subsidiaries shall be eligible to participate in the Plan.

1.4 STOCK SUBJECT TO THE PLAN

(a) The maximum number of shares which may be granted under the Plan shall be 100,000 shares of common stock of the Company (the "Stock").

(b) If any Restricted Stock is forfeited by a Director in accordance with the provisions of Section 2.2(c), such shares of Restricted Stock shall be restored to the total number of shares available for grant pursuant to the Plan.

(c) Upon the grant of a Restricted Stock award the Company may distribute newly issued shares or treasury shares.

ARTICLE II -- RESTRICTED STOCK

2.1 RESTRICTED STOCK AWARDS

Restricted Stock awards shall be made automatically on the date of the Annual Meeting of Stockholders, to each Director elected at the meeting or continuing in office following the meeting. The award shall equal the number of whole shares arrived at by dividing the Annual Retainer that is in effect for the calendar year within which the award date falls, by the Fair Market Value of the Company's common stock. Fractional shares shall be paid in cash.

(a) "Annual Retainer" shall mean the amount that is payable to a Director for service on the Board of Directors during the calendar year. Annual Retainer shall not include fees paid for attendance at any Board or Committee meeting.

(b) "Fair Market Value" shall mean the average of the high and low prices per share of the Company's common stock on the date of the Annual Meeting, as reported by the New York Stock Exchange Composite Tape.

2.2 TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS

(a) Written Agreement -- Each Restricted Stock award shall be evidenced by a written agreement delivered to the Director in such form as the Committee shall prescribe. Such agreement shall include the restrictions described under Section 2.2(c) and any other restrictions and conditions on the shares as the Committee deems appropriate.

(b) Shares held in Escrow -- The Restricted Stock subject to such award shall be registered in the name of the Director and held in escrow by the Committee until the restrictions on such shares lapse as described below.

(c) Restrictions -- Restricted Stock granted to a Director may not be sold, assigned, transferred, pledged or otherwise disposed of, except by will or the laws of descent and distribution, prior to the earliest of the following dates:

(1) The fifth anniversary of the date of grant.

(2) Retirement from the Board at age 72.

(3) "Change in Control" of the Company. A "Change in Control" shall be deemed to have occurred if:

(i) 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 Company or a subsidiary of the Company or any employee benefit plan sponsored by the Company or a subsidiary of the Company, is the beneficial owner directly or indirectly of twenty percent or more of the outstanding Stock of the Company;

(ii) any person (within the meaning of Section 13(d) of the Act), other than the Company or a subsidiary of the Company or any employee benefit plan sponsored by the Company or a subsidiary of the Company, shall purchase shares pursuant to a tender offer or exchange offer to acquire any Stock of the Company (or securities convertible into 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 Stock of the Company (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire Stock);

(iii) the stockholders of the Company shall approve (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Stock of the Company would be converted into cash, securities or other property, other than a merger of the Company in which holders of Stock of the Company 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 (B) 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 Company; or

(iv) there shall have been a change in a majority of the members of the Board within a 12-month period unless the election or nomination for election by the Company'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.

(4) Death of the Director.

(5) Disability of the Director.

(6) Termination of service from the Board on account of (i) a physical or mental condition that, in the opinion of a qualified physician, is expected to impede the director's ability to fulfill his or her principal duties for a period of at least three months; (ii) the relocation of the Director's principal place of business to a location that increases the time required for such Director to travel to the Company's headquarters by more than 50%; (iii) the acceptance by the Director of a position (other than an honorary position) in the government of the United States, any State or any municipality or

any subdivision thereof or any organization performing any quasi-governmental function; or (iv) any circumstances which, in the opinion of outside counsel to the Company, would (or could reasonably be expected to) conflict with applicable law or any written policy of the Company.

(d) Dividends and Voting Rights -- The Director shall, subject to Section 2.2(c), possess all incidents of ownership of the shares of Restricted Stock including the right to receive dividends with respect to such shares and to vote such shares.

(e) The Company shall deliver to the Director, or the beneficiary of such Director, if applicable, all of the shares of Stock that were awarded to the Director as Restricted Stock, within 30 days following the lapse of restrictions as described under Section 2.2(c). If the Director discontinues serving on the Board prior to the date upon which restrictions lapse as described under Section 2.2(c), such Director's Restricted Stock will be forfeited by the Director and transferred to and reacquired by the Company at no cost to the Company.

ARTICLE III -- GENERAL PROVISIONS

3.1 AUTHORITY

Appropriate officers of the Company designated by the Committee are authorized to execute Restricted Stock agreements, and amendments thereto, in the name of the Company, as directed from time to time by the Committee.

