Dear Fellow Shareholders:

ITT Educational Services, Inc. (“ITT/ESI”) produced record operational and financial results in 2003, as evidenced by a 35.1 percent increase in earnings per share (“EPS”) to $1.27 compared to $0.94 in 2002. New student enrollment at the ITT Technical Institutes in 2003 increased 16.6 percent to 35,880 compared to 30,761 in 2002 as a result of our 10-Point Growth Plan gaining traction. Elements of the 10-Point Growth Plan are as follows:

1. Increase enrollment in existing programs of study offered at existing ITT Technical Institutes.
2. Open new college locations.
3. Open learning sites to supplement enrollment growth at existing campuses.
4. Raise the program offerings to the bachelor degree level at additional colleges.
5. Develop and offer new degree programs in various fields of technology.
6. Research, develop and offer non-technology degree programs.
7. Increase the number of degree programs offered entirely online via distance education.
8. Expand the use of the 2+1 hybrid delivery model.
9. Seek international growth opportunities.
10. Evaluate the potential of offering non-degree programs of study.

This is a summary of our 2003 financial and operational achievements compared to 2002 and the compound annual growth rate (“CAGR”) associated with those achievements since becoming a public company in 1994.

<table>
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<th>2003</th>
<th>Increase Compared to 2002</th>
<th>CAGR 1994-2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues*</td>
<td>$ 522.9</td>
<td>15.1%</td>
<td>12.4%</td>
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<tr>
<td>Operating Income*</td>
<td>$ 94.5</td>
<td>38.4%</td>
<td>26.0%</td>
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<tr>
<td>Net Income*</td>
<td>$ 58.9</td>
<td>34.2%</td>
<td>26.3%</td>
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<tr>
<td>EPS (fully diluted)</td>
<td>$ 1.27</td>
<td>35.1%</td>
<td>25.9%</td>
</tr>
<tr>
<td>New Students</td>
<td>35,880</td>
<td>16.6%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Total Student Enrollment (as of 12/31/03)</td>
<td>36,901</td>
<td>13.6%</td>
<td>6.7%</td>
</tr>
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</table>

*$ in millions

Rene R. Champagne, (left)  
Chairman and Chief Executive Officer

Omer E. Waddles,  
President and Chief Operating Officer
In October, 2003 Forbes magazine named the company as one of its “200 Hot Growth Stocks” for the fourth consecutive year. Business Week magazine named ITT/ESI as one of its “Hot Small Cap” stocks in June, 2003 for the second consecutive year and one of its “50 Best Performing” stocks in the spring of 2003.

The company’s cash, cash equivalents, restricted cash and investments as of December 31, 2003 was $254.2 million, an increase of 62.2 percent compared to $156.7 million as of the same date in 2002. The company remains debt free. ITT/ESI’s return on equity in 2003 was 50.1 percent. Our deferred tuition as of December 31, 2003 was $130.4 million, an increase of 26.6 percent compared to $103.0 million as of the same date in 2002. Bad debt expense as a percent of revenues decreased 30 basis points to 1.2 percent for the year ended December 31, 2003 compared to 1.5 percent for the year ended December 31, 2002.

Days sales outstanding in the fourth quarter of 2003 decreased by 0.7 days to 6.0 days as of December 31, 2003 compared to 6.7 days in the same period and as of the same date in 2002. Operating margin in 2003 increased 310 basis points to 18.1 percent compared to 15.0 percent in 2002. The price of ITT/ESI’s common stock increased 99.4 percent during 2003 to $46.97 at the close on December 31, 2003 compared to $23.55 at the close on December 31, 2002.

We are committed to fully complying with all applicable laws and regulations and we believe that our system of internal controls is sufficient to allow us to fulfill this commitment. Our Code of Business Conduct and Ethics prohibits any illegal and unethical conduct and provides a procedure for employees to report any suspected violations to a variety of company officials, including an Ombudsman for employees to relate their complaints and concerns confidentially and anonymously if so desired. Each of our colleges has a student complaint procedure that provides, among other things, student access to company officials at the corporate level, the college’s accrediting commission and the state education authority(ies) to voice any complaints or concerns they
The mission of ITT Educational Services, Inc. is to provide a quality postsecondary education and the services that can help a diverse student body to prepare for career opportunities in various fields involving technology. We will strive to establish an environment for students and employees which promotes professional growth, encourages each person to achieve his or her highest potential and fosters ethical responsibility and individual creativity within a framework of equal opportunity.

