



*In a perfect world...*

**2007 Annual Report**



**ITT Industries**  
*Engineered for life*

# Start with an idea.

## Financial Highlights

(In millions, except employees and per share amounts)

	2007	2006	2005
<b>Operating data</b>			
Sales and revenues	\$6,764.1	\$5,610.8	\$4,962.7
Segment operating income <sup>(a)</sup>	717.3	607.9	600.2
Segment operating margin	10.6%	10.8%	12.1%
Income from continuing operations, after-tax <sup>(b)</sup>	437.5	394.0	381.3
Net income	432.3	403.9	379.9
Additions to plant, property and equipment	165.1	153.3	152.7
Research, development and engineering expense	634.0	558.3	518.0
Total assets	7,276.7	5,937.6	5,389.6
Total debt	1,272.0	602.4	791.8
Debt to total capitalization	35.2%	24.6%	41.0%
Total shareholders' equity	2,343.0	1,847.7	1,137.3
Employees at year-end	44,000	39,000	38,000
<b>Per common share</b> (diluted)			
Income from continuing operations <sup>(b)</sup>	\$ 4.63	\$ 4.18	\$ 4.07
Net income	4.58	4.29	4.06
Dividends declared	0.68	0.64	0.60
Average common shares used to calculate diluted EPS	94.4	94.1	93.6

(a) Segment operating income in 2007 includes net restructuring charges before tax of \$36.0. Segment operating income in 2004 includes net restructuring and asset impairment charges before tax of \$28.8.

Segment operating income in 2005 includes net restructuring reversals before tax of \$3.1.

(b) Income from continuing operations, after-tax, in 2006 includes net restructuring charges of \$26.0 and excludes loss from discontinued operations of \$5.2.

Income from continuing operations, after-tax, in 2005 includes net restructuring and asset impairment charges of \$20.8 and excludes income from discontinued operations of \$9.9.

Income from continuing operations, after-tax, in 2005 includes net restructuring reversals, after-tax, of \$2.4 and excludes loss from discontinued operations of \$1.4.

**On the cover:** The Hoberman Sphere, based on years of experimentation with mechanics and mathematics by Chuck Hoberman of Hoberman Designs, is formed by expanding a small plastic structure to create six perfect circles. ITT Industries is a company built around the promise of sound engineering and the pursuit of perfection in each of its businesses.

“IN A PERFECT WORLD.” AT ITT INDUSTRIES, WE SEE THE POSSIBILITIES INSIDE THAT SEEMINGLY IMPOSSIBLE IDEA. WE KNOW THAT PERFECTION IS NOT ALWAYS ATTAINABLE, BUT ITS PURSUIT CAN PRODUCE BREAKTHROUGH TECHNOLOGIES AND SOLUTIONS NEVER BEFORE IMAGINED. WE’VE SEEN IT HAPPEN IN ALL THE MARKETS WE SERVE: WATER AND WASTEWATER, SPACE AND DEFENSE, TELECOMMUNICATIONS, AEROSPACE, AUTOMOTIVE AND LEISURE MARINE. WITH EACH INNOVATION, ITT INDUSTRIES BRINGS THE REAL WORLD CLOSER TO A MORE PERFECT ONE.



*Steven R. Loranger*

CHAIRMAN, PRESIDENT  
AND CHIEF EXECUTIVE OFFICER

*In 2004, I became chairman, president and chief executive officer of ITT Industries. I was attracted to this company for the same reason shareholders invest in us, customers buy from us and competitors respect us.*

*This is a company that isn't afraid to pursue perfection. While a goal rarely achieved, by keeping perfection in our sights, we are pushing technology, customer satisfaction and financial performance to new heights.*

*All the important advances in the world come from people who see a more perfect world – one that doesn't yet exist – and then pursue it. The same spark that drives our scientists and engineers to pursue the products of tomorrow also propels our business leaders to set ever-higher growth goals and then develop the talent and the tools we need to get there.*

*As a result, we are on the threshold of becoming a premier multi-industry company.*

*We define premier both quantitatively and qualitatively. Premier companies can point to a long legacy of outstanding talent, breakthrough products, consistent financial results, solid financial depth, impeccable ethical conduct and staying power in served markets.*

*In 2004, we made excellent progress on many fronts, providing further evidence that we have the right people, processes, technologies, market strategies, values and vision to continue our pursuit of premier status.*

## To Our Shareholders

### 2007: Continuing The Climb

The forward momentum achieved by ITT Industries over the past few years accelerated in 2004.

