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, 2002

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]

Indicate by check mark whether the registration is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes.... No....
X

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on June 30, 2002 was approximately $6.5 billion.

As of February 28, 2003, there were outstanding 91,846,834 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 13, 2003, is incorporated by reference in Part III of this Form 10-K.

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

PART I

ITEM 1. BUSINESS

ITT Industries, Inc., with 2002 sales of approximately $4.99 billion, is a global multi-industry company engaged directly and through its subsidiaries in the design and manufacture of a wide range of engineered products and the provision of related services. Our four principal business segments are Fluid Technology, Defense Electronics & Services, Motion & Flow Control, and Electronic Components. Prior to January 1, 2002 these segments were named Pumps & Complementary Products, Defense Products & Services, Specialty Products and Connectors & Switches. Also prior to January 1, 2002, Engineered Valves, now part of our Fluid Technology Segment, reported into Specialty Products (now, Motion & Flow Control). Material herein is presented on a basis consistent with those business segment changes.

Our World Headquarters is located at 4 West Red Oak Lane, White Plains, NY 10604. We have approximately 38,000 employees based in 48 countries. Unless the context otherwise indicates, references herein to "ITT Industries," the "Company," and such words as "we," "us," and "our" include ITT Industries, Inc. and its subsidiaries. ITT Industries, Inc. was incorporated on September 5, 1995 in Indiana. Reference is made to "-- COMPANY HISTORY AND CERTAIN RELATIONSHIPS." Our telephone number is (914) 641-2000.

The table below shows, in percentage terms, our consolidated sales and revenues and operating income attributable to each of our ongoing lines of business for the last three years. Operating income percentages for 2001 and 2000 are adjusted to exclude the impact of goodwill amortization:

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
SALES AND REVENUES			
Fluid Technology.............	39%	39%	38%
Defense Electronics & Services...................	30	28	28
Motion & Flow Control........	19	19	18
Electronic Components........	12	14	16
Other........................	--	--	--
	100%	100%	100%
OPERATING INCOME			
Fluid Technology.............	47%	50%	42%
Defense Electronics & Services...................	28	30	24
Motion & Flow Control........	23	26	24
Electronic Components........	13	6	20
Other........................	(11)	(12)	(10)
	100%	100%	100%

BUSINESS AND PRODUCTS

FLUID TECHNOLOGY

Fluid Technology, with sales and revenues of approximately $1.96, billion, $1.83 billion, and $1.83 billion for 2002, 2001 and 2000, respectively, is engaged in the design, development, production, sale, and after-sale support of products, systems and services used to move, measure, and manage fluids. Fluid Technology is a leading worldwide supplier of a broad range of pumps, mixers, heat exchangers, valves, and systems for municipal, industrial, residential, agricultural, and commercial applications. Major production and assembly facilities are located in Argentina, Australia, Austria, Canada, China, England, Germany, Italy, Malaysia, Mexico, the Philippines, South Korea, Sweden, and the United States. Principal customers are in North America, Europe, the Middle East, Africa, Latin America, and the Asia/Pacific region. No single customer accounted for more than 2% of 2002 sales for Fluid Technology. Sales are made directly and through independent distributors and representatives.

Fluid Technology offers a wide range of product and system solutions for the water, wastewater, building trades, industrial and process market areas and biopharm market.

Water

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

Other products serving the water market are supplied by Lowara. Its pumps are used in residential, agriculture, and irrigation applications. Lowara is a leader in stainless steel manufacturing technology.

Submersible pumps and line shaft turbine pumps provide for the pumping needs of agriculture, aquaculture, golf courses, and similar applications.

Wastewater

Our Flygt Group is the world's originator and largest manufacturer of submersible pumps and mixers. These pumps and mixers form the heart of many of the world's sewage and wastewater treatment facilities. As the world's leading producer of fluid handling pumps and related products for treating and recycling wastewater, ITT Industries actively promotes more efficient use and re-use of water and endeavors to raise the level of awareness of the need to preserve and protect the earth's water resources.

We are, through our Sanitaire(R) and ABJ(TM) brands, leaders in aeration products and systems for municipal and industrial wastewater treatment. This broad range of products includes ceramic and membrane fine bubble diffusers, stainless steel coarse bubble diffusers, in-place cleaning systems, and complete activated sludge plants. Combining Flygt's submersible pumps and mixers with Sanitaire and ABJ products provides a solution to customers' needs for complete system solutions in wastewater treatment. Dry mount pumps from A-C Pump provide an alternative technical solution to submersible pumps. Typical application areas are sewage and sludge handling, circulating water applications for power plants, desalinization, and flood control.

Building Trades

Through our Fluid Handling Division, which includes leading brands such as Bell & Gossett(R), McDonnell & Miller(R), Hoffman Specialty(R), and ITT Standard(R), we provide a broad variety of products for environmental control in buildings and for building service and utility applications. For our group of products, we are market leaders in liquid-based heating and air conditioning systems and in liquid level control and steam trap products for boiler and steam systems.

Our wide range of submersible drainage pumps from Flygt serves the construction market by dewatering construction sites on a global basis. A-C Pump has been in the forefront of developing, designing and custom building a wide range of fire pump systems, including prefabricated, turnkey fire pump packages, and house units that meet every fire protection need.

Industrial & Process

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

BioPharm

The biopharm market and other similar hygienic applications such as food and cosmetics processing is served entirely by our Engineered Valves Division with a wide array of valve and turnkey systems that are at the heart of extremely demanding manufacturing processes, especially of biological and pharmaceutical compounds.

Engineered Valves designs and manufactures precision valves under the brand name Pure-Flo(R). The design, engineering, fabrication, and installation of high purity process piping systems and stainless steel vessels for the biopharm and hygienic industries are served through Engineered Valves' Pure-Flo Cotter and Pure-Flo Precision lines. Turnkey systems from Pure-Flo Cotter include process skid systems for CIP, chromatography, fermentation, and UF, flow transfer panels.

Life Cycle Costing

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

Global Service and Customer Care

ITT Fluid Technology is building a global network of service centers for aftermarket customer care. Our aftermarket capabilities include the repair and service of all brands of pumps and rotating equipment, engineering upgrades, contract maintenance, and inventory management services. We offer field service solutions for troubleshooting, disassembly, on-site repairs, and emergency service.

ITT Fluid Technology -- On-Line

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

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

	YEAR ENDED DECEMBER 31, 2002	2001	2000
Water/Wastewater.............	56%	53%	53%
Industrial & Process.........	24	27	28
Building Trades..............	16	17	17
Bio Pharm....................	4	3	2
	100%	100%	100%

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

Order backlog for Fluid Technology was $339.8 million in 2002, compared with $297.6 million in 2001 and $278.0 million in 2000.

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

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

Fluid Technology companies have an aggregate of approximately 11,600 employees and have 300 facilities in 137 countries.

DEFENSE ELECTRONICS & SERVICES

Defense Electronics & Services, with sales and revenues of approximately $1.51 billion, $1.30 billion, and $1.33 billion for 2002, 2001 and 2000, respectively, develops, manufactures, and supports high technology electronic systems and components for worldwide defense and commercial markets as well as provides communications systems and engineering and applied research. Operations are in North America, Europe, and the Middle East.

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

Systems and Services

The Systems Division is involved in support services and systems engineering. The business provides support services including operations and maintenance services for surveillance systems, communications electronics including sensors, radars and command and control, and combat service support, and base support and range support for government sites around the world.

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

Defense Electronics

The ITT Aerospace/Communications Division ("A/CD") designs and manufactures wireless networking products and software that facilitate communications in the forward area battlefield. A/CD produces the Single Channel Ground and Airborne Radio System ("SINCGARS") and has a contract to produce the Near Term Digital Radio ("NTDR"), a wideband networking radio which has data transmission capacity twenty times greater than SINCGARS. A/CD is the provider of the combat net radio and the high capacity data radio for the UK Bowman program. A/CD is developing a communications system for the U.S. Army that will provide audio, video and data networking to soldiers on the battlefield. A/CD is also developing air traffic control radios for the Federal Aviation Administration. A/CD also produces sophisticated sounding and imaging instruments such as those used by the National Oceanographic and Atmospheric Agency in remote sensing space payloads to track hurricanes, tornadoes, and other weather patterns. In addition, A/CD provides navigation payloads for the Global Positioning System ("GPS") navigation satellite.

The Night Vision Division provides advanced night vision products for airborne and ground applications enabling United States and allied military forces to conduct night combat operations. Night Vision is the leading full service supplier of Generation III night vision products to the United States and allied military forces. Night Vision also produces a commercial line of night vision products, supplying high-performance night vision devices to federal, state and local law enforcement officers in support of Homeland Security. It also offers night vision products for consumer recreational applications.

The Avionics Division produces information and electronic warfare technologies for a broad range of military aircraft to help protect aircraft from radar-guided weapons. Avionics is developing for the United States Army and Special Operation Forces the next-generation fully integrated airborne electronic warfare system for rotary wing aircraft called a Suite of Integrated Radio Frequency Countermeasures ("SIRFC"). In addition, the company has developed a SIRFC based system for fixed wing aircraft such as the F-16, and is also the supplier for the United States Integrated Defensive Countermeasures ("IDECM") system for fixed wing aircraft such as the F/A-18 E/F fighter fleet. The Avionics Division is a co-developer of the integrated communications, navigation and identification system for the U.S. Air Force F-22 Raptor.

The ITT Gilfillan Division produces and installs ship and air defense radar and air traffic control systems both in the United States and internationally.

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Systems and Services Systems	29%	29%	24%
Advanced Engineering & Sciences	15	16	13
Defense Electronics A/CD	26	26	32
Night Vision	12	13	15
Avionics	12	11	8
ITT Gilfillan	6	5	8
	100%	100%	100%

Defense Electronics & Services sells its products to a wide variety of governmental and non-governmental entities located throughout the world. Approximately 97% of 2002 sales and revenues of Defense Electronics & Services was to governmental and international entities, of which approximately 73% was to the United States Government (principally in defense programs).

A substantial portion of the work of Defense Electronics & Services is performed in the United States under prime contracts and subcontracts, some of which by statute are subject to profit limitations and all of which are subject to termination by the United States Government. Apart from the United States Government, international customers and commercial customers accounted for approximately 23% and 3%, respectively, of 2002 sales and revenues for Defense Electronics & Services.

Sales and revenues to non-governmental entities as a percentage of total sales and revenues for Defense Electronics & Services were 3% in 2002, 4% in 2001 and 3% in 2000. Certain products sold by Defense Electronics & Services have particular commercial application, including night vision devices. In addition, Defense Electronics & Services, in partnership with California Commercial Spaceport, Inc. in a venture known as Spaceport Systems International, provides full service payload processing and launch capability for small to medium satellite systems in low polar earth orbits.

Funded order backlog for Defense Electronics & Services was $2.85 billion in 2002, compared with $2.58 billion in 2001 and $2.41 billion in 2000.

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

Defense Electronics & Services companies have an aggregate of approximately 9,700 employees and are present in 149 facilities in 21 countries.

MOTION & FLOW CONTROL

Motion & Flow Control, with sales and revenues of approximately $935.5 million,

$898.7 million and $888.9 million, for 2002, 2001 and 2000, respectively, comprises a group of units operating in the motion control and flow control market segments. Operations are located principally in North America and Europe, with sales in Latin America and Asia supported through joint ventures or distribution arrangements. Motion & Flow Control consists of Fluid Handling Systems, Galfer, Jabsco, Koni, Aerospace Controls, HydroAir, and Conoflow.

ITT Fluid Handling Systems designs and produces engineered tubing systems and connectors for use in applications such as braking systems, fuel supply, and other fluid transfer applications in transportation or industrial uses. Fluid Handling Systems' principle customers are the major North American and European automotive makers, their key Tier 1 suppliers, and other similar customers. Ford, General Motors, and Daimlar Chrysler, with their respective affiliates, account for approximately 27%, 14%, and 10%, respectively, of the 2002 sales of this unit. Fluid Handling Systems also owns 50% of a joint venture with Sanoh Industrial Co. of Japan that supplies similar products to the major Japanese transplant manufacturers in the United States.

Galfer designs and manufactures quality friction pads and backplates for braking applications on vehicles. From three facilities in Italy, Galfer services most European OEM auto makers and also operates a substantial facility for research and testing of new materials. Approximately 61% of Galfer's 2002 business is in aftermarket activity.

The Jabsco Division is the world's leading producer of pumps and related products for the leisure marine market. Products are sold worldwide under the brand names Jabsco(R), Rule(R), Flojet(R), and Danforth(R). Flojet is also a leading producer of pumps and components for beverage applications. Both Jabsco and Flojet also produce pumps for other specialty industrial fluid dispensing applications.

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

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

The HydroAir Division designs and manufacturers jets, pumps and other components for manufacturers of whirlpool baths and hot tub spas.

ITT Conoflow markets pressure regulators and diaphragm seals for industrial applications and natural gas vehicles.

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Fluid Handling Systems	50%	49%	48%
Galfer	17	16	16
Jabsco	14	14	16
Koni	8	9	9
Aerospace Controls	6	7	6
HydroAir	4	4	4
Conoflow	1	1	1
	100%	100%	100%

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

Motion & Flow Control companies have an aggregate of approximately 5,800 employees and have 36 facilities located in 10 countries.

ELECTRONIC COMPONENTS

Electronic Components, with sales and revenues of approximately $583.5 million, $647.0 million, $774.6 million, for 2002, 2001, and 2000, respectively, develops and manufactures connectors, interconnects, cable assemblies, switches, key pads, multi-function grips, panel switch assemblies, dome arrays, input/output (I/O) card kits, smart card systems, LAN components, high-speed/high-bandwidth network systems, and related services.

Electronic Components consists of products and services for the areas of communications, industrial, transportation, military/aerospace, commercial aircraft, computer, and consumer uses.

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

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

In the transportation area, Electronic Components' products are incorporated in off-highway, heavy-vehicle, and automotive applications. The products include high reliability connectors, multi-function control assemblies, and switches used in powertrain, instrument controls, and chassis applications.

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

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

In the computer area, Electronic Components supplies keypads, connectors, and switches for computers and computer peripherals.

In the consumer area, Electronic Components primarily supplies keypads for remote control devices.

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Communications................	32%	36%	43%
Industrial....................	23	19	16
Transportation................	13	13	10
Military/Aerospace............	13	12	11
Commercial Aircraft...........	6	8	7
Computer......................	7	6	7
Consumer......................	6	6	6
	100%	100%	100%

Order backlog for Electronic Components was $143.9 million in 2002 compared with $154.6 million in 2001 and $207.9 million in 2000.

Electronic Components products are marketed primarily under the Cannon(R) brand name.

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

Electronic Components companies have an aggregate of approximately 10,600 employees and have 22 facilities located in 9 countries.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and see Note 23, "BUSINESS SEGMENT INFORMATION," in the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for further details with respect to business segments.

ACQUISITIONS, DIVESTITURES, RESTRUCTURING, AND RELATED MATTERS

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

During 2002, we acquired the business and assets of a number of companies for our Fluid Technology segment. These include the Pure Water division of Waterlink, Inc. which designs and manufactures commercial, industrial and municipal water purification systems. We also acquired the assets of PCI Membranes from Thames Water. PCI Membranes products add chlorination disinfection and membrane technology to Sanitaire's filtration and disinfection businesses. In the municipal and wastewater area, we purchased the business and assets of the

Royce Instrument Corporation relating to manufacture, monitoring and control instrumentation and sensors for municipal and industrial wastewater treatment. We also acquired the business and assets of Precision Stainless, Inc. which provides process vessels for biopharmaceutical companies and we purchased the business and assets of the Biopharm Manufacturing Division of Martin Petersen Company, Inc., a manufacturer of process systems for the biopharmaceutical industry. In wastewater applications, we acquired Svedala Robot B.V., a manufacturer of high quality submersible pumps and pump systems used in wastewater applications. We also acquired Flowtronex PSI Inc., a leading global manufacturer of modular pumping systems for golf courses and other turf irrigation, sports fields, municipal and commercial properties for our Fluid Technology segment.

For Defense Electronics & Services, we acquired the business and assets of Xybion Electronic Systems (XES), a designer and manufacturer of intensified imaging systems, digital and complimentary metal-oxide semiconductor (CMOS) cameras on December 12, 2002 and during 2002 we sold a defense related joint venture

On January 31, 2003 we acquired the VEAM/TEC division of Northrop Grumman's Component Technologies sector, which manufactures cylindrical, filter and fiber optic connectors for the military/aerospace, industrial, transit, entertainment and nuclear markets for our Electronics Components segment.

During 2001, we acquired the business and assets of a number of companies for our Fluid Technology segment. These include Cotter Corporation, which manufactures modular processing systems and subsystems; the Water Systems Division of The Marley Company, which manufactures water pumping equipment; Production Castings Incorporated, American Alloy Products, Inc., Production Machine Inc., and Impeller Repair Services, Inc., these last four being in the business of producing pump parts and cast repair parts. Also for our Fluid Technology segment, during 2001, we purchased the stock of 1448170 Ontario Limited, which sells repair parts and repairs pumps, rotating equipment and other production and factory equipment. In 2001 we purchased the business and assets of BIW Connector Systems, LLC, a designer and manufacturer of power connectors for harsh environments, for our Electronic Components segment.

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

See Note 4, "RESTRUCTURING AND ASSET IMPAIRMENT CHARGES," in the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS regarding restructuring matters. See also "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- LIQUIDITY AND CAPITAL RESOURCES -- STATUS OF RESTRUCTURING ACTIVITIES."

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- RISKS AND UNCERTAINTIES -- SALES OF AUTOMOTIVE BUSINESSES" AND NOTE 5, "DISCONTINUED OPERATIONS," in the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for information regarding the resolution of certain disputes relating to the sales of automotive businesses during 1998 and further information regarding discontinued operations.

GEOGRAPHIC MARKETS

The geographic sales base of Fluid Technology is broad. In 2002, approximately 56% of the sales and revenues of Fluid Technology was derived from North America, while approximately 30% was derived from Europe. The geographic sales mix differs among products and among divisions of Fluid Technology. Our management anticipates growth opportunities in Eastern Europe, Central Asia, Africa/Middle East, Latin America, and the Asia/Pacific region. In China, Fluid Technology has manufacturing and distribution facilities to produce and sell submersible pumps for the sewage handling and mining markets and a joint venture that produces vertical turbine pumps and includes a foundry operation. It also has joint venture sales and manufacturing and other operations in Eastern Europe, Latin America, Africa/Middle East, and other locations in the Asia/Pacific region.

The geographic sales base of Defense Electronics & Services is predominantly the United States, which accounted for approximately 77% of 2002 sales and revenues. Management of Defense Electronics & Services has been in the process of increasing its international defense business and anticipates growth opportunities in the Asia/Pacific region, Europe, and the Middle East.

The geographic sales base of Motion & Flow Control is predominantly in North America and Europe. In 2002, approximately 60% of sales and revenues of Motion & Flow Control were to customers in North America, and approximately 37% of sales were to customers in Europe. Management of ITT Industries sees growth opportunities in North America, Europe and Asia.

The geographic sales base of Electronic Components in Europe accounted for 35% of 2002 sales and revenues, North America accounted for 39% of 2002 sales and revenues, and the Asia/Pacific region accounted for 24% of 2002 sales and revenues. Electronic Components has manufacturing facilities within North America, Europe, and the Asia/Pacific region. These operations supply connectors across a broad market spectrum, including carrier networks, wireless, transportation, military/aerospace, commercial aircraft, computer, industrial and consumer sectors.

See Note 23, "BUSINESS SEGMENT INFORMATION," in the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for further geographical information concerning sales and revenues and long-lived assets.

COMPETITION

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

The Fluid Technology segment is affected by strong competition, changing economic conditions, industry overcapacity that leads to intense pricing pressures, and public bidding in some markets. Management of 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 and life cycle cost initiatives.

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

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

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

EXPOSURE TO CURRENCY FLUCTUATIONS

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

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- MARKET RISK EXPOSURES" and Note 18, "FINANCIAL INSTRUMENTS," in the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CYCLICALITY

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

GOVERNMENTAL REGULATION AND RELATED MATTERS

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

ENVIRONMENTAL MATTERS

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

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

RAW MATERIALS

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

RESEARCH, DEVELOPMENT, AND ENGINEERING

Our businesses require substantial commitment of resources for research, development, and engineering activities to maintain significant positions in the markets we serve. Such activities are conducted in laboratory and engineering facilities at several of our major manufacturing locations. Although most of our funds dedicated to research, development, and engineering activities are applied to areas of high technology, such as aerospace and applications involving electronic components, these activities are important in all of our business segments. Expenditures by ITT Industries for research, development, and engineering relating to our on-going lines of business totaled $519.1 million in 2002, $424.7 million in 2001 and $391.2 million in 2000. Of those amounts 78.0% in 2002, 76.4% in 2001 and 74.6% in 2000, was expended pursuant to customer contracts.

INTELLECTUAL PROPERTY

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

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

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

EMPLOYEES

As of December 31, 2002, ITT Industries and its subsidiaries employed an aggregate of approximately 38,000 people. Of this number, approximately 17,961 are employees in the United States, of whom approximately 30% are represented by labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

COMPANY HISTORY AND CERTAIN RELATIONSHIPS

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

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

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

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

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

INTERNET ADDRESS AND INTERNET ACCESS TO CURRENT AND PERIODIC REPORTS

ITT Industries' website address is http:/ /www.itt.com. ITT Industries makes available free of charge on or through http:/ /www.itt. com/ ir/secfilings frameset.html our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC").

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

ITEM 2. PROPERTIES

Our principal executive offices are in leased premises located in White Plains, NY. We consider the many offices, plants, warehouses, and other properties that we own or lease to be in good condition and generally suitable for the purposes for which they are used. These properties are located in several states in the United States, as well as in numerous countries throughout the world. See "BUSINESS" for further information with respect to properties in each of our business segments, including the numbers of facilities and countries in which they are located. See also Note 15, "Leases and Rentals," in the Notes to Consolidated Financial Statements for further information.

ITEM 3. LEGAL PROCEEDINGS

ITT Industries and its subsidiaries are responsible, in whole or in part, or are alleged to be responsible for environmental investigation and remediation at approximately 104 sites in various countries. Of those sites, ITT Industries has received notice that it is considered a Potentially Responsible Party ("PRP") at a limited number of sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under CERCLA or its state equivalent. Other situations generally involve either actions brought by private parties relating to sites formerly owned or operated by subsidiaries of the Company seeking to recoup incurred costs or shift environmental liability to ITT Industries pursuant to contractual language, or situations discovered by ITT Industries through its internal environmental assessment program.