3.2 ADJUSTMENTS IN THE EVENT OF CHANGE IN COMMON STOCK OF THE COMPANY

In the event of any reorganization, merger, recapitalization, consolidation, liquidation, stock dividend, stock split, reclassification, combination of shares, rights offering, split-up, or extraordinary dividend (including a spin-off) or divestiture, or any other change in the corporate structure or shares, the number and kind of shares which thereafter may be granted under the Plan and the number of shares of Restricted Stock awarded pursuant to Section 2.1 with respect to which all restrictions have not lapsed, shall be appropriately adjusted consistent with such change in such manner as the Board in its discretion may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Directors participating in the Plan. Any fractional shares resulting from such adjustments shall be eliminated.

3.3 RIGHTS OF DIRECTORS

The Plan shall not be deemed to create any obligation on the part of the Board to nominate any Director for reelection by the Company's stockholders or to retain any Director at any particular rate of compensation. The Company shall not be obligated to issue Stock pursuant to an award of Restricted Stock for which the restrictions hereunder have lapsed if such issuance would constitute a violation of any applicable law. Except as provided herein, no Director shall have any rights as a stockholder with respect to any shares of Restricted Stock awarded to him.

3.4 BENEFICIARY

A Director may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, amend or revoke such designation. In the event of the death of a Director, his beneficiary shall have the right to receive the shares of Restricted Stock awarded pursuant to the Plan. If no designated beneficiary survives the Director, the executor or administrator of the Director's estate shall be deemed to be the Director's beneficiary.

3.5 LAWS AND REGULATIONS

The Committee shall have the right to condition any issuance of shares to any Director hereunder on such Director's undertaking in writing to comply with such restrictions on the subsequent disposition of such shares as the Committee shall deem necessary or advisable as a result of any applicable law or regulation. The Committee may postpone the delivery of Stock following the lapse of restrictions with respect to awards of Restricted Stock for such time as the Committee in its discretion may deem

necessary, in order to permit the Company with reasonable diligence (i) to effect or maintain registration of the Plan, or the shares issuable upon the lapse of certain restrictions respecting awards of Restricted Stock, under the Securities Act of 1933 or the securities laws of any applicable jurisdiction, or (ii) to determine that such shares and the Plan are exempt from such registration; the Company shall not be obligated by virtue of any Restricted Stock agreement or any provision of the Plan to recognize the lapse of certain restrictions respecting awards of Restricted Stock or issue shares in violation of said Act or of the law of the government having jurisdiction thereof.

3.6 AMENDMENT, SUSPENSION AND DISCONTINUANCE OF THE PLAN

The Board may from time to time amend, suspend or discontinue the Plan, provided that the Board may not, without the approval of the holders of a majority of the outstanding shares entitled to vote, take any action which would cause the Plan to no longer comply with Rule 16b-3 under the Act, or any successor rule or other regulatory requirement.

No amendment, suspension or discontinuance of the Plan shall impair a Director's right under a Restricted Stock award previously granted to him without his consent.

3.7 GOVERNING LAW

This Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of New York.

3.8 EFFECTIVE DATE AND DURATION OF THE PLAN

This Plan shall be effective upon the Distribution Date (as defined in the Proxy Statement of ITT Corporation dated August 30, 1995) subject to the approval of the Plan by the stockholders of ITT Corporation, and shall terminate on December 31, 2005, provided that grants of Restricted Stock made prior to the termination of the Plan may vest following such termination in accordance with their terms.

EXHIBIT 11

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CALCULATION OF EARNINGS PER SHARE
(IN MILLIONS, EXCEPT PER SHARE DATA)

	1996	1995	1994
Primary Basis --			
Net income	$222.6	$707.9	$1,021.8
ESOP preferred dividends -- net of tax	--	(17.2)	(34.1)
Dividend requirement on other preferred stock	--	(.6)	(1.2)
Preferred dividends on common stock equivalents	--	.6	1.2
Net income applicable to primary earnings per share	$222.6	$690.7	$ 987.7
Average common shares outstanding	117.9	110.6	114.0
Common shares issuable in respect to common stock equivalents	2.5	1.5	1.2
Average common equivalent shares	120.4	112.1	115.2
Earnings Per Share			
Continuing operations	$ 1.85	$ .03	$ 1.46
Discontinued operations	--	8.87	7.21
Extraordinary item	--	(2.74)	--
Cumulative effect of accounting changes	--	--	(.10)
Net income	$ 1.85	$ 6.16	$ 8.57
Fully Diluted Basis --			
Net income applicable to primary earnings per share	$222.6	$690.7	$ 987.7
ESOP preferred dividends -- net of tax	--	17.2	34.1
If converted ESOP expense adjustment -- net of tax benefit	--	(9.9)	(20.0)
Net income applicable to fully diluted earnings per share	$222.6	$698.0	$1,001.8
Average common equivalent shares	120.4	112.1	115.2
Additional common shares issuable assuming full dilution	--	5.6	9.7
Average common equivalent shares assuming full dilution	120.4	117.7	124.9
Earnings Per Share			
Continuing operations	$ 1.85	$ .09	$ 1.46
Discontinued operations	--	8.45	6.65
Extraordinary item	--	(2.61)	--
Cumulative effect of accounting changes	--	--	(.09)
Net income	$ 1.85	$ 5.93	$ 8.02