Annual revenues increased by 21 percent to \$6.76 billion, driven by increased sales in all four business segments, the completion of several strategic acquisitions, and the positive impact of foreign currency translations. Segment operating income rose 18 percent to \$717.3 million on higher volume and improved efficiencies in all our business segments.

Our two largest business segments, Fluid Technology and Defense, continue to be the revenue and profit pacesetters for ITT Industries, but this past year we saw a surge in the performance of our Electronic Components and Motion & Flow Control businesses.

With our strong year, we have now achieved more than 10 consecutive quarters of growth and five consecutive quarters of double-digit organic growth. And we are well positioned to maintain this pace. More than 21 percent of our sales in 2004 came from new products, a significant move towards best-in-class performance in this area.

There is room for improvement. In 2004, after years of steady growth, our segment operating margin was relatively flat at 10.6 percent. Cash from operating activities of \$528.6 million declined from 2003, partly because of one-time tax refunds in 2003 and partly from higher working capital required to fund our sales growth.

The market has rewarded us for our consistent performance. Our total shareholder return for 2004 was 15 percent, which represents our fifth consecutive year of double-digit increases. Our performance over the past five years – more than 160 percent total shareholder return – far outpaces our peer group and the S&P 500.

In 2005, ITT Industries' share price has continued its climb, and we have communicated our expectation for solid revenue and earnings growth, and improved operating margins.

### We Are A Value-Based Business

ITT Industries' Management System is built around several value-based tools, all designed to help us make decisions, improvements and products that directly support our business goals. Taken together, they allow us to run our business with purpose.

It begins with Value-Based Management (VBM). We've been using this tool for the past five years to determine how and where to invest resources to generate the greatest real returns. In 2004, VBM guided us in our acquisition of several companies that significantly strengthen our presence in two important growth markets – space and water – and it will continue to steer our capital resource allocations going forward.

Value-Based Six Sigma (VBSS) is a disciplined, robust strategy that enables us to continually improve all of the business processes that touch our customers. Since its introduction in 2000, it has significantly improved our on-time delivery, enhanced the quality performance of our products and services, and generated more than \$1 billion in savings. VBSS is a set of incredibly powerful tools that are now an ingrained part of ITT Industries. Going forward, we are working to take VBSS to the next level of maturity and apply it to additional strategic priorities such as customer relationships, technology improvements and revenue growth.

With Value-Based Product Development (VBPd), we have become much better listeners, more-valued suppliers and a company that can be counted on to deliver products that make a real difference. Our engineers, marketers and salespeople utilize voice-of-the-customer

input in seeking new solutions. The VBPd “stage-gate” process ensures that we are pursuing projects with great focus on customer satisfaction and growth potential.

We are honing the skills of company leaders with Value-Based Leadership Development (VBLD). Formally introduced in February 2004, VBLD looks at three different types of leaders –executives, managers and team leaders – and gives them the experience-based development opportunities they need to unlock and enhance their

“WE ARE PURSUING PROJECTS WITH GREAT FOCUS ON CUSTOMER SATISFACTION AND GROWTH POTENTIAL.” leadership capabilities and enable them to lead with purpose. Our long-term goal is to make VBLD a self-sustaining effort, with current leaders developing future leaders, even as they are helping us achieve results consistent with a premier trajectory.

Value-Based Goal Deployment (VBGD) is a rigorous structured process that helps us align and focus our people, activities and resources to accomplish breakthrough goals and results.

These Value-Based tools provide discipline and direction in our efforts to take ITT Industries to the next level. All 44,000 of our global employees share our goal of accelerated growth and profitability.

### Four Business Segments Focused On Growth

Growth isn't simply a matter of will – it's also a matter of where. ITT Industries is a leader or key player in a number of markets with strong growth potential.

With our Fluid Technology segment, we have the expertise and technologies to continue to lead in the expanding water and wastewater market. The demand for clean water will increase greatly over the next two decades. Today 300 million people live in areas of severe water shortages. By 2030, some estimate that this number will grow to three billion people. Already the world's largest manufacturer of pumping and water treatment systems, we expanded further in 2004 with the acquisitions of a leading-edge water disinfection company, WEDECO, and a Chinese water purification company, Hengtong Advanced Water Treatment, based in Shanghai. With water and wastewater leading the way, our Fluid Technology segment

increased revenues by 15 percent to \$2.6 billion and operating income by 5 percent to \$286 million in 2004.