In Glendale, California ITT Industries has been involved in an environmental proceeding relating to the San Fernando Valley aquifer. ITT Industries is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against ITT Industries and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it has incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including ITT Industries and Lockheed Martin, reached a settlement, and a consent decree requiring the PRPs to perform additional remedial activities was entered in August 2000. Under the settlement, the PRPs including the Company, have constructed and are operating a water treatment system. The PRPs have agreed to operate the system for an additional 10 years.

ITT operated a facility in Madison County Florida from 1968 until 1991. In 1995, elevated levels of contaminants were detected at the site. Since then, ITT has been investigating the site in coordination with state and federal environmental authorities. A remedy for the site has not yet been selected.

ITT has been involved with a number of PRPs regarding property in the City of Bronson, Michigan operated by a former subsidiary of ITT, Higbie Manufacturing, prior to the time ITT acquired the company. ITT and other PRPs are investigating and remediating discharges of industrial waste which occurred in the 1930's.

In a suit filed several years ago by ITT Industries in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al. against its insurers, ITT Industries is seeking recovery of costs it had incurred in connection with its environmental liabilities including the three listed above. In April 1999, the California Superior Court granted partial summary judgment under California law, dismissing certain claims in the California action. The California Court of Appeals accepted ITT Industries' petition for review of the California Superior Court's order and, in March 2001, dismissed the petition without prejudice, allowing ITT Industries to reassert two of its

arguments in the California Superior Court. ITT Industries presented those arguments to the Court and in January 2002, the Court dismissed a number of sites from the California case. ITT appealed and the matter is before the California Court of Appeals from a decision by the California Superior Court dismissing claims where the costs incurred were due solely to administrative (versus judicial) actions. ITT Industries has negotiated settlements with certain defendant insurance companies, is engaged in negotiations with others, and is prepared to pursue its legal remedies where reasonable negotiations are not productive.

ITT and its subsidiary Goulds have been joined as defendants with numerous other industrial companies in product liability lawsuits alleging injury due to asbestos. These actions against the Company have been managed by our historic product liability insurance carriers, and all claims, including all defense and settlement costs, have been covered by those same carriers. These claims stem primarily from products sold prior to 1985 that contained a part manufactured by a third party, e.g., a gasket, which allegedly contained asbestos. The asbestos was encapsulated in the gasket (or other) material and was non-friable. In certain other cases, it is alleged that ITT companies were distributors for other manufacturers' products that may have contained asbestos.

Frequently, the plaintiffs are unable to demonstrate any injury or do not identify any ITT or Goulds product as a source of asbestos exposure. During the past 12 months, ITT and Goulds resolved approximately 800 cases through settlement or dismissal. The average amount of settlement per claim has been nominal.

The Company is involved in two actions, Cannon Electric, Inc. et al. v. Ace Property & Casualty Company et al. Superior Court, County of Los Angeles, CA, Case No. BC 290354, and Pacific Employers Insurance Company et al., v. ITT Industries, Inc., et al., Supreme Court, County of New York, N.Y., Case No. 03600463, both of which commenced after December 31, 2002. The parties in both cases are seeking an appropriate allocation of responsibility for the Company's historic asbestos liability exposures among its insurers. The California action is filed in the same venue where the Company's environmental insurance recovery litigation has been pending for several years. The Company is continuing to receive insurance payments during the pendency of these actions. The Company does not believe that the existence or pendency of these actions will have any impact on the Company's consolidated financial position, results of operations, or cash flows.

The Company has received notice of a suit filed in El Paso, Texas relating to its Gilfillian Division, Bund zur Unterstutzung Radargeschadigter et al. v. ITT Industries et al., Sup. Ct., El Paso, Texas C.A. No. 2002-4730. This Complaint, filed by both U.S. and German citizens, alleges that ITT and four other major companies failed to warn the plaintiffs of the dangers associated with exposure to x-ray radiation from radar devices. The Complaint also seeks the certification of a class of similarly injured persons. The Company's insurer has accepted the defense of this matter.

The Company has received notice of a product liability suit filed in Superior Court of New York, Danis v. Rule Industries et al., Sup. Ct. N.Y., C.A. No. 115975-02, seeking damages for injuries sustained in a boat explosion. The suit contains a number of causes of action against various defendants including the boat manufacturer, the marina operator, and individuals working at the marina. As to the Company, the Complaint alleges that a fume detector, manufactured by ITT's subsidiary Rule Industries, Inc. prior to the date the Company acquired Rule, malfunctioned. The Company's insurer has accepted the defense of this matter.

The Company has received a Notice of Claim from Rayonier, Inc., a former subsidiary of the Company's predecessor ITT Corporation. This claim stems from the 1994 Distribution Agreement for the spinoff of Rayonier by ITT Corporation and seeks an allocation of proceeds from certain settlements in connection with the Company's environmental insurance recovery litigation. The parties are currently in negotiations.

The Company and its subsidiaries from time to time are involved in legal proceedings that are incidental to the operation of their businesses. Some of these proceedings allege damages against the Company relating to, environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warnings issues, asbestos exposure, or other product liability related matters), employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to vigorously defend itself against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including the Company's assessment of the merits of the particular claim, as well as its current reserves and insurance coverage, the Company does not expect that such legal proceedings will have any material adverse impact on the cash flow, results of operations, or financial condition of the Company on a consolidated basis in the foreseeable future.

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

Other Legal Proceedings

In 2002, the SEC announced that it would review the annual reports on Form 10-K submitted by all Fortune 500 companies during the year. As a result, the Company's annual report on Form 10-K for the year ended December 31, 2001 was reviewed by the SEC and we received a comment letter from the SEC following its review. The comments in the SEC letter primarily focused on supplemental disclosure for items related to the divestiture of the majority of our automotive components business in 1998, an expanded discussion of restructuring activities, references to non-GAAP measures and further segmentation of revenues and working capital. The Company submitted detailed responses to the SEC's initial comment letter and two follow-up letters. Since submitting its last response on February 10, 2003, the Company has not received further comments from the SEC and it does not anticipate receiving any further comments.

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

DATE OF AGE AT YEAR OF
ELECTION FEBRUARY 1,
INITIAL ELECTION TO
PRESENT NAME 2003 POSITION
AS AN OFFICER OFFICERSHIP
---- ---- -------- -------
------ ----------- David
J.
Anderson.................
53 Senior Vice President
and Chief 1999 12/13/99
Financial Officer Robert
L.
Ayers...................
57 Senior Vice President,
ITT Industries; 1998
12/4/01 President, Fluid
Technology Henry J.
Driesse..................
59 Senior Vice President,
ITT Industries; 2000
12/4/01 President, Defense
Donald E.
Foley...................
51 Senior Vice President,
Treasurer and 1996 2/11/03
Director of Taxes Scott A.
Crum ....
46 Senior Vice President
and Director, 2002
10/29/02 Human Resources
Gerard
Gendron....................
50 Senior Vice President,
ITT Industries; 1998
12/4/01 President, Cannon
Worldwide Louis J.

Giuliano................
56 Chairman, President and
Chief Executive 1988
2/24/01 Officer and
Director Martin
Kamber.....................
54 Senior Vice President,
Director of 1995 12/19/95
Corporate Development
Vincent A.
Maffeo................. 52
Senior Vice President and
General 1995 12/19/95
Counsel Thomas R.
Martin..................
49 Senior Vice President,
Director of 1996 3/9/99
Corporate Relations Brenda
L.
Reichelderfer...........
44 Senior Vice President,
ITT Industries; 2002
1/1/02 President, Motion &
Flow Control Edward W.
Williams................
64 Senior Vice President
and Corporate 1998 12/4/01
Controller

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

Throughout the past five years, all of the above-named officers have held executive positions with ITT Industries bearing at least substantially the same responsibilities as those borne in their present offices, except that (i) Mr. Anderson, prior to his election as Senior Vice President and Chief Financial Officer (1999), was Senior Vice President and Chief Financial Officer of Newport News Shipbuilding (1996); (ii) Mr. Ayers, prior to his election as Senior Vice President (2001), was Vice President (1998) and President of Fluid Technology (1999), and, prior to that, was President of Sulzer Bingham Pumps Inc. (1990); (iii) Mr. Crum, prior to his election as Senior Vice President (2002) was Corporate Vice President, Motorola Corporation Broadband Communications Sector (2000) and Senior Vice President for Administration and Employee Resources at General Instrument Corporation (1997); (iv) Mr. Driesse, prior to his election as Senior Vice President (2001), was Vice President and President of Defense (2000), and, prior to that, was President of ITT Avionics (1991); (v) Mr. Foley, prior to his election as Senior Vice President, (2003), was Vice President, Treasurer, Director of Taxes. Mr. Foley was elected Vice President and Treasurer in 1996, and was named to the position of Director of Taxes in 2001; (vi) Mr. Gendron, prior to his election as Senior Vice President (2001), was Vice President (1998), and President of Cannon Worldwide (1997); (viii) Mr. Giuliano, prior to his election as Chairman, President, Chief Executive Officer and Director (2001), was President and Chief Operating Officer (1998), and, prior to that, was Senior Vice President (1995); (ix) Mr. Martin, prior to his election as Senior Vice President, Director of Corporate Relations (1999), was Vice President, Director of Corporate Relations (1996); (x) Ms. Reichelderfer, prior to her election as Senior Vice President and President of Motion & Flow Control (2002), was Vice President and President Motion & Flow Control and held other executive positions with ITT Industries; and (xi) Mr. Williams, prior to his election as Senior Vice President (2001), was Vice President and Corporate Controller (1998), and, prior to that, was Vice President and Controller of our Defense & Electronics business.

PART II

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

COMMON STOCK -- MARKET PRICES AND DIVIDENDS

	2002		2001	
	HIGH	LOW	HIGH	LOW
IN DOLLARS				
Three Months Ended March 31	$64.50	$45.80	$44.25	$35.55
June 30	$70.85	$62.40	$49.00	37.95
September 30	$70.46	$53.91	$46.20	42.00
December 31	$66.38	$56.90	$52.00	43.19

The above table reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security is traded (under the trading symbol "ITT"). During the period from January 1, 2003 through February 28, 2003, the high and low reported market prices of our common stock were $62.09 and $54.11, respectively.

We declared dividends of $.15 per share of common stock in each of the four quarters of 2001 and 2002. In the first quarter of 2003, we declared a dividend of $.16 per share.

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

There were approximately 33,243 holders of record of our common stock on February 28, 2003.

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

ITEM 6. SELECTED FINANCIAL DATA

2002 2001 2000 1999 1998 -------- -------- -------- --
------ -------- (IN MILLIONS, EXCEPT PER SHARE
AMOUNTS) RESULTS AND POSITION Sales and
revenues......................................
$4,985.3 $4,675.7 $4,829.4 $4,632.2 $4,492.7 Operating
income (loss)(a)............................. 537.6
396.8 493.1 415.2 (74.6) Income (loss) from continuing
operations(a)............. 379.9 216.7 264.5 232.9
(97.6) Net
income..
379.9 276.7 264.5 232.9 1,532.5 Additions to plant,
property and equipment.............. 153.2 174.0
180.6 227.9 212.9 Depreciation and
amortization.......................... 171.4 212.9
201.8 181.1 195.6 Total
assets..
5,389.6 4,508.4 4,611.4 4,459.6 4,978.6 Long-term
debt.. 492.2
456.4 408.4 478.8 515.5 Total
debt..
791.8 973.4 1,038.3 1,088.1 767.1 Cash dividends
declared per common share................ 0.60 0.60
0.60 0.60 0.60 EARNINGS PER SHARE Income from
continuing operations
Basic..
$ 4.17 $ 2.46 $ 3.01 $ 2.61 $ (0.86)
Diluted..
$ 4.06 $ 2.39 $ 2.94 $ 2.53 $ (0.86) Net income
Basic..
$ 4.17 $ 3.14 $ 3.01 $ 2.61 $ 13.55
Diluted..
$ 4.06 $ 3.05 $ 2.94 $ 2.53 $ 13.55 -------- --------
-------- -------- -------- PRO FORMA RESULTS Reported
net income................................... $
379.9 $ 276.7 $ 264.5 $ 232.9 $1,532.5 Add back
goodwill amortization net of tax............. -- 35.9
31.4 24.1 21.3 -------- -------- -------- -------- ---
----- Adjusted net
income.................................. $ 379.9 $
312.6 $ 295.9 $ 257.0 $1,553.8 ======== ========
======== ======== ======== Adjusted basic earnings per
share..................... $ 4.17 $ 3.55 $ 3.37 $
2.88 $ 13.74 Adjusted diluted earnings per
share................... $ 4.06 $ 3.45 $ 3.29 $ 2.79
$ 13.74

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(a) Operating income (loss) and income (loss) from continuing operations in 2002, 2001, 1999 and 1998 includes income (expense) of $3.5, $(97.7), $4.6 and $(399.4) pretax, respectively, or $2.4, $(63.5), $2.9 and $(243.6), after-tax, respectively, for restructuring and asset impairment charges. See Note 4 "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on these topics.

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

RESULTS OF OPERATIONS

DEFENSE MOTION CORPORATE,
FLUID ELECTRONICS & FLOW
ELECTRONIC ELIMINATIONS
TECHNOLOGY & SERVICES
CONTROL COMPONENTS & OTHER
TOTAL ---------- ----------
------- --------- ---------
--- -------- (IN MILLIONS)
2002 Sales and
revenues............
$1,956.3 $1,513.9 $935.5
$583.5 $(3.9) $4,985.3 Cost
of sales and revenues.....
1,283.9 846.5 692.8 393.6
(4.9) 3,211.9 Selling,

general and administrative expenses...... 372.9 99.7 86.1 99.4 62.1 720.2 Research, development and engineering expenses......... 43.5 414.7 32.7 28.2 -- 519.1 Reversal of restructuring charge....................... (1.5) (1.0) (1.5) (8.7) (0.4) (13.1) 2002 restructuring charge...... 6.0 -- 3.0 0.6 -- 9.6 -------- -------- ------ ------ ----- -------- Total costs and expenses....... 1,704.8 1,359.9 813.1 513.1 56.8 4,447.7 -------- -------- ------ ------ ----- -------- Operating income (loss)........ 251.5 154.0 122.4 70.4 (60.7) 537.6 Interest expense, net.......... 32.4 Miscellaneous (income) expense...................... (3.6) -------- Income from continuing operations before income tax expense...................... 508.8 Income tax expense............. 128.9 -------- Net Income..................... $ 379.9 ========

DEFENSE MOTION CORPORATE, FLUID ELECTRONICS & FLOW ELECTRONIC ELIMINATIONS TECHNOLOGY & SERVICES CONTROL COMPONENTS & OTHER TOTAL ---------- ----------- ------- ---------- ---------- --- -------- (IN MILLIONS) 2001 Sales and revenues............. $1,829.7 $1,304.8 $898.7 $647.0 $(4.5) $4,675.7 Cost of sales and revenues..... 1,201.3 746.7 666.3 435.4 (5.2) 3,044.5 Selling, general and administrative expenses...... 352.6 98.1 81.2 87.6 51.8 671.3 Research, development and engineering expenses......... 39.2 327.9 29.0 28.6 -- 424.7 Restructuring and asset impairment charges........... 16.0 -- 8.1 69.6 4.0 97.7 -------- - ------- ------ ------ ----- -------- Total costs and expenses*...... 1,609.1 1,172.7 784.6 621.2 50.6 4,238.2 -------- -------- -- ---- ------ ----- -------- Operating income (loss): Before goodwill amortization expense.................... 220.6 132.1 114.1 25.8 (55.1) 437.5 Goodwill amortization expense.................... 18.2 8.5 4.5 9.5 -- 40.7 --- ----- -------- ------ ------ ----- -------- Operating income (loss)...... 202.4 123.6 109.6 16.3 (55.1) 396.8 Interest expense, net.......... 62.0 Miscellaneous (income) expense...................... 1.4 -------- Income from continuing operations before income tax expense...................... 333.4 Income tax expense............. 116.7 - ------- Income from continuing operations................... 216.7 Income from discontinued operations................... (60.0) -------- Net Income..................... $ 276.7 ======== 2000 Sales and revenues............. $1,834.2 $1,334.6 $888.9 $774.6 $(2.9) $4,829.4 Cost of sales and revenues..... 1,202.9 821.9 654.2 521.7 (5.4) 3,195.3 Selling, general and administrative expenses...... 363.8 92.0 79.1 122.5 56.2 713.6 Research, development and engineering expenses......... 43.5 294.9 26.3 26.5 -- 391.2 -------- -------- ------ ------ ----- -------- Total costs and

expenses*...... 1,610.2 1,208.8 759.6 670.7 50.8 4,300.1 -------- -------- ------ ------ ----- --------
Operating income (loss): Before goodwill amortization expense.................... 224.0 125.8 129.3 103.9 (53.7) 529.3 Goodwill amortization expense.................... 17.8 8.5 5.0 4.9 -- 36.2 -------- -------- ------ ------ ----- -------- Operating income (loss)........ 206.2 117.3 124.3 99.0 (53.7) 493.1 Interest expense, net.......... 75.2 Miscellaneous (income) expense...................... (2.0) -------- Income from continuing operations before income tax expense...................... 419.9 Income tax expense............. 155.4 -------- Net Income..................... $ 264.5 ========

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* The Company adopted Statement of Financial Accounting Standards No. 142 and discontinued the amortization of goodwill as of January 1, 2002 (see Footnote 2, "Changes in Accounting Pronouncements," for further detail). Total costs and expenses for 2001 and 2000 exclude goodwill amortization expense for comparative purposes.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO THE YEAR ENDED DECEMBER 31, 2001:

Sales and revenues in 2002 were $4.99 billion, an increase of $309.6 million, or 6.6%, from 2001. Cost of sales and revenues for the year ended December 31, 2002 increased $167.4, or 5.5% from 2001. The increases were primarily attributable to increased sales in the Defense Electronics & Services, Fluid Technology, and Motion & Flow Control segments partially offset by volume declines in the Electronic Components segment.

Selling, general and administrative ("SG&A") expenses in 2002 were $720.2 million, an increase of $48.9 million, or 7.3%, from 2001. The increase was primarily attributable to increased marketing expenses in the Fluid Technology segment and costs associated with process improvement initiatives, increased information technology spending and increased other administrative expenses across all businesses.

Research, development and engineering ("RD&E") expenses increased $94.4 million, or 22.2% in 2002 compared to 2001, primarily due to increased spending in the Defense Electronics & Services segment.

During 2002 management conducted quarterly progress reviews of the Company's remaining restructuring actions and determined that $13.1 million of planned cash expenditures would not be incurred. Accordingly, $13.1 million of restructuring accruals, primarily relating to the 2001 Restructuring Plan, were reversed into income. Also, during the fourth quarter of 2002, the Company recorded a restructuring charge of $9.6 million related to the termination of 292 persons and the closure of two facilities. During 2001 the Company recorded a $97.7 million restructuring and asset impairment charge to reduce structural costs and improve profitability. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information regarding these matters.

Operating income of $537.6 million in 2002 was $140.8 million, or 35.5%, higher than the prior year (excluding goodwill amortization expense the increase was $100.1 million, or 22.9%). Operating margin of 10.8%, was 230 basis points higher than the margin for 2001 (approximately 140 basis points higher than 2001, excluding goodwill amortization expense). Excluding goodwill amortization expense, the increases were primarily due to the $97.7 million restructuring and asset impairment charge recorded in 2001 and increased segment volume, these items partially offset by lower operating margins in the Electronic Components segment, reflecting higher SG&A expenses. Increased corporate expenditures reflecting the cost of process improvement initiatives, increased information technology spending, and increased administrative expenses, also offset the improved margin.

Interest expense of $32.4 million (net of interest income of $11.0 million) decreased $29.6 million from 2001 primarily due to a favorable change in average interest rates and lower average debt levels as a result of increased cash from operations.

The effective income tax rate for 2002 was 25.3% compared to 35.0% for 2001. The decrease in the 2002 effective tax rate is due to approximately $31 million of tax gains related to a capital loss carryback and the benefit of several foreign tax planning initiatives initiated in 2002 and 2001 to reduce the structural rate. The elimination of goodwill expense, pursuant to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") also contributed to the decline in the effective tax rate.

Income from continuing operations in 2002 was $379.9 million, or $4.06 per diluted share, compared to $216.7 million, or $2.39 per diluted share. The increase was due to higher operating income and lower interest expense. These items were partially offset by higher income tax expense.

During the fourth quarter of 2001, the Company reassessed accruals for discontinued operations, determined that activities related to those accruals would be completed for $60.0 million less than originally estimated and reversed the related accruals into income. The excess was primarily related to favorable foreign tax rulings. See the section entitled "Discontinued Operations" and Note 5, "Discontinued Operations," in the Notes to Consolidated Financial Statements for additional information.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000:

Sales and revenues in 2001 were $4.68 billion, a decrease of $153.7 million, or 3.2%, from 2000. Cost of sales and revenues for the year ended December 31, 2001 decreased $150.8 million, or 4.7% from 2000. The decreases were primarily attributable to the downturn in the communications and industrial connectors markets of Electronic Components and the scheduled wind down of certain Defense Electronics & Services contracts. These declines were partially offset by new contract revenue at Defense Electronics & Services and revenues from acquisitions made in 2000.

SG&A expenses in 2001 were $671.3 million, a decrease of $42.3 million, or 5.9%, from 2000. The decrease is primarily attributable to lower marketing expenses at Fluid Technology and Electronic Components and reduced administrative expenses at Electronic Components. RD&E expenses increased $33.5 million, or 8.6%, in 2001 compared to 2000, primarily due to increased spending in the Defense Electronics & Services segment.

In December 2001, the Company announced a restructuring program to reduce structural costs and improve profitability. Accordingly, a charge of $83.3 million was recorded. In addition, based on a review of long lived assets in the Electronic Components segment, the Company recorded an impairment charge of $14.4 million. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on these topics. There were no restructuring or asset impairment charges recorded in 2000.

Operating income of $396.8 million in 2001 was $96.3 million, or 19.5%, lower than the prior year due to the $97.7 million restructuring and asset impairment charges taken in 2001. Operating margin of 8.5%, was approximately 170 basis points lower than the margin for 2000. The decrease is primarily due to the above mentioned restructuring and asset impairment charges and lower sales volume. These items were partially offset by cost reduction efforts related to non-production purchases and savings from headcount reductions, primarily reflecting normal employee attrition. Improved product mix also partially offset the decline.

Interest expense of $62.0 million (net of interest income of $6.8 million) decreased $13.2 million from 2000 due to a favorable change in average interest rates and increased cash from operations, partially offset by higher average debt in the first half of 2001 associated with several acquisitions made in 2000.