In 1995 and 1994, the Series N convertible preferred stock was considered a common stock equivalent. With respect to options, it is assumed that the proceeds received upon exercise are used to acquire common stock of the Corporation. The dilutive nature of securities is determined quarterly based on the forecast of annual earnings.

EXHIBIT 12

ITT INDUSTRIES, INC. AND SUBSIDIARIES

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

	YEARS ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
Earnings:					
Income from continuing operations	$222.6	$ 20.7	$201.6	$134.8	$ 655.0
Add (deduct):					
Adjustment for distributions in excess of (less than) undistributed equity earnings and losses(a)	1.9	.6	--	(2.6)	(30.8)
Income taxes	148.4	50.2	147.5	65.1	311.3
Amortization of interest capitalized	.9	2.5	.7	3.9	2.7
	373.8	74.0	349.8	201.2	938.2
Fixed Charges:					
Interest and other financial charges	169.0	175.2	115.2	154.0	180.0
Interest factor attributable to rentals(b)	30.9	29.0	22.0	24.2	24.8
	199.9	204.2	137.2	178.2	204.8
Earnings, as adjusted, from continuing operations	$573.7	$278.2	$487.0	$379.4	$1,143.0
Fixed Charges:					
Fixed charges above	$199.9	$204.2	$137.2	$178.2	$ 204.8
Interest capitalized	1.1	2.9	6.8	8.0	11.6
Total fixed charges	201.0	207.1	144.0	186.2	216.4
Dividends on preferred stock (pre-income tax basis)(c)	--	23.4	47.5	50.0	63.0
Total fixed charges and preferred dividend requirements	$201.0	$230.5	$191.5	$236.2	$ 279.4
Ratios:					
Earnings, as adjusted, from continuing operations to total fixed charges	2.85	1.34	3.38	2.04	5.28
Earnings, as adjusted, from continuing operations to total fixed charges and preferred dividend requirements	2.85	1.21	2.54	1.61	4.09

Notes:

a) The adjustment for distributions in excess of (less than) undistributed equity earnings and losses represents the adjustment to income for distributions in excess of (less than) undistributed earnings and losses of 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 interest factor in rental expense.

c) The dividend requirements on preferred stock have been determined by adding to the total preferred dividends an allowance for income taxes, calculated at the effective income tax rate.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

NAME	JURISDICTION IN WHICH ORGANIZED	PARENT	PERCENTAGE OF VOTING SECURITIES OWNED	WHOLLY-OWNED DIRECT OR INDIRECT SUBSIDIARIES: OPERATING IN THE UNITED STATES	WHOLLY-OWNED DIRECT OR INDIRECT SUBSIDIARIES: OPERATING IN FOREIGN COUNTRIES
ITT Industries, Inc. ("ITT Industries")	Indiana	--	--	68	67
International Standard Electric Corporation ("ISEC")	Delaware	ITT Industries	100	1	51
ITT Delaware Investments, Inc. ("Delaware")	Delaware	ISEC	100	--	3
ITT Industries Europe GmbH ("Europe")	Germany	50% Delaware 50% ISEC	100	--	--
ITT Automotive Czech Republic	Czech Republic	Europe	100	--	--
ITT Automotive Hungary Kft	Hungary	Europe	100	--	--
ITT Composants et Instruments S.A.	France	Europe	100	--	1
ITT Flygt AB	Sweden	Europe	100	--	15
ITT Gesellschaft fur Beteiligungen mbH ("ITTG")	Germany	Europe	99.5	--	22
ITT Automotive Europe GmbH ("ITT AUTO")	Germany	ITTG	100	--	6
ITT Reiss International GmbH	Germany	ITT AUTO	100	--	--
ITT Industriebeteiligungsgesellschaft mbH	Germany	ITTG	100	--	3
ITT Richter Chemie-Technik Gmbh	Germany	ITTG	100	--	3
ITT Industries (China) Investment Company, Limited	China	ISEC	100	1	1
ITT Industries Limited ("ITTUK")	England	ISEC	100	--	3
ITT Automotive (UK)	England	ITTUK	100	--	--
ITT Defence Ltd	England	ITTUK	100	--	--
ITT Datacommunications Ltd	England	ITTUK	100	--	--
ITT Automotive Enterprises, Inc	Delaware	ITT Industries	100	3	2
ITT Automotive, Inc.*	Delaware	ITT Industries	100	2	2
ITT Canada Limited ("Canada")	Canada	ITT Industries	100	--	1
ITT Industries of Canada Limited	Canada	Canada	100	--	--
ITT Defense & Electronics**		ITT Industries	100	--	--
ITT Federal Services Corporation	Delaware	ITT Industries	100	11	2
ITT Schadow Inc.	Minnesota	ITT Industries	100	--	1
ITT Fluid Technology***		ITT Industries	100	--	--
ITT Fluid Technology International	Delaware	ITT Industries	100	--	3
ITT Flygt Corporation	Delaware	ITT Industries	100	--	2
ITT Manufacturing Enterprises, Inc. ("ITTME")	Delaware	ITT Industries	100	--	2
ITTG	Germany	ITTME	.5	--	--
ITT Resource Development Corporation ("ITTRDC")	Delaware	ITT Industries	100	27	--
Carbon Industries, Inc.	West Virginia	ITTRDC	100	14	--
ITT Community Development Corporation	Delaware	ITTRDC	100	11	--
Computer Equipment & Leasing Corporation	Wisconsin	ITT Industries	100	--	--
Gilcron Corporation	Delaware	ITT Industries	100	--	--
Palm Coast Utility Corporation	Florida	ITT Industries	100	--	--