In our Defense Electronics & Services segment, we have successfully transitioned our company from a builder of large, legacy platforms to a more responsive developer of antiterrorism, homeland security, battlefield intelligence and space-based technologies. In August, we completed the acquisition of Kodak's Remote Sensing Systems business. This provided the critical mass to form a new Space Systems Division centered around space imagers and sounders used on weather satellites and scientific missions. Revenues for our Defense segment rose 35 percent to \$2.4 billion, and operating income grew 36 percent to \$254 million in 2004. Our backlog of business – including a number of service contracts – grew to a record \$3.46 billion.



For our Motion & Flow Control segment, growth is coming from a combination of innovative new products and expansion into new geographic markets. New product offerings in the leisure marine and friction materials businesses are generating additional revenue streams. We are also successfully extending our automotive tubing and quick connect product lines into new regions like China – and into new applications like the plumbing and computer markets. In 2004, revenues for this segment grew 8 percent to \$1.1 billion and operating income was up 10 percent to \$148 million.

## The Power of 44,000 Talented People

A company doesn't achieve these results without total commitment from exceptional people. I wanted to join this company because I knew that ITT Industries' employees possess a unique blend of engineering excellence, business skill and unwavering ethical integrity. Since coming on board, I've visited most of our value centers and am even more convinced I made the right choice. Our employees demonstrate an excellent understanding of their businesses and their customers' needs. They are extremely smart, proud, pragmatic and disciplined. They place a high value on doing the right thing, always, coupled with a clear commitment to be the best.

Looking back at 2004, several people deserve special recognition for their efforts and achievements. Nick Hill was named president of our Motion & Flow Control segment, bringing the vision and energy he displayed in leading our Jabsco Worldwide and Electronic Components European businesses to a broader market. And following his success in the field as president of our Fluid Technologies' Industrial Products Group, Bob Pagano was named

The full-year performance of our Electronic Components segment was especially encouraging. After ending 2003 on a high note, our connectors, switches and keypads business continued to recover with increased orders in key markets, most notably to transportation, military, industrial and commercial aerospace customers. A big part of this year's growth came from a high level of new product sales – representing approximately 30 percent of the total sales. In addition, the operation recently completed several footprint projects aimed at improving its cost structure. In 2004, revenues for this segment grew 19 percent to \$697 million and operating income increased 101 percent to \$30 million.

vice president and corporate controller of ITT Industries. Both these appointments highlight our goal of giving high-potential leaders exposure to all parts of our business.

“ A UNIQUE  
BLEND OF  
ENGINEERING  
EXCELLENCE,  
BUSINESS SKILL,  
AND ETHICAL  
INTEGRITY ”

In June, I succeeded Lou Giuliano as president and chief executive officer of this company. In his years at the helm, Lou shaped ITT for success well into the 21st century. His laser-like focus on our company's three core strategies – growth, leadership and operational excellence – has given us a strategic framework that we can now use to take ITT Industries to new heights. In addition, his counsel and strong support during the transitional stage were invaluable and speak highly of Lou Giuliano's strength as a business leader and a person.

## ITT Industries Is On Track For Greater Achievements

I am very excited to be leading ITT Industries at this stage of the company's evolution.

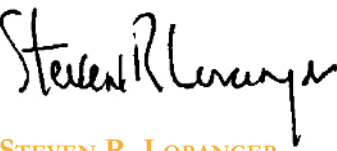
Our products are operating in critical applications, from the deepest depths of the ocean to the outer reaches of deep space. Our technologies touch people's lives on a daily basis. Our talented people create solutions that address some of the world's most complex problems and satisfy our customers' most exacting requirements. We are true to our brand promise, “Engineered for life.”

But I believe we are on track for even greater achievements.

Building on a strong foundation and using the value-based tools that have served us so well, we will accelerate our speed and quality of execution. Guided by strong leaders and a strict adherence to our

ethical standards, we will create an environment where our people thrive and achieve their personal best. And we will continue to support the strengths of our various businesses and brands, even as we harness the breadth and depth of ITT Industries as a singular organization.

Perfection may be a lofty goal. But I can promise that we will never stop aiming for it and moving ITT Industries closer to its ultimate level of performance.