The effective income tax rate for 2001 was 35.0% compared to 37.0% for 2000. The decrease in the 2001 effective tax rate was due to several initiatives taken in 2001 and 2000 to reduce the structural rate.

Income from continuing operations in 2001 was $216.7 million or $2.39 per diluted share compared to $264.5 million, or $2.94 per diluted share. The decrease in net income, was primarily due to restructuring and asset impairment charges discussed above, partially offset by a decrease in interest expense and the lower effective tax rate.

During the fourth quarter of 2001, the Company reassessed accruals for discontinued operations, determined that activities related to those accruals would be completed for $60.0 million less than originally estimated and reversed the related accruals into income. The excess was primarily related to favorable foreign tax rulings. See the section entitled "Discontinued Operations" and Note 5, "Discontinued Operations," in the Notes to Consolidated Financial Statements for additional information.

BUSINESS SEGMENT INFORMATION

YEAR ENDED DECEMBER 31, 2002 COMPARED TO THE YEAR ENDED DECEMBER 31, 2001:

Fluid Technology sales and revenues of $1.96 billion increased $126.6 million, or 6.9%, from 2001. Cost of sales and revenues increased $82.6 million, or 6.9%. The increases reflect increased volume in the Water/Wastewater and Engineered Process Solutions Group businesses, and the contribution of 2002 acquisitions, partially offset by volume declines in the Industrial Pump business. SG&A expenses increased $20.3 million, or 5.8%, during 2002 primarily due to increased marketing costs. During 2002, management conducted quarterly progress reviews of the remaining restructuring actions and reversed $1.5 million of the segment's restructuring accruals that were deemed unnecessary. Additionally, during the fourth quarter of 2002, the Fluid Technology segment recorded a restructuring charge of $6.0 million, primarily for the reduction of 147 employees and the closure of one facility. During the fourth quarter of 2001, the segment recorded a $16.0 million restructuring charge. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on this topic. Operating income, excluding goodwill amortization expense increased $30.9 million, or 14.0%, due to the factors discussed above.

Defense Electronics & Services sales and revenues of $1.51 billion increased $209.1 million, or 16.0%, compared to 2001. Cost of sales and revenues increased $99.8 million, or 13.4% from 2001. The increases were primarily attributable to increased volume across all businesses. SG&A expenses were flat with prior year. RD&E costs increased $86.8 million, or 26.5%, in 2002 due to the fulfillment of increased expenditures related to customer contracts across all businesses. During the fourth quarter of 2002, management reviewed the remaining restructuring actions and reversed $1.0 million of the segment's restructuring accruals that were deemed unnecessary. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on this topic. Operating income for 2002 was $21.9 million, or 16.6%, greater than 2001 operating income, excluding goodwill amortization, due to the factors mentioned above. The Defense Electronics & Services segment's total backlog was $2.8 billion and $2.6 billion at December 31, 2002 and 2001, respectively. The Company generally records new contract awards into backlog when funding has been authorized and appropriated by the customer. Management utilizes the backlog measurement when analyzing the operations of the Defense Electronics & Services segment and believes that it is a good indicator of the future performance of our defense businesses.

Motion & Flow Control recorded sales and revenues of $935.5 million and cost of sales and revenues of $692.8 million for the year, representing increases of $36.8 million, or 4.1%, and $26.5 million, or 4.0%, respectively, over 2001. The increases were primarily due to increased volume in the automotive fluid handling systems business due to higher North American build rates in 2002, market share gains in the friction materials business and market growth in the leisure marine business, partially offset by declines at Aerospace Controls. SG&A expenses increased $4.9 million, or 6.0%, due to higher marketing expense and fixed asset losses during 2002, partially offset by decreased administrative expenses. During the second half of 2002, management reviewed the remaining restructuring actions and reversed $1.5 million of the segment's restructuring accruals that were deemed unnecessary. Additionally, during the fourth quarter of 2002, the Motion & Flow Control segment recorded a restructuring charge of $3.0 million, primarily for the reduction of 140 employees, the closure of one facility, and the consolidation of selected functions. During the fourth quarter of 2001, the segment recorded a restructuring charge of $8.1 million. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on this topic. Excluding goodwill amortization expense, operating income of $122.4 million increased $8.3 million, or 7.3%, from 2001 due to the above mentioned factors.

Electronic Components sales and revenues and cost of sales and revenues declined $63.5 million, or 9.8%, and $41.8 million, or 9.6%, respectively, from 2001. The declines reflect general softness in all of the segment's markets. SG&A expenses increased $11.8 million, or 13.5%, during 2002 due to increased general and administrative costs. During the second half of 2002, management reviewed the remaining restructuring actions and reversed $8.7 million of the segment's restructuring accruals that related to favorable completion of planned actions and the determination that certain planned actions were not economically feasible. Additionally, during the fourth quarter of 2002, the segment recorded a restructuring charge of $0.6 million. During 2001, the Company recorded restructuring and asset impairment charges of $55.2 million and $14.4 million, respectively. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on these topics. Excluding goodwill amortization expense, operating income of $70.4 million was up $44.6 million from 2001 due to the above mentioned factors.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000:

Fluid Technology sales and revenues of $1.83 billion declined $4.5 million, or 0.2%, from 2000. Cost of sales and revenues declined $1.6 million, or 0.1%. The decreases reflect the impact of foreign currency translation and continued weakness in the industrial pump markets partially offset by higher volume within the water and wastewater markets. SG&A expenses decreased $11.2 million, or 3.1%, during 2001 due to cost reduction initiatives, and lower marketing expense. Additionally, during the fourth quarter of 2001, the Fluid Technology segment recorded a restructuring charge of $16.0 million. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on this topic. Operating income decreased $3.8 million, or 1.8%, due to the factors discussed above.

Defense Electronics & Services sales and revenues of $1.30 billion decreased $29.8 million, or 2.2%, compared to 2000. The decline was primarily due to the scheduled wind down of certain large contracts partially offset by the contribution of new contract revenue. Cost of sales and revenues decreased $75.2 million, or 9.1%, from 2000 due to lower sales volume, improved margins on certain mature contracts and higher profitability on new contracts. SG&A expenses of $98.1 million increased $6.1 million, or 6.6% due to higher administrative costs. RD&E costs increased $33.0 million, or 11.2%, in 2001 due to increased spending in most businesses. Operating income for 2001 was $6.3 million, or 5.4%, greater than 2000 operating income due to the factors mentioned above. The Defense Electronics & Services segment's total backlog was $2.6 billion and $2.4 billion at December 31, 2001 and 2000, respectively. The Company generally records new contract awards into backlog when funding has been authorized and appropriated by the customer. Management utilizes the backlog measurement when analyzing the operations of the Defense Electronics & Services segment and believes that it is a good indicator of the future performance of our defense businesses.

Motion & Flow Control recorded sales and revenues of $898.7 million in 2001, representing an increase of $9.8 million, or 1.1%, over 2000. The increase is due to automotive market share gains in Europe and North America and sales growth in the Aerospace Controls business partially offset by softness in the leisure marine market, the impact of the decline in North American automotive build rates and the impact of foreign currency translation. During 2001, cost of sales and revenues increased $12.1 million, or 1.8%, due to increased volume and start-up costs associated with new European programs at Fluid Handling Systems partially offset by process improvements at North American Fluid Handling Systems. SG&A expenses increased $2.1 million, or 2.7%, due to increased administrative expenses. During 2001, the segment recorded an $8.1 million restructuring charge. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on this topic. Operating income of $109.6 million declined $14.7 million, or 11.8%, from 2000 due to the above mentioned factors.

Electronic Components sales and revenues were $647.0 million in 2001, representing a decrease of $127.6 million, or 16.5%, from 2000. The decrease reflects a downturn in the communications and industrial markets and the negative impact of foreign currency translation partially offset by revenues from acquisitions made in 2000 (which combined added approximately $64 million of incremental sales). Cost of sales and revenues decreased $86.3 million, or 16.5%, during 2001 due to lower sales volume. SG&A expenses declined $34.9 million, or 28.5%, during 2001 due to cost reduction actions and headcount reductions resulting from normal employee attrition. RD&E expenses of $28.6 million in 2001 increased $2.1 million, or 7.9% due to increased spending. Also, during 2001, the Company recorded restructuring and asset impairment charges of $55.2 million and $14.4 million, respectively. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on these topics. Operating income of $16.3 million was down $82.7 million, or 83.5%, from 2000 due to the above mentioned factors.

STATUS OF RESTRUCTURING AND ASSET IMPAIRMENTS

2002 RESTRUCTURING ACTIVITIES

During the fourth quarter of 2002 the Company recorded a $9.6 million restructuring charge primarily for the closure of two facilities and the severance of 292 persons. Severance of $8.5 million represents a majority of the charge and lease payments and other costs represent the remainder.

Listed below, by business segment, is background information on the 2002 restructuring plan (in millions).

	CASH CHARGES			
	SEVERANCE	LEASE PAYMENTS/ TERMINATIONS	OTHER	TOTAL
Fluid Technology.....	$5.4	$0.4	$0.2	$6.0
Motion & Flow Control............	2.5	-	0.5	3.0
Electronic Components.........	0.6	-	-	0.6
Total 2002 Charges...	$8.5	$0.4	$0.7	$9.6

The actions within the Fluid Technology segment represent a reduction of its cost structure that management deemed necessary in response to continued weakness within certain of the segment's markets. Planned measures include the closure of one facility in Fairfield, N.J. and the termination of 147 persons, comprised of 78 office workers, 65 factory workers and four management employees.

The restructuring plan within the Motion & Flow Control segment was driven by the anticipated loss of certain platforms in the automotive fluid handling systems business during 2003 and the resulting excess capacity. Planned actions include the closure of one facility in Rochester, N.Y., the consolidation of manufacturing and administrative processes, and the termination of 140 employees, comprised of 40 office workers, 97 factory workers and three management employees.

The actions within the Electronic Components segment represent cost control actions required by continuing difficult market conditions. These actions include the termination of five employees, comprised of three office workers and two management employees.

The following table displays a rollforward of the restructuring accruals for the 2002 restructuring program (in millions):

	CASH CHARGES			
	SEVERANCE	LEASE COMMITMENTS	OTHER	TOTAL
Establishment of 2002 Plan...............	$ 8.5	$0.4	$0.7	$ 9.6
Payments.............	(0.9)	--	--	(0.9)
Balance December 31, 2002...............	$ 7.6	$0.4	$0.7	$

8.7 ===== ==== ====
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As of December 31, 2002, remaining actions under restructuring activities announced during 2002 were to close two facilities, and reduce headcount by 232 persons. All of the actions contemplated by the 2002 restructuring program will be completed in 2003. Some severance run-off payments will occur in 2004 and closed facility costs will continue through 2007. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

The projected future cash savings from the 2002 restructuring plan are approximately $7 million in 2003 and approximately $46 million between 2004 and 2007. The savings represents lower salary and wage expenditures and decreased facility operating costs. The impact will be reflected in cost of sales and revenues and selling, general and administrative expenses.

2001 RESTRUCTURING ACTIVITIES

On December 14, 2001, the Company announced a restructuring program to reduce structural costs and improve profitability whereby the Company recorded a charge of $83.3 million related to the closure of five facilities, the discontinuance of 21 products (10 in the Switch product group and 11 in the Connectors group), the severance of 3,400 persons and other asset impairments. The cash portion of the charge of $61.0 million primarily relates to severance and lease termination costs. The non-cash portion of the charge of $22.3 million primarily relates to machinery and equipment that became impaired as a result of the announced plans.

Listed below, by business segment, is background information on the 2001 restructuring plan (in millions).

	CASH CHARGES				
	SEVERANCE	LEASE PAYMENTS/ TERMINATIONS	OTHER	ASSET IMPAIRMENTS	TOTAL
Electronic Components	$33.0	$1.5	$2.5	$18.2	$55.2
Fluid Technology	10.5	1.8	0.8	2.9	16.0
Motion & Flow Control	4.9	2.1	0.3	0.8	8.1
Corporate and Other	3.5	-	0.1	0.4	4.0
Total 2001 Charges	$51.9	$5.4	$3.7	$22.3	$83.3

In 2001, sales in the Electronic Components segment decreased $127.6 million, or 16.5%, and operating income, excluding restructuring, decreased $13.1 million, or 13.2%. Excluding the contribution of acquisitions made in 2001, sales decreased approximately $192 million. The decrease was primarily due to a downturn in the communication and industrial markets. In addition, management expected further sales declines in 2002, specifically in the communications, industrial, and commercial aircraft markets.

The combination of the downturn in these markets and the businesses acquired in 2000 and late 1999 resulted in excess capacity and prompted management to seek opportunities to reduce costs. As a result of this review, management decided to consolidate manufacturing functions as well as other administrative tasks throughout the segment. These planned actions included the outsourcing of production operations from Weinstadt, Germany to third party suppliers in Poland and Hungary, the transfer of ten product lines from five locations in North America and Europe (Loveland, Colorado; Santa Ana, California; Weinstadt, Germany; Basingstoke, UK; and Dole, France) to two locations in China (Shenzhen and Tianjin), the consolidation of European administrative functions, the transfer of production operations from Santa Ana, California to Nogales, Mexico, the closure of manufacturing facilities in Eden Prairie, Minnesota and Watertown, Massachusetts and other smaller actions consisting primarily of the elimination of administrative functions. In addition, management also decided to discontinue 21 older connector and switch products. Revenue in 2001 from these products totaled $29.3 million.

The above planned actions included the termination of 2,753 persons, comprised of 2,395 factory workers, 348 office workers and 10 management employees, and resulted in a cash charge of $37.0 million (which included $33.0 million for severance) and an asset impairment charge of $18.2 million (primarily for machinery and equipment that will be disposed of as a result of the restructuring activities).

Actions within the Fluid Technology segment, the Motion & Flow Control segment and Corporate Headquarters were identified as cost improvement opportunities. Processes and functions were identified that could be outsourced, performed at other existing facilities, or eliminated as redundant. These measures were prompted primarily by management's efforts to reduce costs and their projections of no recovery in the Industrial Pumps businesses and anticipated declines in worldwide automotive build rates.

The planned actions within the Fluid Technology segment included the outsourcing of manufacturing functions in City of Industry, California, Seneca Falls, New York and Ashland, Pennsylvania to third party suppliers in the United States, Mexico and China, the consolidation of tasks throughout the segment and the closure of a foundry in Nanjing, China. These actions incorporated the termination of 436 persons, comprised of 236 factory workers, 189 office workers and 11 management employees, and resulted in a cash charge of $13.1 million (which included $10.5 million for severance) and asset impairment charges of $2.9 million (primarily for machinery and equipment that was scrapped).

The planned actions in the Motion & Flow Control segment included the closure of a manufacturing facility in Costa Mesa, California, where the operations were to be consolidated into three existing facilities, the closure of a manufacturing facility in Saffron Walden, England, where the operations were to be consolidated into a facility in Denmark, the closure of a sales office in Germany and the consolidation of other administrative tasks. These actions included the projected termination of 183 persons comprised of 144 factory workers, 28 office workers and 11 management employees and resulted in a cash charge of $7.3 million (which included $4.9 million for severance) and asset impairment charges of $0.8 million (primarily for machinery and equipment that was discarded).

The planned actions at the Company's corporate headquarters and other shared service facilities consisted of the consolidation of administrative tasks which included the termination of 28 persons comprised of 26 office workers and two management employees and resulted in a cash charge of $3.6 million (which included $3.5 million for severance) and an asset impairment charge of $0.4 million.

During 2002 and 2001 the Company funded restructuring activities with cash from operations. The Company plans to fund future cash requirements for restructuring activities with cash from operations, supplemented, as required, by commercial paper borrowings.

The following table displays a rollforward of the restructuring accruals for the 2001 restructuring program (in millions):

	CASH CHARGES				
	SEVERANCE	LEASE COMMITMENTS	OTHER	ASSET IMPAIRMENTS	TOTAL
Establishment of 2001 Plan	$ 51.9	$ 5.4	$ 3.7	$ 22.3	$ 83.3
Payments	(11.5)	-	(0.1)	-	(11.6)
Asset Write-Offs	-	-	-	(22.3)	(22.3)
Balance December 31, 2001	$ 40.4	$ 5.4	$ 3.6	$ -	$ 49.4
Payments and other	(26.7)	(2.9)	(0.4)	-	(30.0)
Reversals	(8.7)	(1.2)	(1.9)	-	(11.8)
Balance December 31, 2002	$ 5.0	$ 1.3	$ 1.3	$ -	$ 7.6

During the third and fourth quarters of 2002, $1.7 million and $10.1 million of restructuring accruals were reversed into income as a result of quarterly reviews of the Company's remaining restructuring actions, respectively. The reversals primarily reflect less than anticipated severance costs on completed actions at each of the segments, the decision not to transfer five product lines (from Santa Ana, California; Weinstadt, Germany; Dole, France, and Basingstoke, UK, to Shenzhen and Tianjin, China), as supply chain issues eliminated the financial viability of the transfers, and the decision to continue partial operations at one of the Electronic Component's facilities. In addition, management determined that one facility within the Fluid Technology segment would remain operational as a suitable outsource supplier could not be identified.

During 2002, the Company reduced headcount by 855 persons and closed three facilities. As of December 31, 2002, remaining actions under the 2001 restructuring program include the closure of one facility and the termination of 24 persons. Severance run-off payments will occur in 2003 and closed facility expenditures will continue to be incurred through 2004. Revised future cash and non-cash savings are projected to be approximately $281 million and $25 million, respectively, for the period from 2003 to 2006.

OTHER ASSET IMPAIRMENTS

In the fourth quarter of 2001, the Company initiated a full review of long-lived assets in the Electronic Components segment because of significant volume declines and pricing pressures in the business and because management expected further volume declines in 2002, specifically in the communications market and the industrial and commercial aircraft markets. As a result of this review, the Company recorded impairments on machinery and equipment of $13.9

million and an impairment of $0.5 million on a cost based investment. The applicable assets were written down to their fair values based on management's comparison of projected future discounted cash flows generated by each asset to the applicable asset's carrying value. These impairments were unrelated to the Company's restructuring activities.

SUMMARY OF 2001 RESTRUCTURING ACTIVITIES AND OTHER ASSET IMPAIRMENTS

The total impact of the restructuring initiative and the asset impairment review was a charge of $97.7 million, or $63.5 million after-tax recorded in 2001. The revised projected aggregate future cash and non-cash savings of the above mentioned actions are approximately $281 million and $25 million, respectively, for the period from 2003 to 2006. These figures include total savings of $78.6 million in 2003. The savings will be reflected primarily in cost of sales and revenues and selling, general and administrative expenses. Actual savings approximated plan in 2002. During the second half of 2002 management reviewed the progress of the Company's remaining restructuring actions and determined that $11.8 million of cash expenditures would not be incurred. Accordingly, $11.8 million of restructuring accruals relating to the 2001 Restructuring Plan were reversed into the restructuring and asset impairments line of the Consolidated Income Statements.

In connection with the restructuring activities and the asset impairment charge, the Company identified assets with a total book value of $26.2 million, primarily machinery and equipment, for disposal. The Electronic Components segment identified $22.0 million, the Fluid Technology segment identified $3.4 million and the Motion & Flow Control segment identified $0.8 million for disposal. All assets will be disposed of by the end of 2003.

1999 RESTRUCTURING ACTIVITIES

In the fourth quarter of 1999, the Company recorded $20.2 million of charges related to restructuring activities, primarily for the closure of four facilities and severance of 324 persons. Listed below, by business segment, is background information on the 1999 restructuring plan (in millions).

	CASH CHARGES				
	SEVERANCE	LEASE PAYMENTS/ TERMINATIONS	OTHER	ASSET IMPAIRMENTS	TOTAL
Fluid Technology.........................	$ 5.1	$0.6	$1.2	$3.2	$10.1
Electronic Components....................	5.4	-	0.3	1.1	6.8
Defense Electronics & Services...........	0.3	-	-	-	0.3
Motion & Flow Control....................	1.3	0.2	0.4	1.1	3.0
Total 1999 Charges.......................	$12.1	$0.8	$1.9	$5.4	$20.2

In the fourth quarter of 1999 management in the Fluid Technology segment concluded that continued weakness in the industrial markets represented more than a temporary decline. As a result, to reduce excess capacity, factories in Guelph, Canada and Maracay, Venezuela were closed, along with related sales offices, with the functions moved to existing facilities. In addition, a warehouse in Nottingham, England was closed and consolidated into other European warehouses. Other positions were also determined redundant and were eliminated. These actions resulted in the termination of 175 persons comprised of 80 factory workers, and 95 office workers and resulted in a cash charge of $6.9 million (which included $5.1 million for severance) and an asset impairment charge of $3.2 million (primarily to reduce the building and related equipment to their fair market value).

In the Electronic Components segment, a facility was closed in Meaux, France with the operations consolidated into existing facilities or outsourced. The closure decision was based on sales declines of two of the major products manufactured at the facility and management's determination that it would be more cost effective to transfer the product line to a third party.

The closure of the Meaux facility resulted in the termination of 103 persons, comprised of 76 factory workers, 26 office workers and one management employee, and resulted in a cash charge of $5.7 million (which included $5.4 million for severance) and an asset impairment charge of $1.1 million (primarily for machinery

and equipment that will be disposed of as a result of the restructuring activities).

The restructuring actions at Defense Electronics & Services segment amount to $0.3 million and related to severance of five individuals whose positions were deemed redundant and were eliminated.

The actions within the Motion & Flow Control segment primarily related to headcount reductions at the Hockenheim, Germany factory and other headcount reductions. The decisions were part of an ongoing effort to reduce costs through consolidation of functions. The actions resulted in the termination of 43 persons comprised of 42 factory workers, and one office worker and resulted in a cash charge of $1.9 million (which included $1.3 million for severance) and an asset impairment charge of $1.1 million.

The following table displays a rollforward of the restructuring accruals for the 1999 restructuring program (in millions):

	CASH CHARGES				
	SEVERANCE	LEASE PAYMENTS/ TERMINATIONS	OTHER	ASSET IMPAIRMENTS	TOTAL
Establishment of 1999 Plan	$12.1	$ 0.8	$ 1.9	$ 5.4	$20.2
Payments	--	--	(0.1)	--	(0.1)
Asset Write-Offs	--	--	--	(5.4)	(5.4)
Balance December 31, 1999	$12.1	$ 0.8	$ 1.8	$ --	$14.7
Payments	(7.0)	(0.2)	(1.3)	--	(8.5)
Other	0.1	--	(0.2)	--	(0.1)
Balance December 31, 2000	$ 5.2	$ 0.6	$ 0.3	$ --	$ 6.1
Payments	(5.1)	(0.3)	--	--	(5.4)
Other	--	0.1	--	--	0.1
Balance December 31, 2001	$ 0.1	$ 0.4	$ 0.3	$ --	$ 0.8
Payments and other	(0.1)	(0.4)	--	--	(0.5)
Reversals	--	--	(0.3)	--	(0.3)
Balance December 31, 2002	$ --	$ --	$ --	$ --	$ --

As of December 31, 2002, the 1999 restructuring plan was completed.