The company has a corporate staff for each of the functional areas of its colleges. Each of these corporate departments is responsible for establishing the operations standards, policies and procedures to ensure compliance with all applicable laws and regulations and for overseeing the implementation and application of those standards, policies and procedures. These corporate departments also serve as a daily help desk for college staff and provide training to college personnel. The company also employs an in-house internal audit staff that performs an audit of each campus every year.

We very much appreciate the commitment and dedication of our faculty and staff to our students. We believe that ITT/ESI has created an excellent environment in which to learn and work.

Sincerely,

Rene R. Champagne
Chairman and CEO

Omer E. Waddles
President and COO
1. James D. Fowler, Jr., retired Senior Vice President and Director, Human Resources, ITT Industries, Inc.
2. John F. Cozzi, Managing Director, AEA Investors LLC
3. Rene R. Champagne, Chairman and Chief Executive Officer, ITT Educational Services, Inc.
4. Rand V. Araskog, retired Chairman and Chief Executive Officer, ITT Corporation
5. Vin Weber, Partner, Clark & Weinstock Inc.
6. Omer E. Waddles, President and Chief Operating Officer, ITT Educational Services, Inc.
7. Daniel P. Weadock, President, The International
8. Joanna T. Lau, Chairperson and Chief Executive Officer, Lau Technologies
9. John E. Dean, Founding Partner of the law firm Dean Blakey
10. Harris N. Miller, President, Information Technology Association of America
1. Eugene W. Feichtner, Senior Vice President, Operations
2. Glenn E. Tanner, Vice President, Marketing
3. Gary R. Carlson, Vice President, Academic Affairs
4. Donald F. Feigert, Vice President, Recruitment
5. Julie A. Shedd, Vice President, Controller and Treasurer
6. Omer E. Waddles, President and Chief Operating Officer
7. Nina F. Esbin, Senior Vice President, Human Resources
8. Rene R. Champagne, Chairman and Chief Executive Officer
9. Clark D. Elwood, Senior Vice President, General Counsel and Secretary
10. Martin A. Grossman, Senior Vice President, Director of Marketing and Investor Relations
11. Kevin M. Modany, Senior Vice President and Chief Financial Officer
12. Thomas W. Lauer, Senior Vice President, Director of Operations (retired February 2004)
13. Roger A. Booth, Vice President, Director of Internal Audit/Safety and Security

Not shown—Martin Van Buren, Vice President, Information Technology
The Company  ITT Educational Services, Inc. (NYSE:ESI) is a leading provider of technology-oriented postsecondary degree programs in the United States based on revenues and student enrollment. At the end of 2003, the company operated 77 ITT Technical Institutes in 30 states. The ITT Technical Institute in Indianapolis, Indiana also offers several online degree programs that are available in more than 40 states. The institutes serve approximately 37,000 students. The company is headquartered in Carmel, Indiana, a suburb of Indianapolis. It has offered programs in higher education since 1969.

Performance  The company has demonstrated consistent growth since going public in 1994. It achieved record revenues of $522.9 million in 2003, an increase of 15.1 percent compared to 2002 revenues. The company’s revenues have increased at a 12.4 percent compound annual growth rate (CAGR) since 1994. The net income in 2003 increased 34.2 percent to $58.9 million compared to $43.9 million in 2002 and has increased at a CAGR of 26.3 percent since 1994. The operating margin increased 310 basis points to 18.1 percent compared to 15.0 percent in 2002. Earnings per share increased 35.1 percent in 2003 to $1.27, compared to $0.94 in 2002. Total student enrollment also increased 13.6 percent to 36,901 students as of December 31, 2003.

Programs of Study  ITT Technical Institute programs are career-focused, and most use a combination of theory and practical application to assist students in developing the knowledge and skills used in jobs within their chosen career paths. Each curriculum is developed with the input of employers in that field. Additionally, each ITT Technical Institute has an advisory committee for each field of study comprised of representatives of local employers who assist the institute in assessing and updating curricula, equipment and laboratory design. Programs of study are organized into five schools as illustrated below.