**STEVEN R. LORANGER**  
*Chairman, President and Chief Executive Officer*

## Senior Management



From Left:

- **Scott A. Crum**  
*Senior Vice President and Director of Human Resources, ITT Industries*
- **Thomas R. Martin**  
*Senior Vice President and Director, Corporate Relations, ITT Industries*
- **Edward W. Williams**  
*Senior Vice President and Chief Financial Officer, ITT Industries*
- **Steven R. Loranger**  
*Chairman, President and Chief Executive Officer, ITT Industries*
- **Vincent A. Maffeo**  
*Senior Vice President and General Counsel, ITT Industries*



- **Brenda L. Reichelderfer**  
*Senior Vice President, ITT Industries President, Electronic Components*
- **Henry J. Driesse**  
*Senior Vice President, ITT Industries President, Defense Electronics & Services*
- **Robert L. Ayers**  
*Senior Vice President, ITT Industries President, Fluid Technology*
- **Nicholas P. Hill**  
*Vice President, ITT Industries President, Motion & Flow Control*



- **Robert J. Pagano, Jr.**  
*Vice President and Corporate Controller, ITT Industries*
- **Usha Wright**  
*Vice President, Associate General Counsel and Director, Environment, Safety and Health, ITT Industries*
- **Donald E. Foley**  
*Senior Vice President, Treasurer and Director of Tax, ITT Industries*
- **Mark Steele**  
*President, ITT Industries China*



- **Steven A. Faas**  
*Vice President and Chief Information Officer, ITT Industries*
- **Nori Morimoto**  
*Director, Value-Based Six Sigma, ITT Industries*
- **Kathleen S. Stolar**  
*Vice President, Secretary and Associate General Counsel, ITT Industries*
- **Lawrence J. Swire**  
*Vice President, Associate General Counsel and Assistant Secretary, ITT Industries*
- **Robert M. Powers**  
*Vice President and Director of Investor Relations, ITT Industries*



*In a perfect world,*

## High-Performance Would Also Be Low-Maintenance

*Whether you're on the move or enjoying a quiet moment, the last thing you want are delays or disruptions*

AT TTT INDUSTRIES, WE CREATE HIGH-PERFORMANCE PRODUCTS THAT TAKE YOU AWAY FROM THE EVERYDAY WITH NO HEADACHES OR HASSLES. BOATERS CAN RELAX BECAUSE OUR COMPASSES NEVER NEED REBALANCING AND OUR FLEXIBLE IMPELLER PUMPS HAVE BEEN MARKET LEADERS FOR 50 YEARS THANKS TO THEIR RECORD OF RELIABILITY. SPLASHLESS SPA PUMPS LET YOU SOAK IN SILENCE, AND CORROSION-RESISTANT AUTOMOTIVE TUBING LETS YOU THINK ABOUT WHAT'S AHEAD, NOT WHAT'S UNDER THE HOOD. OUR ENGINEERS AND DESIGNERS SPEND A GREAT DEAL OF TIME THINKING ABOUT OUR PRODUCTS, SO YOU DON'T HAVE TO. THEY KNOW THAT THE BEST PRODUCTS ARE THE ONES YOU CAN DEPEND ON, DAY AFTER DAY, YEAR AFTER YEAR.

**Leisure marine is no longer a contradiction in terms.**

With a revolutionary marine pump introduced in 2004, TTT Industries brought power, performance – and smiles – to pleasure boaters everywhere.

The Cyclone™ centrifugal pump lasts longer, runs quieter and moves more water than most onboard marine pumps. But its real innovation is an anti-clog impeller that allows small debris to pass through the pump, reducing downtime, servicing costs and frustration levels. The design is based on our convention-defying N-pump, which completely transformed the wastewater treatment industry with its marriage of high efficiency and anti-clogging capabilities and earned industry praise as one of the most important pumping innovations of the 20th century.

Our design engineers don't put limits on the number of innovations they pursue. The Cyclone™ pump packs a boatload of technology advances into one small pump. It's not only the most efficient and reliable pump on the market, it features an advanced mechanical seal that extends the life of the product and a silent-running motor that lets boaters listen to the sounds of the open water – and the sound of their own thoughts.