OTHER ASSET IMPAIRMENTS

During the fourth quarter of 1999 the Company recorded $20.0 million of goodwill impairments at the Fluid Technology and Defense Electronics & Services segments. The goodwill impairments at the Fluid Technology segment related to an unprofitable Far East operation. The goodwill impairments at the Defense Electronics & Services segment related to a product line sold in January 2000. Both impairments were calculated based on management's future cash flow projections of the businesses.

SUMMARY OF 1999 RESTRUCTURING AND ASSET IMPAIRMENT ACTIVITIES

In the fourth quarter of 1999, the Company recorded $20.2 million of charges related to restructuring activities, primarily for the closure of four facilities and severance of 326 persons. The Company also recorded $20.0 million of goodwill write-offs at the Fluid Technology and Defense Electronics & Services segments.

In the fourth quarter of 1999, the Company determined that $44.8 million of accruals relating to 1998 restructuring plans was not going to be utilized and should be reversed into income during the quarter. The major components of the reversal amounts consisted of savings related to severance payments ($14.9 million), asset disposal costs ($15.4 million), and professional fees ($10.3 million) and other ($4.2 million). In the fourth quarter of 2002 the Company reversed $0.3 million and $1.0 million related to the 1999 and 1998 restructuring plans, respectively, as it was determined that these expenditures would not be incurred. As of

December 31, 2002 the 1999 and 1998 restructuring plans were complete.

DISCONTINUED OPERATIONS

In September of 1998, the Company completed the sales of its automotive Electrical Systems business to Valeo SA for approximately $1,700 million and its Brake and Chassis unit to Continental AG of Germany for approximately $1,930 million. These dispositions were treated as discontinued operations. In connection with the sale of these businesses, the Company established accruals for taxes of $972.7 million, representation and warranty and contract purchase price adjustments of $148.8 million, direct costs and other accruals of $102.0 million and environmental obligations of $16.1 million. In addition, the Company recorded a purchase price adjustment due from Valeo SA of approximately $70 million that related to a purchase price adjustment mechanism in the contract that called for the Company to pay or receive additional cash consideration depending upon the actual net assets sold as compared to a target of net assets specified in the contract.

In 1998 and 1999, the Company received notifications of claims from the buyers of the automotive businesses requesting post-closing adjustments to the purchase prices under the provisions of the sales agreements. The Company assessed the claims and determined that the probable outcome was reflected in the Company's original estimate recorded at time of sale. During 1999, those claims were submitted to arbitration.

The following tables display a rollforward of the automotive discontinued operations accruals from January 1, 1999 to December 31, 2002 (in thousands):

AUTOMOTIVE DISCONTINUED OPERATIONS ACCRUALS	BEGINNING BALANCE JANUARY 1, 1999	1999 SPENDING	1999 SETTLEMENTS	1999 OTHER ACTIVITY	ENDING BALANCE DECEMBER 31, 1999
Direct Costs/Other......	$ 22,274	$ (17,875)	$ --	$ --	$ 4,399
Representation & Warranty..............	83,818	--	(3,013)	--	80,805
Environmental...........	15,000	--	--	--	15,000
Income Tax..............	479,486	(243,170)	--	--	236,316
Total...................	$600,578	$(261,045)	$(3,013)	$ --	$336,520

In 1999, the Company disbursed $261.0 million primarily on federal and foreign tax obligations. The Company also paid $3.0 million to settle two automotive product recall issues.

AUTOMOTIVE DISCONTINUED OPERATIONS ACCRUALS	BEGINNING BALANCE JANUARY 1, 2000	2000 SPENDING	2000 SETTLEMENTS	2000 OTHER ACTIVITY	ENDING BALANCE DECEMBER 31, 2000

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Direct Costs/Other........	$ 4,399	$(4,347)	$ --	$ --	$ 52
Representation & Warranty................	80,805	(2,914)	--	(70,931)	6,960
Environmental.............	15,000	(253)	--	--	14,747
Income Tax................	236,316	--	--	--	236,316
Total.....................	$336,520	$(7,514)	$ --	$(70,931)	$258,075

In 2000, the Company made payments of $7.5 million for direct costs incurred in conjunction with the sale of the automotive businesses and for defense costs related to the claims filed by the buyers.

During the fourth quarter of 2000, with assistance from outside counsel, the Company determined that it was no longer probable that it would collect approximately $70 million from Valeo SA. The Company also determined that it was probable that it would not have to make payments to settle any outstanding Valeo SA claim. As a result, the Company reversed approximately $70 million of automotive discontinued operations accruals coincident with the reversal of the Valeo SA receivable. The net of these actions had no impact to the Consolidated Income Statement and resulted in the reduction of other liabilities and receivables, net, in the Consolidated Balance Sheet.

AUTOMOTIVE DISCONTINUED OPERATIONS ACCRUALS	BEGINNING BALANCE JANUARY 1, 2001	2001 SPENDING	2001 SETTLEMENTS	2001 OTHER ACTIVITY	ENDING BALANCE DECEMBER 31, 2001
Direct Costs/Other	$ 52	$ --	$ --	$ 755	$ 807
Representation & Warranty	6,960	(9,827)	(5,793)	18,160	9,500
Environmental	14,747	(135)	--	--	14,612
Income Tax	236,316	--	--	(82,165)	154,151
Total	$258,075	$(9,962)	$(5,793)	$(63,250)	$179,070

In 2001, the Company disbursed approximately $10 million primarily for legal defense costs related to the claims filed by the buyers. In the second quarter of 2001, the Company settled the Continental AG claim.

In the fourth quarter of 2001, the arbitration hearing with Valeo SA concluded. The Company also reassessed its obligations related to the disposal of the automotive businesses and determined that it would spend $63.3 million less on the disposition, primarily due to favorable foreign tax rulings. Based on this assessment, $63.3 million was reversed into the 2001 Consolidated Income Statement under income from discontinued operations.

AUTOMOTIVE DISCONTINUED OPERATIONS ACCRUALS	BEGINNING BALANCE JANUARY 1, 2002	2002 SPENDING	2002 SETTLEMENTS	2002 OTHER ACTIVITY	ENDING BALANCE DECEMBER 31, 2002
Other Deferred Liabilities	$ 807	$ (46)	$ --	$ --	$ 761
Accrued Expenses	9,500	(909)	--	12,007	20,598
Environmental	14,612	(75)	--	--	14,537
Income Tax	154,151	--	--	--	154,151
Total	$179,070	$(1,030)	$ --	$12,007	$190,047

In the first quarter of 2002, the arbitrator ruled that Valeo SA must pay the Company monies to settle the claim related to the sale of the Electrical Systems business.

At December 31, 2002, the Company has automotive discontinued operations accruals of $190.0 million that primarily relate to the following: taxes $154.2 million -- which are related to the original transaction and are recorded in accrued taxes; product recalls $8.0 million -- related to nine potential product recall issues which are recorded in accrued expenses; environmental obligations $14.5 million -- for the remediation and investigation of groundwater and soil contamination at 13 sites which are recorded in other liabilities; employee benefits $11.5 million -- for workers compensation issues which are recorded in accrued expenses; and other $1.9 million -- for professional fees of which $0.8 million are recorded in other liabilities and $1.1 million are recorded in accrued expenses. In 2002, the Company has spent approximately $1 million of the automotive discontinued operations accruals. The Company expects that it will cash settle $154.2 million of tax obligations in 2004 or 2005, when the IRS audit for the applicable year is concluded. The Company projects between $3.0 million and $4.0 million of annual spending related to its remaining automotive obligations.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to generate substantial cash from operations and remains in a strong financial position with resources available for reinvestment in existing businesses, strategic acquisitions and managing the capital structure on a short and long-term basis. The Company plans to fund its anticipated 2003 cash requirements with future cash from operations supplemented, as required, by commercial paper borrowings. The Company has a revolving credit agreement with 20 domestic and foreign banks, which provides aggregate commitments of $1.0 billion and expires in November 2005. The revolving credit agreement provides backup for the Company's commercial paper program. Commercial paper borrowings at December 31, 2002 were $264.8 million. There were no borrowings under the credit agreement at December 31, 2002. The provisions of this facility require the Company to maintain an interest coverage ratio, as defined, in excess of 3.75 times. At December 31, 2002, the Company's interest coverage ratio was well in excess of the minimum requirement.

CASH FLOWS:

Cash flows from operating activities were $594.8 million in 2002, an increase of $118.2 million, or 24.8%, from $476.6 million generated in 2001. The increase is largely attributable to lower tax payments and reduced spending of accrued expenses and accounts payable, partially offset by lower cash generated from accounts receivable and increased pension payments.

STATUS OF RESTRUCTURING ACTIVITIES:

Restructuring payments during 2002 totaled $32.2 million and were comprised primarily of expenditures related to the 2001 restructuring plan. The Company forecasts restructuring payments of $14.9 million in 2003, $1.3 million in 2004 and $0.1 million thereafter. All payments are projected to be made with future cash from operations supplemented, as required by commercial paper borrowings.

See Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for a detailed discussion.

ADDITIONS TO PLANT, PROPERTY AND EQUIPMENT:

Capital expenditures during 2002 were $153.2 million, a decrease of $20.8 million from 2001. Approximately 30% of the 2002 spending occurred at Fluid Technology primarily related to the expansion of existing product lines, new product lines and custodial replacement. Approximately 26% was incurred at Motion & Flow Control for process improvements and custodial replacement. Approximately 20% was spent at Electronic Components for new product introductions and manufacturing cost reduction initiatives. Defense Electronics & Services expended approximately 24% of the 2002 total, primarily related to the expansion of new and existing product lines, as well as custodial replacements. At December 31, 2002, contractual commitments have been made for future expenditures totaling approximately $33 million.

ACQUISITIONS:

During 2002, the Company spent $159.2 million primarily for the acquisition of nine entities. Eight of the entities were additions to the Fluid Technology segment and one was within the Defense Electronics & Services segment. The Company does not believe the acquisitions are material individually or in the aggregate to its results of operation or financial condition; however the larger of the acquisitions were as follows:

- Flowtronex PSI Inc. ("Flowtronex"), a manufacturer of modular pumping systems for golf courses and other turf irrigation, sports fields, municipal and commercial properties.

- PCI Membranes, a provider of membrane filtration and chlorine disinfection systems for water treatment and industrial water reuse.

- The Biopharm Manufacturing Division of Martin Petersen Company, Inc., a leading manufacturer of process systems for the biopharmaceutical industry.

All of the acquisitions were accounted for as purchases and, accordingly, the results of operations of each acquired company are included in the consolidated income statement from the date of acquisition. The excess of the purchase prices over the fair values of net assets acquired of $117.2 million was recorded as goodwill. The purchase price allocations for the 2002 acquisitions were based on preliminary data and changes are expected as evaluations are completed and as additional information becomes available. Additionally, the Company also finalized purchase price allocations related to the 2001 acquisitions, which resulted in a decrease in goodwill of $9.2 million.

During 2001, the Company spent approximately $91 million for several small acquisitions and investments, which were not considered material individually or in the aggregate. The acquisitions were accounted for as purchases and the excess of the purchase price over the fair values of net assets acquired of $72.1 million was recorded as goodwill. Additionally during 2001, the Company completed purchase price allocations related to acquisitions made during 2000, which resulted in an increase of goodwill of $18.3 million.

During 2000, the Company acquired C&K Components, Inc., Man-Machine Interface and several other small companies for approximately $192 million. The acquisitions were accounted for as purchases. Goodwill of $173.9 million was recorded by the Company in 2000 and amortized over a period of 25 to 30 years depending on the appropriate life.

Effective January 1, 2002, the Company ceased recording goodwill amortization in accordance with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Acquisitions made during the second half of 2001 had no goodwill amortization in accordance with SFAS No. 142. Goodwill associated with acquisitions made in the first half of 2001 was amortized over periods up to 40 years (See "Accounting Pronouncements" for further discussion of the impact of SFAS No. 142). Refer to Note 2, "Changes in Accounting Pronouncements," in the Notes to Consolidated Financial Statements for further discussion on the impacts of this statement.

DIVESTITURES:

During 2002, the Company sold its interest in a defense-related joint venture for approximately $6 million and other property and equipment for $5.6 million. In the second quarter of 2001, the Company sold two corporate planes for $30.7 million and other plant, property, and equipment across all businesses for $11.8 million. In 2000, the Company generated divestiture proceeds of $47.6 million. In the first quarter of 2000, the Company sold the net assets of GaAsTEK, a business in the Defense Electronics & Services segment, for $28.3 million. The remaining $19.3 million of cash proceeds from the sale of assets represents plant, property and equipment sales across all businesses.

SHARE REPURCHASE:

In 2002, 2001 and 2000, 0.7 million, 3.5 million and 1.7 million shares, respectively, were repurchased to offset the dilutive effect of exercised stock options.

DEBT AND CREDIT FACILITIES:

Debt at December 31, 2002 was $791.8 million, compared to $973.4 million at December 31, 2001. The decrease in debt of $181.6 million was due to strong cash flows from operating activities partially offset by the increase in the fair value of the Company's interest rate swaps during 2002.

CONTRACTUAL OBLIGATIONS:

The Company has entered into contractual obligations and commercial commitments, including long-term debt, capital and operating lease obligations and lines of credit. The Company leases certain offices, manufacturing buildings, land, machinery, automobiles, aircraft, computers, and other equipment. Such leases expire at various dates and may include renewals and escalations and often require the payment of maintenance, insurance, and tax expense. Future minimum operating lease payments under long-term operating leases as of December 31, 2002 are shown below (in millions).

2003	$ 61.3
2004	54.0
2005	45.6
2006	37.1
2007	31.7
2008 and thereafter	169.6
Total minimum lease payments	$399.3

The Company is also required to make principal payments on long-term debt over the next five years as follows (in millions):

2003	2004	2005	2006	2007
$17.8	$1.6	$3.7	$3.6	$2.2

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In November 2000, the Company entered into a revolving credit agreement, which expires in November 2005, with 20 domestic and foreign banks providing aggregate commitments of $1.0 billion. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate ("LIBOR"), plus a spread, which reflects the Company's debt rating. The provisions of these agreements require that the Company maintain an interest coverage ratio, as defined, of 3.75 times. At December 31, 2002, the Company's coverage ratio was well in excess of the minimum requirement. The commitment fee on the revolving credit agreement is .125% of the total commitment, based on the Company's current debt ratings. The revolving credit agreement serves as backup for the commercial paper program and is not otherwise restricted.

MARKET RISK EXPOSURES

The Company, in the normal course of doing business, is exposed to the risks associated with changes in interest rates, currency exchange rates, and commodity prices. To limit the risks from such fluctuations, the Company enters into various hedging transactions that have been authorized pursuant to the Company's policies and procedures. See Note 1, "Accounting Policies," and Note 18, "Financial Instruments," in the Notes to Consolidated Financial Statements.

To manage exposure to interest rate movements and to reduce its borrowing costs, the Company has borrowed in several currencies and from various sources. The Company has several fixed to floating interest rate swap agreements for a notional amount of $349.4 million. As a result of the swaps, the interest expense on substantially all of the Company's long-term debt is calculated on a variable, rather than fixed rate, basis. Terms of the agreements match the terms of the fixed debt and reference the three-month LIBOR. The carrying value of these swaps at December 31, 2002 and 2001 was $97.0 million and $46.2 million, including $4.0 million and $3.7 million of accrued interest, respectively.

At December 31, 2002 and 2001, the Company's short-term and long-term debt obligations were $791.8 million and $973.4 million, respectively. In addition, the Company's cash balances at December 31, 2002 and 2001 were $202.2 million and $121.3 million, respectively. Based on these positions and the Company's overall exposure to interest rates, changes of 15 and 21 basis points (equivalent to 10% of the Company's weighted average short-term interest rates, including the rates associated with the Company's interest rate swaps, at December 31, 2002 and 2001, respectively) on the Company's cash and marketable securities, and on its floating rate debt obligations and related interest rate derivatives, would have a $0.8 million and $1.7 million effect on the Company's pretax earnings for the years ended December 31, 2002 and 2001, respectively. Increases of 78 and 79 basis points in long-term interest rates (equivalent to 10% of the Company's weighted average long-term interest rates at December 31, 2002 and 2001, respectively) would have a $2.8 million and $3.6 million effect on the fair value of the Company's fixed rate debt for the years ended December 31, 2002 and 2001, respectively.

The multinational operations of the Company are exposed to foreign currency exchange rate risk. The Company utilizes foreign currency denominated forward contracts to hedge against adverse changes in foreign exchange rates. Such contracts generally have durations of less than one year. The Company has utilized foreign currency denominated derivative instruments to selectively hedge its net long-term investments in foreign countries. During 2002, the Company's largest exposures to foreign exchange rates exist primarily with the Euro, Swedish Krona, and British Pound against the U.S. Dollar. At December 31, 2002, the Company had nine foreign currency derivatives outstanding for a total notional amount of $109.1 million. A 10% adverse change in currency exchange rates for the Company's foreign currency derivatives and other foreign currency-denominated financial instruments, held as of December 31, 2002, would have an impact of approximately $4.3 million on the fair value of such instruments. During 2001, the Company's largest exposures to foreign exchange rates exist primarily with the Euro, Swedish Krona, and British Pound against the U.S. Dollar. At December 31, 2001, the Company had seven foreign currency derivatives outstanding for a total notional amount of $50.3 million. A 10% adverse change in currency exchange rates for the Company's foreign currency derivatives and other foreign currency-denominated financial instruments, held as of December 31, 2001, would have an impact of approximately $1.2 million on the fair value of such instruments. The Company uses derivative instruments to hedge exposures, and as such, the quantification of the Company's market risk for foreign exchange financial instruments does not account for the offsetting impact of the Company's underlying investment and transactional positions.

INCOME TAXES

FOREIGN TAX CREDITS:

As a global company, the Company makes provisions for, and pays taxes in, numerous jurisdictions, some of which impose income taxes in excess of equivalent U.S. domestic rates. Credit for such taxes is generally available under U.S. tax laws when earnings are remitted, or deemed to be remitted, to the United States. The Company expects to fully utilize credits generated through December 31, 2002 for income taxes paid in foreign jurisdictions.

DEFERRED TAX ASSETS:

The Company had net deferred tax assets of $532.9 million and $297.6 million at December 31, 2002 and 2001, respectively. The deferred tax assets for both periods are composed of U.S., foreign, state and local deferred tax assets. These net deferred tax assets arise from temporary differences between assets and liabilities for financial reporting and tax purposes and primarily relate to the timing of accrual payments, employee benefits, and accelerated depreciation. It is management's expectation that the Company will have sufficient future taxable income from continuing operations to utilize its deductions in future periods.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported value of assets and liabilities and the disclosure of contingent assets and liabilities.

The Company has identified three accounting policies where estimates are used that require assumptions or factors that are of an uncertain nature, or where a different estimate could have been reasonably utilized or changes in the estimate are reasonably likely to occur from period to period.

ENVIRONMENTAL:

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 can be reasonably estimated. The Company calculates the liability by utilizing a cost estimating and weighting matrix that separates costs into recurring and non-recurring categories. The Company then uses internal and external experts to assign confidence levels based on the site's development stage, type of contaminant found, applicable laws, existing technologies and the identification of other potentially responsible parties. This methodology produces a range of estimates, including a best estimate. At December 31, 2002, the Company's best estimate is $113 million, which approximates the accrual, related to the remediation of ground water and soil. The low range estimate for environmental liabilities is $85 million and the high range estimate is $174 million. On an annual basis the Company spends between $11 million and $14 million on its environmental remediation liabilities. These estimates are reviewed periodically and updated for progress of remediation efforts and changes in facts and legal circumstances. Liabilities for environmental expenditures are recorded on an undiscounted basis.

The Company is currently involved in the environmental investigation and remediation of 104 sites, including certain instances where it is considered to be a potentially responsible party by the United States Environmental Protection Agency ("EPA") or similar state agency.

At present, the Company is involved in litigation against its insurers for reimbursement of environmental response costs. Recoveries from insurance companies or other third parties are recognized in the financial statements when it is probable that they will be realized.

In the event that future remediation expenditures are in excess of the 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.

See Note 21, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional details on environmental matters.

EMPLOYEE BENEFIT PLANS:

The Company sponsors numerous employee pension and welfare benefit plans. These plans utilize various assumptions in the determination of projected benefit obligations and expense recognition related to pension and other postretirement obligations. These assumptions include: discount rates, expected rates of return on plan assets, rate of future compensation increases, mortality, termination and health care inflation trend rates, some of which are disclosed in Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements.

Key Pension Assumptions:

Management develops each assumption by using relevant Company experience in conjunction with market related data for each individual country in which such plans exist. All assumptions are reviewed periodically with third party actuarial consultants and adjusted as necessary.

At December 31, 2002, the Company lowered the discount rate on all of its domestic pension plans, which represent about 92% of the Company's total pension obligations, from 7.25% to 6.50%. The Company's weighted average discount rate for all pension plans, including foreign affiliate plans, at December 31, 2002, is 6.44%.

Reflecting lower future expected return on assets, the Company revised downward its estimate of the long-term rate of return on assets for domestic pension plans to 9.0%, from 9.75% at December 31, 2002. The revised estimate of 9.0% incorporates downward adjustments from historical levels of the risk-free rate of return and of the equity risk premium. For reference, the Company's average annual return on plan assets for domestic pension plans stood at 9.3%, 10.4%, 11.3% and 11.9%, for the past 10, 15, 20, and 25 year periods, respectively. The Company's weighted average expected return on plan assets for all pension plans, including foreign affiliate plans, at December 31, 2002, is 8.86%.

ASSUMPTION	2001	2002
Discount Rate	7.14%	6.44%
Long-Term Rate of Return on Assets	9.61%	8.86%

Pension Funding:

The Company contributed $50.0 million to the U.S. Master Trust in the fourth quarter of 2002, and contributed $200 million in the first quarter of 2003. As a result, the Company will not face substantial mandatory contributions in 2004, under current IRS contribution rules.

Depending on market conditions, and assuming that current IRS contribution rules continue to apply in the future, the Company estimates that it may be required to contribute an additional $200 million to $400 million in the 2005 to 2006 timeframe.

The Company's Defense Electronics & Services segment represents approximately 50% of the active U.S. Salaried Plan participants. As a result, the Company will seek reimbursement from the Department of Defense for a portion of its pension costs, in accordance with government regulations.