---

See notes on following page.

EXHIBIT 21
CONTINUED

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

* Businesses under ITT Automotive:
Aimco Industries Inc.
Alfred Teves Technologies

Allwork Manufacturing Company
Baylock Manufacturing Company
Hisan, Inc.
ITT AES Enterprises, Inc.
ITT Automotive Electrical Systems, Inc.
ITT Hancock Industries
ITT Higbie Manufacturing Co.
Korea Advanced Brake System
P.E.A. Industrial S.A. de C.V.
Rochester Form Machine

** Businesses under ITT Defense & Electronics:
Avcron Incorporated
Cannon Electric Italiana S.P.A.
Electrix Corporation
Gilcron Corporation
ITT Aerospace/Communications Division
ITT Arctic Services, Inc.
ITT Avionics Division
ITT Cannon Division
ITT Cannon International, Inc.
ITT Cannon Mexico, Inc.
ITT DCD Saudi Arabia, Inc.
ITT Defense & Electronics Division
ITT Federal Services Corporation
ITT Gallium Arsenide Tech Center Division
ITT Gilfillan Division
ITT Gilfillan Inc.
ITT Night Vision Division
ITT Pomona Division
ITT Semiconductors Division
ITT Schadow Inc.
Sealectro International, Inc.

*** Businesses under ITT Fluid Technology:
ITT Aerospace Controls Division
ITT Controls and Instruments Division
ITT Fluid Technology Division
ITT Fluid Technology International
ITT Fluid Transfer Division
ITT FTC Manufacturing Division
ITT Grindex Pump Division
Flygt Holdings Pty Limited
ITT Flygt Corporation

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. 33-5412, 33-6004, 33-53771, 333-1109 and 333-04611).

ARTHUR ANDERSEN LLP

Stamford, Connecticut
March 26, 1997

<ARTICLE> 5
<LEGEND>
This schedule contains summary financial information extracted from the December 31, 1996 Financial Statements included in Form 10-K and is qualified in its entirety by reference to such Financial Statements.
</LEGEND>
<MULTIPLIER> 1,000

<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-START>	JAN-01-1996
<PERIOD-END>	DEC-31-1996
<CASH>	121,900
<SECURITIES>	0
<RECEIVABLES>	1,226,800
<ALLOWANCES>	37,000
<INVENTORY>	856,900
<CURRENT-ASSETS>	2,289,100
<PP&E>	5,091,800
<DEPRECIATION>	2,925,100
<TOTAL-ASSETS>	5,491,200
<CURRENT-LIABILITIES>	2,538,400
<BONDS>	583,200
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	118,400
<OTHER-SE>	680,800
<TOTAL-LIABILITY-AND-EQUITY>	5,491,200
<SALES>	8,718,100
<TOTAL-REVENUES>	8,718,100
<CGS>	6,948,400
<TOTAL-COSTS>	7,483,600
<OTHER-EXPENSES>	726,100
<LOSS-PROVISION>	3,700
<INTEREST-EXPENSE>	169,000
<INCOME-PRETAX>	371,000
<INCOME-TAX>	148,400
<INCOME-CONTINUING>	222,600
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	222,600
<EPS-PRIMARY>	1.85
<EPS-DILUTED>	1.85