## ITT INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share and Per Share Amounts)

	December 31, 2007	2006
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 262.9	\$ 414.2
Receivables, net	1,174.3	971.5
Inventories, net	708.4	575.8
Current assets of discontinued operations	7.3	8.3
Deferred income taxes	107.2	68.2
Other current assets	69.1	68.9
Total current assets	2,329.2	2,106.9
Plant, property and equipment, net	980.9	892.0
Deferred income taxes	212.1	373.2
Goodwill, net	2,514.1	1,629.1
Other intangible assets, net	240.3	74.8
Other assets	1,000.1	861.6
Total non-current assets	4,947.5	3,830.7
<b>Total assets</b>	<b>\$7,276.7</b>	<b>\$5,937.6</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 719.8	\$ 633.1
Accrued expenses	717.2	652.7
Accrued taxes	277.4	253.5
Notes payable and current maturities of long-term debt	729.2	141.5
Current liabilities of discontinued operations	—	1.1
Other current liabilities	2.2	4.6
Total current liabilities	2,445.8	1,686.5
Pension benefits	1,079.7	1,187.7
Postretirement benefits other than pensions	298.8	216.2
Long-term debt	542.8	460.9
Other liabilities	566.6	538.6
Total non-current liabilities	2,487.9	2,403.4
<b>Total liabilities</b>	<b>4,933.7</b>	<b>4,089.9</b>
Shareholders' Equity:		
Common stock: Authorized — 200,000,000 shares, \$1 par value		
per share outstanding — 92,289,113 shares and 92,271,319 shares	92.3	92.3
Retained earnings	2,589.1	2,277.1
Accumulated other comprehensive loss:		
Unrealized loss on investment securities and cash flow hedges	(0.6)	(0.6)
Minimum pension liability	(520.4)	(602.2)
Cumulative translation adjustments	182.6	81.1
Total accumulated other comprehensive loss	(338.4)	(521.7)
Total shareholders' equity	2,343.0	1,847.7
<b>Total liabilities and shareholders' equity</b>	<b>\$7,276.7</b>	<b>\$5,937.6</b>

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

## ITT INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

	2007	Year Ended December 31, 2006	2005
<b>Operating Activities</b>			
Net income	\$ 432.3	\$ 403.9	\$ 379.9
Loss (income) from discontinued operations	5.2	(9.9)	1.4
Income from continuing operations	437.5	394.0	381.3
Adjustments to income from continuing operations:			
Depreciation and amortization	198.6	186.9	170.5
Restructuring and asset impairments	37.7	30.1	(3.5)
Payments for restructuring	(33.6)	(24.6)	(32.1)
Change in receivables, inventories, accounts payable, and accrued expenses	(85.2)	(0.5)	33.1
Change in accrued and deferred taxes	102.4	168.0	126.0
Change in other current and non-current assets	(59.9)	(202.7)	(56.8)
Change in other non-current liabilities	(55.2)	25.1	(33.4)
Other, net	(13.7)	3.4	9.8
Net Cash — operating activities	528.6	579.7	594.9
<b>Investing Activities</b>			
Additions to plant, property and equipment	(165.1)	(153.3)	(152.7)
Acquisitions, net of cash acquired	(1,010.0)	(46.2)	(159.2)
Proceeds from sale of assets and businesses	7.4	17.0	11.6
Sale of investments	24.9	43.5	—
Other, net	0.2	(2.0)	(3.2)
Net Cash — investing activities	(1,142.6)	(141.0)	(303.5)
<b>Financing Activities</b>			
Short-term debt, net	554.2	(144.1)	(235.8)
Long-term debt repaid	(68.7)	(42.7)	(3.3)
Long-term debt issued	120.3	0.3	0.7
Repurchase of common stock	(159.6)	(69.7)	(32.3)
Proceeds from issuance of common stock	76.8	45.3	93.3
Dividends paid	(61.8)	(58.0)	(54.3)
Other, net	(0.2)	—	—
Net Cash — financing activities	461.0	(268.9)	(231.7)
<b>Exchange Rate Effects on Cash and Cash Equivalents</b>	17.6	35.4	5.3
<b>Net Cash — Discontinued Operations</b>	(15.9)	6.8	15.9
Net change in cash and cash equivalents	(151.3)	212.0	80.9
Cash and cash equivalents — beginning of year	414.2	202.2	121.3
<b>Cash and Cash Equivalents — End of Year</b>	<b>\$ 262.9</b>	<b>\$ 414.2</b>	<b>\$ 202.2</b>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid during the year for:			
Interest	\$ 45.2	\$ 43.9	\$ 51.5
Income taxes (net of refunds received)	\$ 70.1	\$ (26.6)	\$ 22.4

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



**ITT Industries**

*Engineered for life*

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