Funded Status:

Funded status is derived by subtracting the value of the projected benefit obligations at December 31, 2002 from the end of year fair value of plan assets.

During 2002, the Company's U.S. Salaried Pension Plan assets declined by $446.7 million to $2,341.8 million at the end of 2002. This decline reflected primarily a negative return on assets of $291.5 million, payments to plan beneficiaries of $202.3 million and Company contributions of $50.0 million. In addition, the projected plan obligation for the U.S. Salaried Pension Plan increased substantially due to the 75 basis point decrease in the discount rate at year-end. As a result, funded status for the Company's total pension obligation, including affiliate plans, deteriorated from $(383.5) million at the end of 2001 to $(1,323.9) million at the end of 2002.

Funded status at the end of 2003 will depend primarily on the actual return on assets during the year and the discount rate at the end of the year. The Company estimates that every 25 basis points change in the discount rate impacts the funded status of the U.S. Salaried Pension Plan, which represents about 81% of the Company's pension obligations, by approximately $90 million. Similarly, every five percentage points in the 2003 rate of return on assets impacts the same plan by approximately $130 million.

Assuming a range of return on assets of -5% to +5% for 2003, and a range of the discount rate of 6.25% to 6.75%, the Company estimates that the total projected benefit obligations will be underfunded by approximately $1.2 billion to $1.7 billion at December 31, 2003.

Minimum Pension Liability:

SFAS No. 87, "Employers Accounting for Pension," requires that a minimum pension liability be recorded if a plan's market value of assets falls below the plan's accumulated benefit obligation. In 2002, the combination of a decline in assets and a decline in the discount rate caused several of the Company's plans to show such a deficit. As a result, during 2002, the Company recorded a total after-tax reduction of $765.5 million to its total shareholders' equity. It is important to note that this reduction in total equity did not cause a default in any of the Company's debt covenants. Future recognition of additional minimum pension liabilities will depend primarily on the rate of return on assets and the prevailing discount rate.

Pension Expense:

The Company recorded $10.4 million of pension income into its Consolidated Income Statement in 2002. The Company expects to incur approximately $20 million of pension expense that will be recorded into its Consolidated Income Statement in 2003.

REVENUE RECOGNITION:

The Company recognizes revenue as services are rendered and when title transfers for products, subject to any special terms and conditions of specific contracts. For the majority of the Company's sales, title transfers when products are shipped. Under certain circumstances, title passes when products are delivered. In the Defense Electronics & Services segment, certain contracts require the delivery, installation, testing, certification and customer acceptance before revenue can be recorded. Further, some sales are recognized when the customer picks up the product.

The Defense Electronics & Services segment typically recognizes revenue and anticipated profits under long-term, fixed-price contracts based on units of delivery or the completion of scheduled performance milestones. Estimated contract costs and resulting margins are recorded in proportion to recorded sales. During the performance of such contracts, estimated final contract prices and costs (design, manufacturing, and engineering and development costs) are periodically reviewed and revisions are made when necessary. The effect of these revisions to estimates is included in earnings in the period in which revisions are made. There were no material revisions to estimates in the covered periods.

Accruals for estimated expenses related to warranties are made at the time products are sold or services are rendered. These accruals are established using historical information on the nature, frequency and average cost of warranty claims and estimates of future costs. Management believes the warranty accruals are adequate; however, actual warranty expenses could differ from estimated amounts. The accrual for product warranties at December 31, 2002 and 2001 was $40.4 million and $37.7 million, respectively. See Note 22, "Guarantees, Indemnities and Warranties," in the Notes to Consolidated Financial Statements for additional details.

ACCOUNTING PRONOUNCEMENTS

The Company adopted SFAS No. 141, "Business Combinations" ("SFAS No. 141"), effective July 1, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method. In addition, SFAS No. 141 requires intangible assets other than goodwill be identified. Such intangibles are required to be amortized over their economic useful lives. The adoption of SFAS No. 141, in 2001, did not have a material impact on the Company's results of operations or financial position.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, which changes the accounting for goodwill from an amortization method to an impairment only approach. The amortization of goodwill from past business combinations ceased upon adoption of this statement on January 1, 2002. In connection with the adoption of SFAS No. 142, the Company completed a transitional goodwill impairment test that compared the fair value of each reporting unit to its carrying value and determined that no impairment existed.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). The standard requires that legal obligations associated with the retirement of tangible long-lived assets be recorded at fair value when incurred. The Company adopted SFAS No. 143 effective January 1, 2003. The adoption of the pronouncement did not have a material impact on the Company's results of operations or financial position.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), effective January 1, 2002. SFAS No. 144 outlines accounting and financial reporting guidelines for the sale or disposal of long-lived assets and discontinued operations. The adoption of the pronouncement did not have a material impact on the Company's results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured at its fair value in the period it is incurred and applies prospectively to such activities that are initiated after December 31, 2002. The provisions of this standard are not expected to have a material effect on the Company's future results, results of operations or financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS No. 148"). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Statement also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results. The Company adopted the disclosure requirements of SFAS No. 148 effective December 2002 and continues to account for its plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issues to Employees."

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires the recognition of liabilities for guarantees that are issued or modified subsequent to December 31, 2002. The liabilities should reflect the fair value, at inception, of the guarantors' obligations to stand ready to perform, in the event that the specified triggering events or conditions occur. The Company is currently evaluating the provisions of this interpretation; however, it does not believe they will have a material effect on the Company's future results of operations or financial condition. The Interpretation also requires disclosure of accounting policies and methodologies with respect to warranty accruals, as well as a reconciliation of the change in these accruals for the reporting period. Refer to Note 22, "Guarantees, Indemnities and Warranties," in the Notes to Consolidated Financial Statements for additional information.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires unconsolidated variable interest entities to be consoli-dated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest after that date, and for variable interest entities created before this date, the provisions are effective July 1, 2003. The Company is currently evaluating the provisions of this interpretation; however, we do not believe they will have a material impact on the Company's results of operations or financial position.

RISKS AND UNCERTAINTIES

ENVIRONMENTAL MATTERS:

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

In estimating the costs of environmental investigation and remediation, the Company considers, among other things, regulatory standards, its prior experience in remediating contaminated sites, and the professional judgment of environmental experts. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such problems, the selection of alternative remedies, and changes in cleanup standards. When it is possible to create reasonable estimates of liability with respect to environmental matters, the Company establishes accruals in accordance with generally accepted accounting principles. Insurance recoveries are included in other assets when it is probable that a claim will be realized. Although the outcome of the Company's various remediation efforts presently cannot be predicted with a high level of certainty, management does not expect that these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows. For disclosure of the Company's commitments and contingencies, see Note 21, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements.

EURO CONVERSION:

The Company successfully implemented its Euro conversion plans and has not experienced any problems related to the conversion.

2003 OUTLOOK:

The Company does not expect improvement in overall economic conditions in 2003 due to continued low growth and overcapacity, which will continue to dampen capital spending. Moreover, the Company anticipates continued pricing pressure in its major commercial segments. The Company believes that Defense spending in the United States will increase. Overall, the Company expects 2003 revenue to increase 3% to 5% over 2002 revenue, partially as a result of acquisitions completed in 2002. Operating margin is expected to be flat with the 2002 operating margin reflecting the increased contribution of the Defense Electronics & Services segment and the challenging market conditions described above. Higher taxes, including the absence of a $61.2 million tax refund, are the primary reason that the Company anticipates lower EPS in 2003 of $3.70 to $3.90. The Company further expects cash from operating activities to be at least $370 million, reflecting the $200 million pre-funding of pension obligations.

In the Fluid Technology business, the Company expects continued growth in its Water & Wastewater businesses and weakness in Industrial Pumps will translate to revenue growth of 5% to 7% over 2002. In the Defense Electronics & Services business, the Company believes that its record backlog and program ramp-up will translate into revenue growth of 5% to 7% over 2002. In the Motion & Flow Control business, the Company expects that declines in worldwide automotive and airplane build rates, automotive platform losses and weakness in the aerospace controls market will translate into a revenue decline of 4% to 6% from 2002. In the Electronic Components business, the Company believes that pricing pressures and softness in most end markets will continue. To address these conditions, the Company will continue shifting its production footprint to low cost regions. It is anticipated that this will entail restructuring actions and associated period costs. Despite the challenging conditions, the Company believes the affect of new products and market penetration will result in revenue growth of flat to 3% from 2002.

The Company expects to receive tax refunds in 2003, some of which will favorably impact the effective tax rate and interest expense lines of the Consolidated Income Statements. The affect of these tax refunds are not included in the EPS guidance provided above.

FORWARD-LOOKING STATEMENTS

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

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

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

The Motion & Flow Control business will be affected by the cyclical nature of the transportation industries; strikes at major auto producers; and international demand for marine and leisure products.

The Electronic Components business will be affected by the economic conditions in its major markets, the success of new products and the cyclical nature of the industry.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedule herein.

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

In April 2002, the Company engaged Deloitte & Touche LLP (Deloitte & Touche) to serve as ITT's independent auditor for 2002. Prior to that date, Arthur Andersen LLP (Andersen) had served as the Company's independent public accountants.

The reports by Andersen on the Company's consolidated financial statements for the past two years did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. Andersen's report on ITT's consolidated financial statements for 2001 was issued on an unqualified basis in conjunction with the publication of ITT's 2001 Annual Report to Shareowners and the filing of ITT's Annual Report on Form 10-K.

During the Company's two most recent fiscal years, and through the date of the change, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to Andersen's satisfaction, would have caused them to make reference to the subject matter in connection with their report on the Company's consolidated financial statements for such years; and there were no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K.

The decision to change accountants was recommended by the Audit Committee and approved by the Board of Directors on March 22, 2002.

During 2002, there were no disagreements with Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to Deloitte & Touche's satisfaction, would have caused them to make reference to the subject matter in connection with their report on the Company's consolidated financial statements for 2002 and there were no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

ITT Industries has adopted a written code of ethics, "Code of Corporate Conduct," which is applicable to all ITT directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer, and Principal Accounting Officer and Controller and other executive officers identified pursuant to this Item 10 (collectively, the "Selected Officers"). In accordance with the Securities and Exchange Commission's rules and regulations a copy of the code has been filed as an exhibit to this Form 10-K and has been posted on our website. ITT Industries intends to disclose any changes in or waivers from its code of ethics applicable to any Selected Officer or director on its website at http://www.itt.com.

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 under the captions "Beneficial Ownership of ITT Industries Common Stock" and "Equity Compensation Plan Information".

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.

ITEM 14. CONTROLS AND PROCEDURES

(a) The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act) as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in identifying, on a timely basis, material information required to be disclosed in our reports filed or submitted under the Exchange Act.

(b) There have been no significant changes in our internal controls or in other factors that could significantly affect such controls since the Evaluation Date.

PART IV

ITEM 15. 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.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

REPORT OF MANAGEMENT

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

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

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

ITT Industries' internal controls provide for the careful selection and training of personnel and for appropriate divisions of responsibility. The controls are documented in written codes of conduct, policies, and procedures that are communicated to ITT Industries' employees. Management continually monitors the system of internal controls for compliance. In addition, based upon management's assessment of risk, both operational and financial, special reviews are performed by contracted auditors to periodically test the effectiveness of selected controls. The independent auditors also consider internal controls and perform tests of 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.

Within the past year ITT Industries established a Disclosure Committee with responsibility for considering and evaluating the materiality of information and reviewing disclosure obligations on a timely basis. The Disclosure Committee meets regularly, reports to the General Counsel and the Chief Financial Officer and assists the Chief Executive Officer and the Chief Financial Officer in designing, establishing, reviewing and evaluating the Company's disclosure controls and procedures.

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

/s/ Louis J. Giuliano	/s/ David J. Anderson
Louis J. Giuliano	David J. Anderson
Chairman, President and	Senior Vice President and
Chief Executive Officer	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

ITT INDUSTRIES, INC. AND SUBSIDIARIES

To Board of Directors and Shareholders of ITT Industries, Inc., White Plains, New York

We have audited the accompanying consolidated balance sheet of ITT Industries, Inc. and subsidiaries ("the Company") as of December 31, 2002, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company as of December 31, 2001 and for each of the years ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 23, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, such 2002 consolidated financial statements present fairly, in all material respects, the financial position of ITT Industries, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002 the Company changed its method of accounting for goodwill to conform to Statement of Financial Accounting Standards (SFAS) No. 142.

As discussed above, the consolidated financial statements of ITT Industries, Inc. and subsidiaries as of December 31, 2001, and for each of the years ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. Notes 6, 13 and 17 of these financial statements include additional disclosures related to 2001 and 2000. The additional disclosures and the audit procedures performed by us on those additional disclosures are described below.

Note 6 to the consolidated financial statements for the years ended December 31, 2001 and 2000 includes additional disclosures relating to the components comprising sales and revenues and costs of sales and revenues. Our audit procedures with respect to the disclosures in Note 6 with respect to 2001 and 2000 included (i) agreeing the previously reported sales and revenues and costs of sales and revenues to previously issued financial statements (ii) agreeing the product sales, service revenues, costs of product sales and costs of service revenues to the Company's underlying sales and revenues and costs of sales and revenues records obtained from management, (iii) agreeing the service revenues and costs of service revenues by segment to the Company's underlying service revenues and costs of service revenues records obtained from management, and (iv) testing the mathematical accuracy of the reconciliation of the product sales, service revenues, costs of product sales and costs of service revenues. In our opinion, the disclosures for 2001 and 2000 in Note 6 are appropriate.

As discussed in Note 13 to the consolidated financial statements, the consolidated financial statements for the years ended December 31, 2001 and 2000 have been revised to include the transitional disclosures required by SFAS No. 142, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures on the consolidated income statement and in Note 13 with respect to 2001 and 2000 included (i) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income, representing amortization expense (including any related tax effects) recognized in those periods related to goodwill and intangible assets that are no longer being amortized, to the Company's underlying records obtained from management, (ii) testing the mathematical accuracy of the reconciliation of reported net income to adjusted net income, and the related earnings per share amounts, (iii) agreeing goodwill by reportable segment, as of December 31, 2001, to the Company's underlying records obtained from management, (iv) agreeing amortized intangibles, including patents and other intangibles, and accumulated amortization, and unamortized intangibles, including brands, trademarks, and pension related intangibles, to the Company's underlying records obtained from management, and (v) testing the mathematical accuracy of the reconciliation of amortized intangibles and unamortized intangibles. In our opinion, the disclosures for 2001 and 2000 on the consolidated income statement and in Note 13 are appropriate.

Note 17 to the consolidated financial statements for the years ended December 31, 2001 and 2000 includes additional disclosures relating to the cash flow components comprising the individual changes in receivables, inventories, and accounts payable and accrued expenses. Our audit procedures with respect to the disclosures in Note 17 with respect to 2001 and 2000 included (i) agreeing the previously reported cumulative change in accounts receivables, inventories, and accounts payable and accrued expenses to previously issued financial statements (ii) agreeing the change in receivables, change in inventories, and change in accounts payable and accrued expenses to the Company's underlying records obtained from management, and (iii) testing the mathematical accuracy of the reconciliation of the change in receivables, inventories, and accounts payable and accrued expenses. In our opinion, the disclosures for 2001 and 2000 in Note 17 are appropriate.

We were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of the Company other than with respect to such disclosures mentioned above and, accordingly, we do not express an opinion or any other form of assurance on the 2001 or 2000 consolidated financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic 2002 financial statements taken as a whole. The supplemental schedule listed in the table of contents on page S-1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the Company's management. Such 2002 schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The 2001 and 2000 schedules were subjected to auditing procedures by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statement schedules in their report dated January 23, 2002.

/s/ Deloitte & Touche LLP
Stamford, Connecticut
January 22, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ITT INDUSTRIES, INC. AND SUBSIDIARIES

To the Shareholders of ITT Industries, Inc.:

We have audited the accompanying consolidated financial statements of ITT Industries, Inc. (an Indiana corporation) and subsidiaries as of December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001, as set forth on the accompanying Index to Consolidated Financial Statements and Schedule. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ITT Industries, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

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

ARTHUR ANDERSEN LLP

STAMFORD, CONNECTICUT
JANUARY 23, 2002

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with the Company's 2001 annual report on Form 10-K. This audit report has not been reissued by Arthur Andersen LLP. Refer to Exhibit 23.2 regarding the implications of the lack of an updated consent from Arthur Andersen LLP to the use of this audit report.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

Year ended December 31,	2002	2001	2000
(in millions, except per share amounts)			
Sales and revenues................................	$4,985.3	$4,675.7	$4,829.4
Costs of sales and revenues.......................	3,211.9	3,044.5	3,195.3
Selling, general and administrative expenses......	720.2	671.3	713.6
Research, development and engineering expenses....	519.1	424.7	391.2
Goodwill amortization expense....................	--	40.7	36.2
Restructuring and asset impairments...............	(3.5)	97.7	--
Total costs and expenses.........................	4,447.7	4,278.9	4,336.3
Operating income..................................	537.6	396.8	493.1
Interest expense, net............................	32.4	62.0	75.2
Miscellaneous (income) expense....................	(3.6)	1.4	(2.0)
Income from continuing operations before income taxes..	508.8	333.4	419.9
Income tax expense...............................	128.9	116.7	155.4
Income from continuing operations.................	379.9	216.7	264.5
Discontinued operations:			
Income from discontinued operations, including tax benefit of $50.7.........................	--	(60.0)	--
Net income..	$ 379.9	$ 276.7	$ 264.5
EARNINGS PER SHARE			
Income from continuing operations:			
Basic.......................................	$ 4.17	$ 2.46	$ 3.01
Diluted.....................................	$ 4.06	$ 2.39	$ 2.94
Discontinued operations:			
Basic.......................................	$ --	$ 0.68	$ --
Diluted.....................................	$ --	$ 0.66	$ --
Net income:			
Basic.......................................	$ 4.17	$ 3.14	$ 3.01
Diluted.....................................	$ 4.06	$ 3.05	$ 2.94
PRO FORMA RESULTS			
Reported net income............................	$ 379.9	$ 276.7	$ 264.5
Add back goodwill amortization, net of tax......	--	35.9	31.4
Adjusted net income............................	$ 379.9	$ 312.6	$ 295.9
Adjusted basic earnings per share..............	$ 4.17	$ 3.55	$ 3.37
Adjusted diluted earnings per share............	$ 4.06	$ 3.45	$ 3.29
AVERAGE COMMON SHARES -- BASIC....................	91.0	88.1	87.9
AVERAGE COMMON SHARES -- DILUTED..................	93.6	90.6	90.0

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31, 2002 (in millions)	PRETAX INCOME (EXPENSE)	TAX (EXPENSE) BENEFIT	AFTER-TAX AMOUNT
Net income			$ 379.9
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	$ 99.0	$ --	99.0
Unrealized (loss) gain on investment securities	(0.1)	--	(0.1)
Minimum pension liability	(1,172.2)	406.7	(765.5)
Total other loss	$(1,073.3)	$406.7	(666.6)
Comprehensive loss			$(286.7)

Year ended December 31, 2001 (in millions)	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income			$276.7
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	$(36.8)	$(1.0)	(37.8)
Unrealized gain (loss) on investment securities	0.7	--	0.7
Minimum pension liability	(9.6)	3.3	(6.3)
Total other loss	$(45.7)	$ 2.3	(43.4)
Comprehensive income			$233.3

Year ended December 31, 2000 (in millions)	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income			$264.5
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	$(69.1)	$ 8.2	(60.9)
Reclassifications included in net income	(5.6)	--	(5.6)
Unrealized (loss) gain on investment securities	(1.6)	--	(1.6)
Minimum pension liability	(20.4)	7.5	(12.9)
Total other loss	$(96.7)	$15.7	(81.0)
Comprehensive income			$183.5

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,	2002	2001
(in millions, except share and per share amounts)		
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 202.2	$ 121.3
Receivables, net	868.3	774.3
Inventories, net	552.9	496.3
Other current assets	77.1	66.9
Total current assets	1,700.5	1,458.8
Plant, property and equipment, net	841.2	791.0
Deferred income taxes	546.3	310.9
Goodwill, net	1,550.5	1,415.0
Other intangible assets, net	74.4	42.9
Other assets	676.7	489.8
Total non-current assets	3,689.1	3,049.6
TOTAL ASSETS	$5,389.6	$4,508.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 484.0	$ 400.5
Accrued expenses	725.3	727.9
Accrued taxes	221.3	251.2
Notes payable and current maturities of long-term debt	299.6	517.0
Total current liabilities	1,730.2	1,896.6
Pension benefits	1,430.3	199.0
Postretirement benefits other than pensions	198.7	195.9
Long-term debt	492.2	456.4
Other liabilities	400.9	384.7
Total non-current liabilities	2,522.1	1,236.0
TOTAL LIABILITIES	4,252.3	3,132.6
Shareholders' Equity:		
Common stock: Authorized -- 200,000,000 shares, $1 par value per share outstanding -- 91,824,515 shares and 88,786,701 shares	91.8	88.8
Retained earnings	1,939.1	1,514.0
Accumulated other comprehensive loss:		
Unrealized loss on minimum pension liability	(784.7)	(19.2)
Other comprehensive loss	(108.9)	(207.8)
Total accumulated other comprehensive loss	(893.6)	(227.0)
Total shareholders' equity	1,137.3	1,375.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$5,389.6	$4,508.4

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,	2002	2001	2000
	(in millions)		
OPERATING ACTIVITIES			
Net income	$379.9	$276.7	$264.5
Income from discontinued operations	--	(60.0)	--
Income from continuing operations	379.9	216.7	264.5
Adjustments to income from continuing operations:			
Depreciation and amortization	171.4	212.9	201.8
Restructuring and asset impairments	(3.5)	97.7	--
Payments for restructuring	(32.2)	(27.1)	(25.9)
Change in receivables, inventories, accounts payable, and accrued expenses	34.2	(68.5)	(26.9)
Change in accrued and deferred taxes	125.2	27.3	44.2
Change in other current and non-current assets	(56.7)	20.7	(2.0)
Change in other non-current liabilities	(33.3)	(5.1)	(34.2)
Other, net	9.8	2.0	(6.9)
Net Cash -- operating activities	594.8	476.6	414.6
INVESTING ACTIVITIES			
Additions to plant, property and equipment	(153.2)	(174.0)	(180.6)
Acquisitions	(159.2)	(90.9)	(192.0)
Proceeds from sale of assets and businesses	11.6	42.5	47.6
Other, net	(3.2)	2.4	(1.3)
Net Cash -- investing activities	(304.0)	(220.0)	(326.3)
FINANCING ACTIVITIES			
Short-term debt, net	(235.8)	(32.4)	(43.5)
Long-term debt repaid	(3.3)	(77.2)	(21.1)
Long-term debt issued	0.7	6.4	0.9
Repurchase of common stock	(32.3)	(150.9)	(54.0)
Proceeds from issuance of common stock	93.3	104.3	27.4
Dividends paid	(54.3)	(52.9)	(52.9)
Other, net	--	0.9	(0.8)
Net Cash -- financing activities	(231.7)	(201.8)	(144.0)
EXCHANGE RATE EFFECTS ON CASH AND CASH EQUIVALENTS	5.3	(3.8)	(28.0)
NET CASH -- DISCONTINUED OPERATIONS	16.5	(18.4)	(9.3)
Net change in cash and cash equivalents	80.9	32.6	(93.0)
Cash and cash equivalents -- beginning of year	121.3	88.7	181.7
CASH AND CASH EQUIVALENTS -- END OF YEAR	$202.2	$121.3	$ 88.7
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 51.5	$ 77.6	$ 82.3
Income taxes	$ 22.9	$ 84.6	$108.6

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, (amounts in millions, except per share amounts)	Shares Outstanding 2002	Shares Outstanding 2001	Shares Outstanding 2000	Dollars 2002	Dollars 2001	Dollars 2000
COMMON STOCK						
Beginning balance	88.8	87.9	87.9	$ 88.8	$ 87.9	$ 87.9
Stock incentive plans	3.7	4.4	1.7	3.7	4.4	1.7
Repurchases	(0.7)	(3.5)	(1.7)	(0.7)	(3.5)	(1.7)
Ending balance	91.8	88.8	87.9	$ 91.8	$ 88.8	$ 87.9
RETAINED EARNINGS						
Beginning balance				$1,514.0	$1,306.9	$1,113.8
Net income				379.9	276.7	264.5
Common stock dividend declared -- $.60, $.60 and $.60				(54.8)	(52.9)	(52.9)
Issuances (repurchases)				100.0	(16.7)	(18.5)
Ending balance				$1,939.1	$1,514.0	$1,306.9
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)						
Unrealized Loss on Minimum Pension Liability:						
Beginning balance				$ (19.2)	$ (12.9)	$ --
Recognition of minimum pension liability				(765.5)	(6.3)	(12.9)
Ending balance				$ (784.7)	$ (19.2)	$ (12.9)
Unrealized Loss on Investment Securities:						
Beginning balance				$ (1.6)	$ (2.3)	$ (0.7)
Unrealized gain (loss)				(0.1)	0.7	(1.6)
Ending balance				$ (1.7)	$ (1.6)	$ (2.3)
Cumulative Translation Adjustments:						
Beginning balance				$ (206.2)	$ (168.4)	$ (101.9)
Translation of foreign currency financial statements				99.0	(37.8)	(66.5)
Ending balance				$ (107.2)	$ (206.2)	$ (168.4)
Other comprehensive loss				$ (108.9)	$ (207.8)	$ (170.7)
Total accumulated other comprehensive loss				$ (893.6)	$ (227.0)	$ (183.6)
TOTAL SHAREHOLDERS' EQUITY				$1,137.3	$1,375.8	$1,211.2

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

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

NOTE 1
ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES:

The consolidated financial statements include the accounts of ITT Industries, Inc. and all majority owned subsidiaries (the "Company"). The Company consolidates companies in which it owns more than 50% of the voting shares. The results of companies acquired or disposed of during the fiscal year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. All intercompany transactions have been eliminated. See Note 23, "Business Segment Information," for a description of the Company's segments.

SALES AND REVENUE RECOGNITION:

The Company recognizes revenues as services are rendered and when title transfers for products, subject to any special terms and conditions of specific contracts. Our Defense Electronics & Services segment generally recognizes sales and anticipated profits under long-term fixed-price contracts based on the units of delivery or the completion of scheduled performance milestones. Estimated contract profits are recorded into earnings in proportion to recorded sales. During the performance of such contracts, estimated final contract prices and costs are periodically reviewed and revisions are made as required. The effect of these revisions to estimates is included in earnings in the period in which the revisions are made. Sales under cost-reimbursement contracts are recorded as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs. For time-and-material contracts, revenue is recognized to the extent of billable rates times hours incurred plus material and other reimbursable costs incurred. Anticipated losses on contracts are recorded when first identified by the Company. Revenue arising from the claims process is not recognized either as income or as an offset against a potential loss until it can be reliably estimated and realization is probable.

RESEARCH, DEVELOPMENT AND ENGINEERING:

Significant costs are incurred each year in connection with research, development, and engineering ("RD&E") programs that are expected to contribute to future earnings. Such costs are charged to income as incurred, except to the extent recoverable under existing contracts. Approximately 78.0%, 76.4% and 74.6% of total RD&E costs were expended pursuant to customer contracts for each of the three years ended December 31, 2002, 2001 and 2000, respectively.

CASH AND CASH EQUIVALENTS:

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

INVENTORIES:

Most inventories are valued at the lower of cost (first-in, first-out or "FIFO") or market. A full absorption policy is employed using standard cost techniques that are periodically reviewed and adjusted when required. Potential losses from obsolete and slow-moving inventories are recorded when identified. Domestic inventories valued under the last-in, first-out ("LIFO") method represent 11.4% and 13.2% of total 2002 and 2001 inventories, respectively. There would not have been a material difference in the value of inventories if the FIFO method had been used by the Company to value all inventories.

LONG-LIVED ASSET IMPAIRMENT LOSSES:

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. When the undiscounted net cash flows are less than the carrying amount, losses are recorded for the difference between the discounted net cash flows of the assets and the carrying amount. Losses recognized in 2001 were recorded in restructuring and asset impairments. See Note 4, "Restructuring and

Asset Impairment Charges," for further discussions on these losses.

PLANT, PROPERTY AND EQUIPMENT:

Plant, property and equipment, including capitalized interest applicable to major project expenditures, are recorded at cost. For financial reporting purposes, depreciation is provided on a straight-line basis over the economic useful lives of the assets involved as follows: buildings and improvements -- five to 40 years, machinery and equipment -- two to 10 years, furniture and office equipment -- three to seven years, and other -- five to 40 years. Gains or losses on sale or retirement of assets are included in selling, general and administrative expenses.

GOODWILL AND OTHER INTANGIBLE ASSETS:

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill, the excess of cost over the fair value of net assets acquired, and indefinite-lived intangible assets are tested for impairment on an annual basis, or more frequently if circumstances warrant. As of January 1, 2002, pursuant to SFAS No. 142, the Company ceased amortization of all goodwill and indefinite-lived assets. During 2001 and 2000, goodwill was amortized on a straight-line basis over periods not exceeding 40 years, and purchased intangible assets including patents, trademarks and non-compete agreements were amortized on a straight-line basis over their economic useful lives not to exceed 40 years. See Note 2, "Changes in Accounting Pronouncements," for the impact of changes in accounting pronouncements on goodwill amortization.

INVESTMENTS:

Investments for which the Company does not have the ability to exercise significant influence and for which there is not a readily determinable market value are accounted for under the cost method of accounting. The Company periodically evaluates the carrying value of its investments accounted for under the cost method of accounting. Such investments were recorded at the lower of cost or estimated net realizable value as of year-end. For investments in which the Company owns or controls 20% or more of the voting shares, or over which it exerts significant influence over operating and financial policies, the equity method is used. The Company's share of net income or losses of equity investments is included in miscellaneous (income) expense in the Consolidated Income Statements and was not material in any period presented. Investments are included in other assets in the Consolidated Balance Sheets.

FOREIGN CURRENCY TRANSLATION:

Balance sheet accounts are translated at the exchange rate in effect at each year-end; income accounts are translated at the average rates of exchange prevailing during the year. Gains and losses on foreign currency translations are reflected in the cumulative translation adjustments component of shareholders' equity. The national currencies of the foreign companies are generally the functional currencies. Net gains from foreign currency transactions are reported currently in selling, general and administrative expenses and were $0.3, $2.9 and $2.5 in 2002, 2001, and 2000, 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. Changes in the spot rate of instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustments component of shareholders' equity. The Company and its subsidiaries are end-users and do not utilize these instruments for speculative purposes. The Company has rigorous standards regarding the financial stability and credit standing of its major counterparties.

Additionally, all derivative instruments are recorded on the balance sheet at fair value as derivative assets or derivative liabilities. Subject to certain specific qualifying conditions in SFAS

No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), a derivative instrument may be designated either as a hedge of the fair value of an asset or liability (fair value hedge), or as a hedge of the variability of cash flows of an asset or liability or forecasted transaction (cash flow hedge). For a derivative instrument qualifying as a fair value hedge, fair value gains or losses on the derivative instrument are reported in net income, together with offsetting fair value gains or losses on the hedged item that are attributable to the risk being hedged. For a derivative instrument qualifying as a cash flow hedge, fair value gains or losses associated with the risk being hedged are reported in other comprehensive income and released to net income in the period(s) in which the effect on net income of the hedged item is recorded. Fair value gains and losses on a derivative instrument not qualifying as a hedge are reported in net income.

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

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 other liabilities in the Consolidated Balance Sheets at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties. Recoveries from insurance companies or other third parties are included in other assets when it is probable that a claim will be realized.

STOCK-BASED EMPLOYEE COMPENSATION:

At December 31, 2002, the Company has two stock-based employee compensation plans and one stock-based non-employee director's compensation plan, which are described more fully in Note 20, "Shareholders' Equity." The Company accounts for these plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Had compensation cost for these plans been determined based on the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	2002	2001	2000
Net income As reported	$379.9	$276.7	$264.5
Deduct: Total stock-based employee compensation expense determined under the fair value based method for awards not reflected in net income -- net of tax	(21.4)	(27.1)	(12.0)
Pro forma net income	358.5	249.6	252.5
Basic earnings per share As reported	$ 4.17	$ 3.14	$ 3.01
Pro forma	3.94	2.83	2.87
Diluted earnings per share As reported	$ 4.06	$ 3.05	$ 2.94
Pro			

forma..........................
3.83 2.75 2.81 ------ ------ --

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 2002, 2001 and 2000: dividend yield of 1.65%, 1.89% and 1.99%, respectively; expected volatility of 28.30%, 27.61% and 26.79%, respectively; expected life of six years; and risk-free interest rates of 4.78%, 4.91% and 6.73%, respectively.

The value of stock based compensation that was recognized in selling, general and administrative expenses within the Consolidated Income Statements during the periods ended December 31, 2002, 2001 and 2000 were $0.6, $0.9, and $1.2, respectively.

EARNINGS PER SHARE:

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding and potentially dilutive common shares, which include stock options.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are revised as additional information becomes available. Actual results could differ from those estimates.

RECLASSIFICATIONS:

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

NOTE 2
CHANGES IN ACCOUNTING PRONOUNCEMENTS

The Company adopted SFAS No. 133, as amended, effective January 1, 2001. The adoption of SFAS No. 133 required the Company to record the total fair value of its interest rate swaps ("the Swaps") in the financial statements, which caused an increase to other assets and long-term debt of $39.7, bringing the carrying value of the Swaps to $42.5 at January 1, 2001. The carrying value of the Swaps at December 31, 2001 was $46.2 of which $42.5 was included in other assets and long-term debt and the remaining amount represents accrued interest. The adoption of SFAS No. 133 did not have a material impact on the consolidated results of operations or cash flows of the Company.

The Company adopted SFAS No. 141, "Business Combinations" ("SFAS No. 141"), effective July 1, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method. In addition, SFAS No. 141 requires intangible assets other than goodwill be identified. Such intangibles are required to be amortized over their economic useful lives. The adoption of SFAS No. 141, in 2001, did not have a significant impact on the Company's results of operations or financial position.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, which changes the accounting for goodwill from an amortization method to an impairment only approach. The amortization of goodwill from past business combinations ceased upon adoption of this statement on January 1, 2002. In connection with the adoption of SFAS No. 142, the Company completed a transitional goodwill impairment test that compared the fair value of each reporting unit to its carrying value and determined that no impairment existed.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). The standard requires that legal obligations associated with the retirement of tangible long-lived assets be recorded at fair value when incurred. The Company adopted SFAS No. 143 effective January 1, 2003. The adoption of the pronouncement did not have a material impact on the Company's results of operations or financial position.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), effective January 1, 2002. SFAS No. 144 outlines accounting and financial reporting guidelines for the sale or disposal of long-lived assets and discontinued operations. The adoption of the pronouncement did not have a material impact on the Company's results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured at its fair value in the period it is incurred and applies prospectively to such activities that are initiated after December 31, 2002. The provisions of this standard are not expected to have a material effect on the Company's future results, results of operations or financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS No. 148"). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results. The Company adopted the disclosure requirements of SFAS No. 148 effective December 2002 and continues to account for its plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issues to Employees."

Effective October 1, 2000, the Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in the financial statements. The adoption of SAB 101 did not have a material impact on the Company's consolidated results of operations, financial condition, or cash flows.

Effective January 1, 2000, the Company adopted Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" ("EITF 00-10"). EITF 00-10 requires that all shipping and handling costs billed to customers be recorded as sales. Sales and cost of sales in 2000 increased by approximately $16 due to the adoption of EITF 00-10. The adoption of EITF 00-10 had no effect on operating income, net income, EPS, financial condition or cash flows of the Company.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires the recognition of liabilities for guarantees that are issued or modified subsequent to December 31, 2002. The liabilities should reflect the fair value, at inception, of the guarantors' obligations to stand ready to perform, in the event that the specified triggering events or conditions occur. The Company is currently evaluating the provisions of this interpretation; however, does not believe they will have a material effect on the Company's future results of operations or financial condition. FIN 45 also requires disclosure of accounting policies and methodologies with respect to warranty accruals, as well as a reconciliation of the change in these accruals for the reporting period. Refer to Note 22, "Guarantees, Indemnities and Warranties," for additional information.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest in after that date, and for variable interest entities created before this date, the provisions are effective July 1, 2003. The Company is currently evaluating the provisions of this interpretation; however, we do not believe they will have a material impact on the Company's results of operations or financial position.

NOTE 3
ACQUISITIONS

During 2002, the Company spent $159.2 primarily for the acquisition of nine entities. Eight of the entities were additions to the Fluid Technology segment and one was within the Defense Electronics & Services segment. The Company does not believe the acquisitions are material individually or in the aggregate to its results of operations or financial condition; however the larger of the acquisitions were as follows:

- Flowtronex PSI Inc. ("Flowtronex"), a manufacturer of modular pumping systems for golf courses and other turf irrigation, sports fields, municipal and commercial properties.

- PCI Membranes, a provider of membrane filtration and chlorine disinfection systems for water treatment and industrial water reuse.

- The Biopharm Manufacturing Division of Martin Petersen Company, Inc., a leading manufacturer of process systems for the biopharmaceutical industry.

The Company recognized $117.2 of goodwill from these acquisitions, of which approximately $69 was tax deductible. The Fluid Technology segment was assigned $116.6 of goodwill and the Defense Electronics & Services segment was assigned the remaining $0.6.

In addition, in 2002, the Company finalized purchase price allocations associated with a 2001 acquisition which reduced goodwill by $9.2.

During 2001, the Company completed several small acquisitions for a total of $90.9, none of which exceeded $50.0. The aggregate acquisition costs exceeded the fair value of the net assets acquired by $72.1 and this excess has been recorded as goodwill. Goodwill related to acquisitions made before June 30, 2001 was amortized over periods up to 40 years. Goodwill related to acquisitions made after June 30, 2001 was not amortized, in accordance with SFAS No. 142.

In 2001, the Company also finalized purchase price allocations related to acquisitions made prior to 2001, which resulted in an increase to goodwill of $18.3.

During 2000 the Company completed acquisitions for a combined total of $192.0. The significant acquisitions were as follows:

On November 3, 2000, the Company acquired Man-Machine Interface ("MMI"), a mobile phone switch producer, from TRW Inc. for $61.9. The purchase price exceeded the fair value of the net assets acquired by $43.5 and the excess has been recorded as goodwill, which was amortized over a period of 25 years. MMI is a manufacturer of multilayer switch components and assemblies for the wireless mobile handset market. Annual sales of MMI approximated $53 in 2000.

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

All acquisitions were accounted for using the purchase method and accordingly, the results of operations of each acquired company are included in the consolidated income statement from the date of acquisition. The purchase price allocations for the 2002 acquisitions have been prepared on a preliminary basis and changes are expected as evaluations of assets and liabilities are completed and as additional information becomes available. The pro forma effect on the Company's net income and earnings per share for these acquisitions, as though the acquisitions occurred as of January 1 of each year, is not material and therefore has not been disclosed herein.

NOTE 4
RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Restructuring charges for the year ended December 31, 2002 are detailed in the following table:

	CASH RESTRUCTURING
Electronic Components	$0.6
Fluid Technology	6.0
Motion & Flow Control	3.0
TOTAL 2002 CHARGES	$9.6

During the fourth quarter of 2002, the Company recorded a $9.6 restructuring charge primarily for the closure of two facilities and the severance of 292 persons. Severance of $8.5 represents a majority of the charge and lease payments and other costs represent the remainder. The actions primarily occurred in Fluid Technology and Motion & Flow Control segments.

The actions within the Fluid Technology segment represent a reduction of its cost structure that management deemed necessary in response to continued weakness within certain of the segment's markets. Planned measures include the closure of the Fairfield, NJ facility and the termination of 147 persons, comprised of 78 office workers, 65 factory workers and four management employees.

The restructuring plan within the Motion & Flow Control segment was driven by the anticipated loss of certain contracts in the Fluid Handling business during 2003 and the resulting excess capacity. Planned actions include the closure of the Rochester, NY facility, the consolidation of manufacturing and administrative processes, and the termination of 140 employees, comprised of 40 office workers, 97 factory workers and three management employees.

The actions within the Electronic Components segment represent cost control actions and include the termination of five employees, comprised of three office workers and two management employees.

The projected cash savings from the 2002 restructuring plan total approximately $53 over the next five years, comprised of approximately $7 in 2003 and approximately $46 between 2004 and 2007. The savings represent lower salary and wage expenditures and decreased facility operating costs. Savings will be reflected in "Cost of Sales and Revenues" and "Selling, General and Administrative Expenses."

During 2003 the Company anticipates $8.2 of restructuring payments associated with the 2002 restructuring plan and $0.5 thereafter. Future restructuring payments will be funded with cash from operations, supplemented as required with commercial paper borrowings.

Restructuring and asset impairment charges for the year ended December 31, 2001 are detailed in the following table:

	CASH RESTRUCTURING	NON-CASH RESTRUCTURING	ASSET IMPAIRMENTS	TOTAL
Electronic Components	$37.0	$18.2	$14.4	$69.6
Fluid Technology	13.1	2.9	--	16.0
Motion & Flow Control	7.3	0.8	--	8.1
Corporate and Other	3.6	0.4	--	4.0

----- ----- -----
Total 2001
charges... $61.0
$22.3 $14.4 $97.7
===== ===== =====
=====

On December 14, 2001, the Company announced a restructuring program to reduce structural costs and improve profitability. The program primarily impacted the Electronic Components segment where a significant decline in sales volume occurred from 2000 to 2001 and where management expected a further sales decline in 2002. The restructuring actions at the other locations primarily related to process improvements. The planned restructuring activities involved the closure of five facilities, the discontinuance of 21 products and the termination of approximately 3,400 persons. In the Electronic Components segment, the planned actions included the closure of two facilities, the discontinuance of 21 older products, and workforce terminations of 2,753 persons through the consolidation and outsourcing of functions. Activities in the Fluid Technology segment consisted of the closure of one facility, and workforce reductions of 436 persons through the consolidation and outsourcing of functions. In the Motion & Flow Control segment, planned actions included the closure of two facilities and workforce reductions of 183 through the consolidation of functions. In addition, 28 Corporate and shared services positions were to be eliminated.

Also in the fourth quarter of 2001, the Company recorded asset impairments amounting to $14.4 for machinery and equipment and a cost based investment. These assets were written down to their fair values based on management's projections of the individual future cash flows to be generated by each of the assets. These assets were reviewed for impairment in the fourth quarter of 2001, because at that time business events indicated that the carrying amounts of the assets may not be recovered. Management deemed the market decline experienced in 2001 for certain products to be other than temporary and recognized that there exists significant pricing pressure in the Electronic Components segment that is expected to continue.

The cash portion of the restructuring charge included approximately $52 for severance and $9 of other, primarily for facility carrying costs to be incurred after the operations cease at the facilities. The non-cash portion of the restructuring charge represents asset impairments that were recorded based on management's projection of the cash flows to be generated by the assets until operations cease.

Revised future cash savings projections for the period 2003 to 2006 are approximately $281 and consist of decreased facility operating costs and lower salary and wage expenditures. The projected future non-cash savings for the same period are approximately $25 and primarily consist of decreased depreciation and amortization expense.

Restructuring and asset impairment charges for the year ended December 31, 1999 are detailed in the following table:

	CASH RESTRUCTURING	NON-CASH RESTRUCTURING	GOODWILL	TOTAL
Fluid Technology.....	$ 6.9	$3.2	$15.6	$25.7
Electronic Components..........	5.7	1.1	-	6.8
Defense Electronics & Services............	0.3	-	4.4	4.7
Motion & Flow Control.............	1.9	1.1	-	3.0
Total 1999 charges...	$14.8	$5.4	$20.0	$40.2

During 1999, the Company identified facilities to be shut down and relocated to lower cost areas or consolidated into existing facilities. In the fourth quarter of 1999, the Company also identified asset impairments at two facilities. The 1999 restructuring activities involved the closure of facilities and sales offices and reduction of workforce. In the Electronic Components segment, a factory was closed with a portion of the business being relocated. In the Defense Electronics & Services segment, several positions at two divisions were eliminated. The Fluid Technology segment closed two facilities and related service offices and also consolidated the operations of one warehouse into existing facilities. In the Motion & Flow Control segment, a workforce reduction occurred at one facility and certain assets were deemed impaired. The goodwill write-off at the Fluid Technology segment related to an unprofitable Far East operation and was calculated based on management's future cash flow projections of the business. The goodwill write-off at the Defense Electronics & Services segment related to a product line sold in January 2000.

During the fourth quarter of 1999, the Company also assessed its 1998 restructuring accruals, determined that activities related to those accruals would be completed for $44.8 less than originally estimated, and reversed the related accruals into income. The excess was primarily the result of favorable experience in employee separations and asset disposal costs that were not required.

The following table displays a rollforward of the cash restructuring accruals:

YEAR ENDED DECEMBER 31,	FLUID TECHNOLOGY	DEFENSE ELECTRONICS & SERVICES	MOTION & FLOW CONTROL	ELECTRONIC COMPONENTS	CORPORATE AND OTHER	TOTAL
Balance December 31, 1998........	$ 73.8	$15.1	$ 1.8	$ 42.7	$ 5.0	$138.4
Payments and other...............	(43.5)	(3.6)	(0.7)	(13.4)	(2.5)	(63.7)
Reversals........................	(19.7)	(8.6)	-	(16.5)	-	(44.8)
1999 charge......................	6.9	0.3	1.9	5.7	-	14.8
Balance December 31, 1999........	$ 17.5	$ 3.2	$ 3.0	$ 18.5	$ 2.5	$ 44.7
Payments and other...............	(15.0)	(1.3)	(2.7)	(5.7)	(1.5)	(26.2)
Balance December 31, 2000........	$ 2.5	$ 1.9	$ 0.3	$ 12.8	$ 1.0	$ 18.5
Payments and other related to prior charges..................	(1.4)	(0.9)	(0.3)	(12.4)	(1.0)	(16.0)
2001 charge......................	13.1	-	7.3	37.0	3.6	61.0
Payments related to the 2001 charge........................	(2.7)	-	(0.2)	(8.7)	-	(11.6)
Balance December 31, 2001........	$ 11.5	$ 1.0	$ 7.1	$ 28.7	$ 3.6	$ 51.9
Payments and other related to prior charges..................	(9.2)	-	(4.1)	(15.6)	(2.3)	(31.2)
Reversals of prior charges.......	(1.5)	(1.0)	(1.5)	(8.7)	(0.4)	(13.1)
2002 charge......................	6.0	-	3.0	0.6	-	9.6
Payments related to the 2002 charge........................	(0.3)	-	-	(0.6)	-	(0.9)
Balance December 31, 2002........	$ 6.5	$ -	$ 4.5	$ 4.4	$ 0.9	$ 16.3

During the third and fourth quarters of 2002, $13.1 of restructuring accruals were reversed into income as a result of quarterly reviews of the Company's remaining restructuring actions. The reversals applicable to 2001 planned restructuring actions totaled $11.8 and primarily reflect less than anticipated severance costs on completed actions at each of the segments, the decision not to transfer five product lines (from Santa Ana, California; Weinstadt, Germany; Dole, France, and Basingstoke, UK, to Shenzhen and Tianjin, China), as supply chain issues eliminated the financial viability of the transfers, and the decision to continue partial operations at one of the Electronic Component's facilities. In addition, management determined that one facility within the Fluid Technology segment would remain operational as a suitable outsource supplier could not be identified. The remaining $1.3 of restructuring reversals represents accruals under the 1998 and 1999 restructuring plans that management determined will not be incurred.

As of December 31, 2002, remaining actions announced during 2001 were to close one facility and the termination of 24 persons. Some severance run-off will occur in 2003 and closed facility expenditures will continue through 2004.

As of December 31, 2002, the restructuring actions announced in 1998 and 1999 were complete.

NOTE 5

DISCONTINUED OPERATIONS

In September of 1998, the Company completed the sales of its automotive Electrical Systems business to Valeo SA for approximately $1,700 and its Brake and Chassis unit to Continental AG of Germany for approximately $1,930. These dispositions were treated as discontinued operations. In 1998, the Company received notifications of claims from the buyers of the automotive business requesting post-closing adjustments to the purchase prices under the provisions of the sales agreements. In

1999, those claims were submitted to arbitration. In 2001 and early in 2002, both claims were favorably resolved.

During the fourth quarter of 2001 the Company reassessed its automotive discontinued operations accruals and determined that it had excess accruals on an after-tax basis of approximately $60. The Company reversed these accruals into the Consolidated Income Statements under income from discontinued operations. The excess was primarily related to the favorable foreign tax rulings.

At December 31, 2002, the Company had automotive discontinued operations accruals of $190.0 that primarily related to taxes ($154.2), product recalls ($8.0), environmental obligations ($14.5), employee benefits ($11.5) and other ($1.9). In 2002, the Company spent approximately $1.0. The Company expects that it will cash settle $154.2 of tax obligations in 2004 or 2005.

NOTE 6

SALES AND REVENUES AND COSTS OF SALES AND REVENUES

Sales and revenues and costs of sales and revenues consist of the following:

For the years ended December 31,	2002	2001	2000
Product sales..................	$4,277.1	$4,056.8	$4,309.0
Service revenues...............	708.2	618.9	520.4
Total sales and revenues.......	$4,985.3	$4,675.7	$4,829.4
Costs of product sales.........	$2,765.8	$2,651.3	$2,871.8
Costs of service revenues......	446.1	393.2	323.5
Total costs of sales and revenues......................	$3,211.9	$3,044.5	$3,195.3

The Defense Electronics & Services segment comprises $627.8, $540.5 and $451.2 of total service revenues for the years ended December 31, 2002, 2001 and 2000, respectively, and $374.0, $325.2 and $264.9 of total costs of service revenues, respectively, during the same period. The Fluid Technology segment comprises the majority of the remaining balances of service revenues and costs of service revenues.

NOTE 7

INCOME TAXES

Income tax data from continuing operations is as follows:

For the years ended December 31,	2002	2001	2000
Pretax income U.S.	$309.2	$190.0	$171.2
Foreign...........................	199.6	143.4	248.7
	$508.8	$333.4	$419.9
Provision (benefit) for income tax Current U.S. federal.......................	$(48.0)	$ (9.8)	$ 58.1
State and local....................	0.9	5.2	8.3

Foreign	44.7	32.7	93.2
	(2.4)	28.1	159.6
Deferred U.S. federal	104.0	71.1	(3.1)
State and local	-	-	-
Foreign	27.3	17.5	(1.1)
	131.3	88.6	(4.2)
Total income tax expense	$128.9	$116.7	$155.4

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

For the years ended December 31,	2002	2001	2000
Tax provision at U.S. statutory rate	35.0%	35.0%	35.0%
Foreign tax rate differential	0.4	2.1	1.5
Effect of repatriation of foreign earnings	(1.6)	(4.6)	(0.3)
State income taxes, net of federal benefit	0.1	1.0	1.3
Goodwill	-	2.7	1.9
Research & development credit	-	(0.9)	(1.5)
Tax benefit of foreign sales corporation	(0.9)	(1.7)	(0.6)
Capital loss carryback	(6.0)	-	-
Other	(1.7)	1.4	(0.3)
Effective income tax expense rate	25.3%	35.0%	37.0%

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

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

December 31,	2002	2001
Employee benefits	$379.2	$ 26.0
Accelerated depreciation	(42.1)	(31.2)
Nondeductible accruals	146.9	250.3
Long-term contracts	1.1	6.8
Uniform capitalization	9.8	9.3
Loss carryforward	-	13.6
Other	38.0	22.8
	$532.9	$297.6

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of certain subsidiaries amounting to approximately $48.6, since these amounts are permanently reinvested.

As of December 31, 2002, the Company had approximately $23 of foreign tax credit carryforwards. The credit carryforwards will expire as follows: $0.5 on December 31, 2003, $0.2 on December 31, 2004, $10.2 on December 31, 2005 and $12.1 on December 31, 2006.

Shareholders' equity at December 31, 2002 and 2001 reflects tax benefits related to the stock options exercised in 2002 and 2001 of approximately $40.2 and $30.8, respectively.

The IRS is currently examining the federal consolidated tax returns of the Company for the years ended December 31, 1996 and December 31, 1997. The IRS has completed its examination of all years through 1995. As of December 31, 2002, the Company believes the accrual for income taxes payable is sufficient to cover potential liabilities arising from these examinations.

NOTE 8

EARNINGS PER SHARE

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

For the years ended December 31,	2002	2001	2000
Basic Earnings Per Share			
Income from continuing operations available to common shareholders	$379.9	$216.7	$264.5
Average common shares outstanding	91.0	88.1	87.9
Basic earnings per share	$ 4.17	$ 2.46	$ 3.01
Diluted Earnings Per Share			
Income from continuing operations available to common shareholders	$379.9	$216.7	$264.5
Average common shares outstanding	91.0	88.1	87.9
Add: Impact of stock options	2.6(1)	2.5(2)	2.1(3)
Average common shares outstanding on a diluted basis	93.6	90.6	90.0
Diluted earnings per			

share..........	$ 4.06	$ 2.39	$ 2.94
	======	======	======

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

(1) Options to purchase 49,240 shares of common stock at an average price of $65.60 per share were outstanding at December 31, 2002 but were not included in the computation of diluted EPS, because the options' exercise prices were greater than the annual average market price of the common shares. These options expire in 2012.

(2) Options to purchase 12,923 shares of common stock at an average price of $45.87 per share were outstanding at December 31, 2001 but were not included in the computation of diluted EPS, because the options' exercise prices were greater than the annual average market price of the common shares. These options expire in 2011.

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

NOTE 9

RECEIVABLES, NET

Receivables consist of the following:

December 31,	2002	2001
Trade..	$811.2	$766.7
Other..	84.8	29.3
Less -- allowance for doubtful accounts......	(27.7)	(21.7)
	------	------
	$868.3	$774.3
	======	======

NOTE 10

INVENTORIES, NET

Inventories consist of the following:

	December 31, 2002	December 31, 2001
Finished goods	$147.6	$151.1
Work in process	195.9	142.2
Raw materials	280.3	270.4
Less -- progress payments	(70.9)	(67.4)
	$552.9	$496.3

NOTE 11

OTHER CURRENT ASSETS

At December 31, 2002 and 2001, other current assets consist primarily of advance payments on contracts, prepaid expenses and capitalized tooling costs.

NOTE 12

PLANT, PROPERTY AND EQUIPMENT, NET

Plant, property and equipment consist of the following:

	December 31, 2002	December 31, 2001
Land and improvements	$ 60.3	$ 55.3
Buildings and improvements	409.9	366.1
Machinery and equipment	1,481.5	1,340.2
Furniture, fixtures and office equipment	235.5	214.3
Construction work in progress	73.3	92.9
Other	44.3	32.7
	2,304.8	2,101.5
Less -- accumulated depreciation and amortization	(1,463.6)	(1,310.5)
	$ 841.2	$ 791.0

NOTE 13

GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the FASB issued SFAS No. 141 and SFAS No. 142. SFAS No. 141 eliminates the pooling of interests method of accounting for all business combinations initiated after June 30, 2001 and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The Company adopted SFAS No. 141 as of July 1, 2001.

As of January 1, 2002, the Company adopted SFAS No. 142 which addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill and indefinite-lived intangible assets be tested for impairment on an annual basis, or more frequently if circumstances warrant, and that they no longer be amortized. The provisions of the standard also require the completion of a transitional impairment test in the year of adoption, with any impairments identified treated as a cumulative effect of a change in accounting principle. In connection with the adoption of SFAS No. 142, the Company completed a transitional goodwill impairment test at its 12 identified reporting units and determined that no impairment exists.

In accordance with SFAS No. 142, goodwill associated with acquisitions consummated after June 30, 2001 is not amortized and the amortization of goodwill from business combinations consummated before June 30, 2001 ceased on January 1, 2002. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization is reflected on the face of the consolidated income statements included herein.

Changes in the carrying amount of goodwill for the year ended December 31, 2002 by operating segment are as follows:

YEAR ENDED DECEMBER 31,	DEFENSE ELECTRONICS & SERVICES	MOTION & FLOW CONTROL	FLUID TECHNOLOGY	ELECTRONIC COMPONENTS	CORPORATE AND OTHER	TOTAL
Balance as of December 31, 2001	$627.2	$303.0	$173.6	$306.2	$5.0	$1,415.0
Goodwill acquired during the period	116.6	0.6	--	--	--	117.2
Other, including foreign currency translation	26.1	0.1	2.5	(10.4)	--	18.3
Balance as of December 31, 2002	$769.9	$303.7	$176.1	$295.8	$5.0	$1,550.5

Information regarding the Company's other intangible assets follows:

	December 31, 2002	December 31, 2001
Amortized intangibles -- Patents and other	$32.1	$29.4
Accumulated amortization	(5.7)	(4.8)
Unamortized intangibles -- Brands and trademarks	12.7	12.5
Pension related	35.3	5.8
Net intangibles	$74.4	$42.9

Amortization expense related to intangible assets for the year ended December 31, 2002 was $0.9. Amortization expense for each of the five succeeding years will be approximately $1 per year.

NOTE 14

OTHER ASSETS

At December 31, 2002 and 2001, other assets primarily consist of prepaid pension expense, employee benefit plan costs, investments in unconsolidated companies, assets held in trusts and other receivables. Assets held in trusts are restricted for specified reasons, primarily environmental remediation costs and employee benefits and totaled $44.6 and $57.1 at December 31, 2002 and 2001, respectively.

Investments in unconsolidated companies consist of the following:

	December 31, 2002	December 31, 2001
Investments accounted for under the equity method:		
Motion & Flow Control 50% ownership of HiSAN joint venture	$ 9.3	$ 8.5
Fluid Technology 40% ownership in Sam McCoy, Malaysia		

3.0 3.1 Fluid Technology other
investments......................
2.9 2.6 Investments accounted for
under the cost method: Defense
Electronics & Services investment
in DigitalGlobe Inc.
securities.......................
43.5 38.7 Defense Electronics &
Services investment in Mesh
Networks....... 8.9 5.9
Other..............................
2.9 4.0 ----- ----- $70.5 $62.8
===== =====

During 2002, 2001 and 2000, the Company recorded sales to unconsolidated affiliates totaling $24.2, $22.6 and $23.4, respectively. In addition, the Company provided services to unconsolidated affiliate companies in 2002, 2001 and 2000 and received $0.5, $0.4 and $0.4, respectively, in exchange for these services. For all investments in unconsolidated companies, the Company's exposure is limited to the amount of the investment. All investments accounted for under the cost method represent voting right interests of less than 20%.

The HiSAN joint venture is a brake and fuel line supplier to Asian transplant OEM's in the United States. Annual sales of HiSAN are approximately $117. Digital Globe Inc. (formerly known as EarthWatch, Inc.) is a developmental stage company that recently launched a satellite capable of collecting high-resolution digital imagery of the Earth's surface, as well as a comprehensive image collection, enhancement and digital archive system.

NOTE 15

LEASES AND RENTALS

The Company leases certain offices, manufacturing buildings, land, machinery, automobiles, aircraft, computers and other equipment. Such leases expire at various dates and may include renewals and escalations. The Company often pays maintenance, insurance and tax expense related to leased assets. Rental expenses under operating leases were $60.2, $50.1 and $55.5 for 2002, 2001 and 2000, respectively. Future minimum operating lease payments under long-term operating leases as of December 31, 2002 are shown below.

2003	$ 61.3
2004	54.0
2005	45.6
2006	37.1
2007	31.7
2008 and thereafter	169.6
Total minimum lease payments	$399.3

NOTE 16

DEBT

Debt consists of the following:

December 31,	2002	2001
Commercial paper	$264.8	$441.3
Short-term loans	17.0	73.0
Current maturities of long-term debt	17.8	2.7
Notes payable and current maturities of long-term debt	$299.6	$517.0

	MATURITY	INTEREST RATE	LONG-TERM DEBT 2002	LONG-TERM DEBT 2001
Notes and debentures:				
	6/15/2003	8.875%	$ 13.5	$ 13.5
	2/1/2008	8.875%	13.2	13.2
	5/1/2011	6.500%	31.7	31.7
	7/1/2011	7.500%	37.4	37.4
	2/15/2021	9.750%	19.1	19.1
	4/15/2021	9.500%	13.6	13.6
	11/15/2025	7.400%	250.0	250.0
	8/25/2048	(1)	41.0	41.0
Other	2002 - 2014	(2)	22.2	23.6
Interest rate swaps			93.0	42.5
Subtotal notes and debentures			534.7	485.6
Less - unamortized discount			(24.7)	(26.5)
Long-term debt			510.0	459.1
Less - current maturities			(17.8)	(2.7)
Net long-term debt			$492.2	$456.4

(1) The interest rate for the note/debenture was 1.28% and 2.04% at December 31, 2002 and 2001, respectively.

(2) The weighted average interest rate was 5.24% and 5.50% at December 31, 2002 and 2001, respectively.

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

2003	2004	2005	2006	2007
$17.8	$1.6	$3.7	$3.6	$2.2

The weighted average interest rate for short-term borrowings was 1.73% and 2.69% at December 31, 2002 and 2001, respectively. The fair value of the Company's short-term loans approximates carrying value. The fair value of the Company's long-term debt is estimated based on comparable corporate debt with similar remaining maturities. As of December 31, 2002, the fair value of long-term debt was $517.9, compared to the fair value of $493.1 at December 31, 2001. The year over year increase in fair value reflects the impact of the decline in interest rates experienced during 2002.

In November 2000, the Company entered into a revolving credit agreement, which expires in November 2005, with 20 domestic and foreign banks providing aggregate commitments of $1.0 billion. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate ("LIBOR"), plus a spread, which reflects the Company's debt rating. The provisions of these agreements require that the Company maintain an interest coverage ratio, as defined, of 3.75 times. At December 31, 2002, the Company's coverage ratio was well in excess of the minimum requirement. The commitment fee on the revolving credit agreement is .125% of the total commitment, based on the Company's current debt ratings. The revolving credit agreement serves as backup for the commercial paper program and is not otherwise restricted.

Assets pledged to secure indebtedness amounted to $39.9 as of December 31, 2002.

NOTE 17

CASH FLOW INFORMATION

The change in receivables, inventories, payables and accrued expenses listed on the Consolidated Statements of Cash Flows for the twelve months ended December 31, 2002, 2001 and 2000 consist of the following:

TWELVE MONTHS ENDED DECEMBER 31,	2002	2001	2000
Change in accounts receivable................	$ 3.7	$ 69.1	$(87.4)
Change in inventories.......	(3.5)	(2.4)	41.3
Change in accounts payable and accrued expenses......	34.0	(135.2)	19.2
Change in receivables, inventories, accounts payable and accrued expenses..................	$34.2	$ (68.5)	$(26.9)

NOTE 18

FINANCIAL INSTRUMENTS

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

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

FINANCING STRATEGIES AND INTEREST RATE RISK MANAGEMENT:

The Company maintains a multi-currency debt portfolio to fund its operations. The Company at times uses interest rate swaps to manage the Company's debt portfolio, the related financing costs and interest rate structure.

At December 31, 2002 and 2001, the Company had interest rate swaps outstanding with notional values totaling $349.4. The carrying value of the swaps at December 31, 2002 and 2001 were $97.0 and $46.2, including $4.0 and $3.7 of accrued interest, respectively. The swaps were designed to manage the interest rate exposure associated with certain long-term debt. The swaps mature at various dates through 2025 and effectively convert much of the long-term debt mentioned in Note 16 above from fixed to variable rate borrowings. The variable interest rates are based on three-month LIBOR rates plus a spread, which reflects the Company's debt rating, and the coupon of the underlying long-term obligations. The weighted average variable and fixed interest rates were 1.51%

and 7.45% at December 2002. There were no ineffective portions of the interest rate swaps and no amounts were excluded from the assessment of effectiveness.

FOREIGN CURRENCY RISK MANAGEMENT:

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

There were no foreign currency cash flow hedges outstanding as of December 31, 2002. As of December 31, 2001, the Company had one foreign currency cash flow hedge that had appreciations of less than $0.1 during 2001. There were no changes in the forecasted transactions during 2002 or 2001 regarding their probability of occurring, which would require amounts to be reclassified to earnings.

The notional amount of the foreign currency forward contract utilized to hedge cash flow exposures was $1.1 at December 31, 2001. The applicable fair value at December 31, 2001 was $1.1. There was no ineffective portion of changes in fair values of cash flow hedge positions reported in earnings for the twelve month periods ended December 31, 2002 and 2001 and no amounts were excluded from the measure of effectiveness reported in earnings during the twelve month periods ended December 31, 2002 and 2001.

At December 31, 2002 and 2001, the Company had foreign forward contracts with notional amounts of $109.1 and $50.3, respectively, to hedge the value of recognized assets, liabilities and firm commitments. The fair values of the contracts were net short positions of $42.3 and $11.5 at December 31, 2002 and 2001, respectively. The ineffective portion of changes in fair values of such hedge positions reported in operating income during 2002 and 2001 amounted to $0.1 and $0.6, respectively. There were no amounts excluded from the measure of effectiveness.

The fair values associated with the foreign currency contracts have been valued using the net position of the contracts and the applicable spot rates and forward rates as of the reporting date.

NOTE 19

EMPLOYEE BENEFIT PLANS

PENSION PLANS:

The Company sponsors numerous defined benefit pension plans. The Company funds employee pension benefits, except in some countries outside the U.S. where funding is not required. The plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments and real estate. In addition to Company sponsored pension plans, certain employees of the Company participate in multi-employer pension plans sponsored by local or national unions. The Company's contribution to such plans amounted to $0.4, $0.4 and $1.5 for the years ended 2002, 2001 and 2000, respectively.

POSTRETIREMENT HEALTH AND LIFE INSURANCE PLANS:

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

INVESTMENT AND SAVINGS PLANS:

The Company sponsors numerous defined contribution savings plans, which allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. Several of the plans require the Company to match a percentage of the employee contributions up to certain limits. Matching contributions charged to income amounted to $25.3, $23.9 and $19.1 for the years ended 2002, 2001 and 2000, respectively.

Changes in the benefit obligations, changes in plan assets, the weighted-average assumptions and the components of net periodic benefit cost for the years ended 2002, 2001 and 2000 were as follows:

	PENSION		OTHER BENEFITS	
	2002	2001	2002	2001
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 3,617.0	$3,442.3	$ 496.6	$ 470.5
Service cost	61.9	58.9	4.9	5.0
Interest cost	251.2	246.2	37.7	34.7
Amendments made during the year	4.0	26.7	--	--
Actuarial (gain) loss	332.6	96.1	90.3	25.1
Benefits paid	(246.7)	(238.7)	(41.4)	(38.7)
Effect of currency translation	38.7	(14.5)	--	--
Benefit obligation at end of year	$ 4,058.7	$3,617.0	$ 588.1	$ 496.6
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 3,233.5	$3,652.1	$ 213.3	$ 241.1
Actual return on plan assets	(338.5)	(189.6)	(20.9)	(6.5)
Employer contributions	56.3	12.5	--	--
Employee contributions	0.9	0.6	--	--
Benefits paid	(231.8)	(225.5)	(14.6)	(21.3)
Effect of currency translation	14.4	(16.6)	--	--
Fair value of plan assets at end of year	$ 2,734.8	$3,233.5	$ 177.8	$ 213.3
Funded status	$(1,323.9)	$ (383.5)	$(410.3)	$(283.3)
Unrecognized net transition asset	0.5	0.8	--	--
Unrecognized net actuarial (gain) loss	1,463.1	444.8	225.3	106.3
Unrecognized prior service cost	30.4	35.5	(13.7)	(18.9)
Minimum pension liability adjustment	(1,237.5)	(35.8)	--	--
Prepaid (accrued) benefit cost recognized in the balance sheet	$(1,067.4)	$ 61.8	$(198.7)	$(195.9)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31,				
Discount rate	6.44%	7.14%	6.50%	7.25%
Expected return on plan assets	8.86%	9.61%	9.00%	9.75%
Rate of future compensation increase	4.88%	4.89%	5.00%	5.00%

	PENSION			OTHER BENEFITS		
	2002	2001	2000	2002	2001	2000
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	$ 61.9	$ 58.9	$ 56.7	$ 4.9	$ 5.0	$ 4.3
Interest cost	251.2	246.2	241.4	37.7	34.7	33.2
Expected return on plan assets	(335.0)	(325.2)	(302.8)	(19.8)	(22.5)	(24.0)
Amortization of transitional asset	0.3	(0.3)	(5.8)	--		

-- -- Amortization of net actuarial (gain) loss.............. 3.2 2.3 1.7 8.4 2.1 (0.7) Amortization of prior service cost..................... 8.0 9.0 8.6 (5.2) (5.9) (5.9) ------- ------- ------- ------ --- --- ------ Net periodic benefit cost.............................. $ (10.4) $ (9.1) $ (0.2) $ 26.0 $ 13.4 $ 6.9 ------- ---- --- ------- ------ ------ ------

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 10.0% for 2002. The rate was assumed to be 9.0% for 2003, decreasing ratably to 5.0% in 2007. Increasing the table of health care trend rates by one percent per year would have the effect of increasing the benefit obligation by $33.8 and the aggregate service and interest cost components by $2.4. A decrease of one percent in the trend rate would reduce the benefit obligation by $29.8 and the aggregate service and interest cost components by $2.0. To the extent that actual experience differs from the inherent assumptions, the effect will be amortized over the average future service of the covered active employees.

The determination of the assumptions shown in the table above and the discussion of health care trend rates is based on the provisions of the applicable Financial Accounting Standards, the review of various indexes, discussion with our consulting actuaries and the review of competitive surveys in the geographic areas where the plans are sited. Changes in these assumptions would affect the financial condition and results of operations of the Company.

NOTE 20

SHAREHOLDERS' EQUITY

CAPITAL STOCK:

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

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

As of December 31, 2002 and 2001, 53,323,493 and 56,361,307 shares of Common Stock were held in treasury, respectively.

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, except in certain instances of death, retirement or disability. Certain options become exercisable upon the earlier of the attainment of specified market price appreciation of the Company's common shares or at nine years after the date of grant. Other options become exercisable upon the earlier of the attainment of specified market price appreciation of the Company's common shares or over a three-year period commencing with the date of grant. The exercise price per share is the fair market value on the date each option is granted. The Company makes shares available for the exercise of stock options by purchasing shares in the open market or by issuing shares from treasury.

A summary of the status of the Company's stock option incentive plans as of December 31, 2002, 2001 and 2000, and changes during the years then ended is presented below (shares in thousands):

	2002		2001		2000	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	9,426	$29.21	11,856	$26.15	11,752	$23.95
Granted	2,114	51.06	2,077	37.14	1,938	33.13
Exercised	(3,628)	27.93	(4,415)	24.72	(1,737)	18.89
Canceled or expired	(25)	48.33	(92)	28.88	(97)	29.06
Outstanding at end of year	7,887	$35.59	9,426	$29.21	11,856	$26.15
Options exercisable at year-end	7,834	$35.39	8,636	$28.22	8,721	$22.81
Weighted-average fair value of options granted during the year	$15.77		$11.04		$10.78	

The following table summarizes information about the Company's stock options at December 31, 2002 (shares in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE

$15.69 - 15.72..........	466	1.7 years	$15.69	466	$15.69
20.32 - 28.38..........	1,569	3.3 years	23.70	1,569	23.70
30.31 - 36.88..........	3,027	7.0 years	34.30	3,027	34.30
37.50 - 46.04..........	1,059	6.1 years	39.76	1,059	39.76
50.65 - 69.11..........	1,766	9.0 years	51.12	1,713	50.67
	7,887			7,834	

As of December 31, 2002, 5,866,875 shares were available for future grants. Effective January 1, 2003, option shares available for future grants increased by 2,394,942 as a result of the annual limitation formulas established in the 1994 ITT Industries Incentive Stock Plan and the 2002 ITT Industries Stock Option Plan for Non-Employee Directors. The 1994 incentive stock plan also provides for awarding restricted stock subject to a restriction period in which the stock cannot be sold, exchanged or pledged. There were 10,000 restricted shares awarded in 2002 and no restricted shares awarded in 2001 and 2000.

During 2002, 2001 and 2000, pursuant to the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors, the Company awarded 6,098, 7,469 and 13,626 restricted shares with five-year restriction periods, respectively, in payment of the annual retainer for such directors. Restrictions may lapse earlier depending on certain circumstances.

NOTE 21

COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are from time to time involved in legal proceedings that are incidental to the operation of their businesses. Some of these proceedings allege damages against the Company relating to environmental liabilities (including toxic tort, property damage, and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warnings issues, asbestos exposure, or other product liability related matters), employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to vigorously defend itself against all claims. Accruals have been established where the outcome of the matter is probable and can be reasonably estimated. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including the Company's assessment of the merits of the particular claim, as well as its current reserves and insurance coverage, the Company does not expect that such legal proceedings will have any material adverse impact on the cash flow, results of operations or financial condition of the Company on a consolidated basis in the foreseeable future.

ENVIRONMENTAL:

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in Note 1, "Accounting Policies." In management's opinion, the total amount accrued and related receivables are appropriate based on existing facts and circumstances. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such conditions, 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.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. The Company has received notice that it is considered a potentially responsible party ("PRP") at a limited number of 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. As of December 31, 2002, the Company is responsible, or is alleged to be responsible, for 104 environmental investigation and remediation sites in various countries. In many of these proceedings, the Company's liability is considered de minimis. At December 31, 2002, the Company calculated a best estimate of $113.0, which approximates its accrual, related to the cleanup of soil and ground water. The low range estimate for its environmental liabilities is $85 and the high range estimate for those liabilities is $174. On an annual basis the Company spends between $11 and $14 on its environmental remediation liabilities.

The Company has been involved in an environmental proceeding in Glendale, California relating to the San Fernando Valley aquifer. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against the Company and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including the Company and Lockheed Martin, reached a settlement, embodied in a consent decree, requiring the PRPs to perform additional remedial activities. Pursuant to the settlement, the PRPs, including the Company, have constructed and are operating a water treatment system. The PRPs have agreed to operate the system for an additional 10 years. ITT and the other PRPs continue to pay their respective allocated costs of the operation of the water treatment system. Accordingly, at this time, ITT does not anticipate a default by any of the PRPs which would increase the Company's allocated share of the liability. As of December 31, 2002, the Company's accrual for this liability was $11.3 representing its best estimate; its low estimate for the liability is $7.4 and its high estimate is $16.4.

ITT operated a facility in Madison County, Florida from 1968 until 1991. In 1995, elevated levels of contaminants were detected at the site. Since then, ITT has been investigating the site in coordination with state and federal environmental authorities. A remedy for the site has not yet been selected. Currently, the estimated range for the costs of the additional investigation and the anticipated remediation is between $5.6 and $20.1 with a best estimate of $11.9. The Company has accrued $11.9 for this matter.

ITT has been involved with a number of PRPs regarding property in the City of Bronson, Michigan operated by a former subsidiary of ITT, Higbie Manufacturing, prior to the time ITT acquired the company. ITT and other PRPs are investigating and remediating discharges of industrial waste which occurred in the 1930's. The Company's current estimates for its exposure are between $3.2 and $6.6. It has an accrual for this matter of $4.6 which represents its best estimate of its current liabilities. ITT does not anticipate a default on the part of the other PRPs.

In a suit filed in 1991 by the Company, in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al., against its insurers, the Company is seeking recovery of costs it incurred in connection with its environmental liabilities including the three listed above. Discovery, procedural matters, changes in California law, and various appeals have prolonged this case. Currently, the matter is before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims of the Company. The dismissed claims were claims where the costs incurred were solely due to administrative (versus judicial) actions. A hearing is expected in early 2003. In the event the appeal is successful, the Company will pursue the administrative claims against its excess insurers. During the course of the litigation the Company has negotiated settlements with certain defendant insurance companies and is prepared to pursue its legal remedies where reasonable negotiations are not productive. A portion of the recoveries from the insurance settlements have been placed in a trust and are used to reimburse the Company for its environmental costs.

PRODUCT LIABILITY:

ITT and its subsidiary Goulds Pumps, Inc. ("Goulds") have been joined as defendants with numerous other industrial companies in product liability lawsuits alleging injury due to asbestos. These actions against the Company have been managed by our historic product liability insurance carriers, and all claims, including all defense and settlement costs, have been covered by those same carriers. These claims stem primarily from products sold prior to 1985 that contained a part manufactured by a third party, e.g., a gasket, which allegedly contained asbestos. The asbestos was encapsulated in the gasket (or other) material and was non-friable. In certain other cases, it is alleged that ITT companies were distributors for other manufacturers' products that may have contained asbestos.

Frequently, the plaintiffs are unable to demonstrate any injury or do not identify any ITT or Goulds product as a source of asbestos exposure. During the past 12 months, ITT and Goulds resolved approximately 800 cases through settlement or dismissal. The average amount of settlement per claim has been nominal. Based upon past claims experience, available insurance coverage, and after consultation with counsel, management believes that these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is involved in two actions, Cannon Electric, Inc. et al. v. Ace Property & Casualty Company et al. Superior Court, County of Los Angeles, CA., Case No. BC 290354, and Pacific Employers Insurance Company et al., v. ITT Industries, Inc., et al., Supreme Court, County of New York, N.Y., Case No. 03600463, both of which commenced after December 31, 2002. The parties in both cases are seeking an appropriate allocation of responsibility for the Company's historic asbestos liability exposure among its insurers. The California action is filed in the same venue where the Company's environmental insurance recovery litigation has been pending for several years. The Company is continuing to receive insurance payments during the pendency of these actions. The Company does not believe that the existence or pendency of these actions will have any impact on the Company's consolidated financial position, results of operations or cash flows.

The Company has received notice of a suit filed in El Paso, Texas relating to its Gilfillian Division, Bund zur Unterstutzung Radargeschadigter et al. v. ITT Industries et al., Sup. Ct., El Paso, Texas, C.A. No. 2002-4730. This Complaint, filed by both U.S. and German citizens, alleges that ITT and four other major companies failed to warn the plaintiffs of the dangers associated with exposure to x-ray radiation from radar devices. The Complaint also seeks the certification of a class of similarly injured persons. The Company's insurer has accepted the defense of this matter. Management believes that this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has received notice of a product liability suit filed in Superior Court of New York, Danis v. Rule Industries et al., Sup.Ct. N.Y., C.A. No. 115975-02, seeking damages for injuries sustained in a boat explosion. The suit contains a number of causes of action against various defendants including the boat manufacturer, the marina operator, and individuals working at the marina. As to the Company, the Complaint alleges that a fume detector, manufactured by ITT's subsidiary Rule Industries, Inc. prior to the date the Company acquired Rule, malfunctioned. The Company's insurer has accepted the defense of this matter. Management believes that this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

OTHER:

The Company has received a Notice of Claim from Rayonier, Inc., a former subsidiary of the Company's predecessor ITT Corporation. This claim stems from the 1994 Distribution Agreement for the spin-off of Rayonier by ITT Corporation and seeks an allocation of proceeds from certain settlements in connection with the Company's environmental insurance recovery litigation. The parties are currently in negotiations. The Company believes the claim is grossly overstated, has little merit and will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 22

GUARANTEES, INDEMNITIES AND WARRANTIES

GUARANTEES & INDEMNITIES:

In September of 1998, the Company completed the sale of its automotive electrical systems business to Valeo SA for approximately $1,700. As part of the sale, the Company provided Valeo SA with representations and warranties with respect to the operations of the Business, including: Conveyance of Title, Employee Benefits, Tax, Product Liability, Product Recall, Contracts, Environmental, Intellectual Property, etc. The Company also indemnified Valeo SA for losses related to a misrepresentation or breach of the representations and warranties. With a few limited exceptions, the indemnity periods within which Valeo SA may assert new claims have expired. Under the terms of the sales contract, the original maximum potential liability to Valeo SA on an undiscounted basis is $680. However, because of the lapse of time, or the fact that the parties have resolved certain issues, at December 31, 2002 the Company has an accrual of $8 which is its best estimate of the potential exposure.

In September of 1998, the Company completed the sale of its brake and chassis unit to Continental AG for approximately $1,930. As part of the sale, the Company provided Continental AG with representations and warranties with respect to the operations of the Business, including: Conveyance of Title, Employee Benefits, Tax, Product Liability, Product Recall, Contracts, Environmental, Intellectual Property, etc. The Company also indemnified Continental AG for losses related to a misrepresentation or breach of the representations and warranties. With a few limited exceptions, the indemnity periods within which Continental AG may assert new claims have expired. Under the terms of the sales contract, the original maximum potential liability to Continental AG on an undiscounted basis is $950. However, because of the lapse of time, or the fact that the parties have resolved certain issues, at December 31, 2002 the Company has an accrual of $14.5 which is its best estimate of the potential exposure.

Since its incorporation in 1920, the Company has acquired and disposed of numerous entities. The related acquisition and disposition agreements contain various representation and warranty clauses and may provide indemnities for a misrepresentation or breach of the representations and warranties by either party. The indemnities address a variety of subjects; the term and monetary amounts of each such indemnity are defined in the specific agreements and may be affected by various conditions and external factors. Many of the indemnities have expired either by operation of law or as a result of the terms of the agreement. The Company does not have a liability recorded for the historic indemnifications and is not aware of any claims or other information that would give rise to material payments under such indemnities. The Company has separately discussed material indemnities provided within the last seven years.

The Company provided three guarantees with respect to its real estate development activities in Flagler County, Florida. Two of these guarantee bonds were issued by the Dunes Community Development District (the District). The bond issuances were used primarily for the construction of infrastructure, such as water and sewage utilities and a bridge. The Company would be required to perform under these guarantees if the District failed to provide interest payments or principal payments due to the bond holders. The maximum amount of the undiscounted future payments on these guarantees equal $28.9. At December 31, 2002, the Company does not believe that a loss contingency is probable for these guarantees and therefore does not have an accrual recorded in its financial statements. The third guaranty is a performance bond in the amount of $10.0 in favor of Flagler County, Florida. The Company would be required to perform under this guarantee if certain parties did not satisfy all aspects of the development order, the most significant aspect being the expansion of a bridge. The maximum amount of the undiscounted future payments on the third guarantee equals $10.0. At December 31, 2002, the Company has an accrual related to the expansion of a bridge in the amount of $10.0.

In December of 2002, the Company entered into a sales-type lease agreement for its corporate aircraft and then leased the aircraft back under an operating lease agreement. The Company has provided, under the agreement, a residual value guarantee to the counterparty in the amount of $46.8, which is the maximum amount of undiscounted future payments. The Company would have to make payments under the residual value guarantee only if the fair value of the aircraft was less than the residual value guarantee upon termination of the agreement. At December 31, 2002, the Company does not believe that a loss contingency is probable and therefore does not have an accrual recorded in its financial statements.

PRODUCT WARRANTIES:

Accruals for estimated expenses related to warranties are made at the time products are sold or services are rendered. These accruals are established using historical information on the nature, frequency, and average cost of warranty claims. The Company warrants numerous products, the terms of which vary widely. In general, the Company warrants its products against defect and specific non-performance. In the automotive businesses, liability for product defects could extend beyond the selling price of the product and could be significant if the defect shuts down production or results in a recall. At December 31, 2002, the Company has a product warranty accrual in the amount of $40.4.

PRODUCT WARRANTY LIABILITIES

ACCRUALS
FOR
CHANGES IN
PRE-
EXISTING
BEGINNING
BALANCE
PRODUCT
WARRANTIES
WARRANTIES
INCLUDING
ENDING
BALANCE
JANUARY 1,

2002
ISSUED IN
THE PERIOD
CHANGES IN
ESTIMATES
(PAYMENTS)
DECEMBER
31, 2002 -

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- $37.7
$21.1 $0.1
($18.5)
$40.4

NOTE 23

BUSINESS SEGMENT INFORMATION

	DEFENSE ELECTRONICS & SERVICES	FLUID TECHNOLOGY	MOTION & FLOW CONTROL	ELECTRONIC COMPONENTS	CORPORATE, ELIMINATIONS & OTHER	TOTAL
2002						
Sales and revenues	$1,956.3	$1,513.9	$935.5	$583.5	$ (3.9)	$4,985.3
Operating income (loss)	251.5	154.0	122.4	70.4	(60.7)	537.6
Net interest expense						32.4
Miscellaneous (income) expense						(3.6)
Income from continuing operations before income tax expense						$ 508.8
Long-lived assets	342.3	153.4	209.6	131.7	4.2	841.2
Investments in unconsolidated companies	7.3	53.9	9.3	--	--	70.5
Total assets	1,867.5	850.1	661.3	685.7	1,325.0	5,389.6
Gross plant additions	45.8	36.7	39.7	30.3	0.7	153.2
Depreciation	57.6	26.8	39.5	27.2	0.9	152.0
Amortization	5.3	--	4.6	5.6	3.9	19.4
2001						
Sales and revenues	$1,829.7	$1,304.8	$898.7	$647.0	$ (4.5)	$4,675.7
Operating income (loss):						
Before goodwill amortization expense	220.6	132.1	114.1	25.8	(55.1)	437.5
Goodwill amortization expense	18.2	8.5	4.5	9.5	--	40.7
Operating income (loss)	202.4	123.6	109.6	16.3	(55.1)	396.8
Net interest expense						62.0
Miscellaneous (income) expense						1.4
Income from continuing operations before income tax expense						$ 333.4
Long-lived assets	321.6	141.8	199.0	123.6	5.0	791.0
Investments in unconsolidated companies	6.9	47.4	8.5	--	--	62.8
Total assets	1,616.4	793.7	635.6	714.1	748.6	4,508.4
Gross plant additions	55.6	31.0	43.1	44.0	0.3	174.0
Depreciation	54.5	24.9	33.8	38.2	1.8	153.2
Amortization	22.3	8.7	8.7	14.8	5.2	59.7
2000						
Sales and revenues	$1,834.2	$1,334.6	$888.9	$774.6	$ (2.9)	$4,829.4
Operating income (loss):						
Before goodwill amortization						

expense...........................
224.0 125.8 129.3 103.9 (53.7) 529.3
Goodwill amortization expense........
17.8 8.5 5.0 4.9 -- 36.2 -------- ----
\---- ------ ------ -------- --------
Operating income (loss)..............
206.2 117.3 124.3 99.0 (53.7) 493.1
Net interest
expense.................. 75.2
Miscellaneous (income)
expense......... (2.0) -------- Income
from continuing operations before
income tax expense............ $ 419.9
\======== Long-lived
assets...................... 343.3
138.8 198.1 160.9 24.3 865.4
Investments in unconsolidated
companies...........................
6.9 37.2 7.6 0.4 -- 52.1 Total
assets..........................
1,656.8 861.0 676.3 751.8 665.5
4,611.4 Gross plant
additions................. 55.6 35.1
44.6 45.8 (0.5) 180.6
Depreciation..........................
55.1 26.1 31.4 35.7 2.3 150.6
Amortization..........................
18.4 8.5 8.3 10.0 6.0 51.2 -------- --
\------ ------ ------ -------- --------

NET SALES AND REVENUES* LONG-LIVED ASSETS ----------
\-------------------- ----------------------- 2002
2001 2000 2002 2001 2000 -------- -------- --------
\------ ------ ------ GEOGRAPHICAL INFORMATION United
States.......................................
$2,868.6 $2,781.8 $2,830.4 $462.9 $453.9 $497.3
Western
Europe.....................................
1,229.2 1,179.5 1,216.2 315.7 268.1 297.2 Asia
Pacific.......................................
355.2 295.1 362.1 43.7 43.5 46.7
Other...
532.3 419.3 420.7 18.9 25.5 24.2 -------- -------- -
\------- ------ ------ ------ Total
Segments......................................
$4,985.3 $4,675.7 $4,829.4 $841.2 $791.0 $865.4
\======== ======== ======== ====== ====== ======

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* Net sales to external customers are attributed to individual regions based upon the destination of product or service delivery.

Sales and revenues by product category, net of intercompany balances, is as follows:

Sales and Revenues by Product Category	2002	2001	2000
Pumps & Complementary Products	$1,956.3	$1,829.6	$1,834.0
Defense Products	885.9	764.4	883.4
Defense Services	627.8	540.5	451.2
Connectors & Switches	560.2	609.4	734.0
Fluid Handling	470.3	437.3	425.6
Flow Control	156.1	166.5	159.1
Brakes	153.6	146.6	140.0
Marine Products	76.7	68.1	78.2
Shock Absorbers	75.8	77.0	82.6
Network Systems & Services	22.6	36.3	40.6
Other	--	--	0.7
Total	$4,985.3	$4,675.7	$4,829.4

Defense Electronics & Services had sales and revenues from the United States government of $1,105.3, $1,104.9 and $1,023.6 for 2002, 2001 and 2000, respectively. Apart from the United States government, no other government or commercial customer accounted for 10% or more of sales and revenues for the Company.

FLUID TECHNOLOGY:

This segment contains the Company's pump businesses, including brands such as Flygt(R), Goulds(R), Bell & Gossett(R), A-C Pump(R), Lowara(R), Vogel(R), and Richter(TM) making the Company the world's largest pump producer. Businesses within this segment also supply mixers, heat exchangers, engineered valves and related products with brand names such as McDonnell & Miller(R) and ITT Standard(R) in addition to those mentioned above. This segment comprises approximately 39% of the Company's sales and revenues and approximately 42% of its segment operating income for 2002.

DEFENSE ELECTRONICS & SERVICES:

The businesses in this segment are those that directly serve the military and government agencies with products and services. These include air traffic control systems, jamming devices that guard military planes against radar guided missiles, digital combat radios, night vision devices and satellite instruments. Approximately 41% of the sales and revenues in this segment are generated through contracts for technical and support services which the Company provides for the military and other government agencies. Approximately 73%, 85% and 77% of 2002, 2001 and 2000 Defense Electronics & Services sales and revenues, respectively, were to the U.S. government. The Defense Electronics & Services segment comprises about 30% of the Company's sales and revenues and 26% of its segment operating income in 2002.

MOTION & FLOW CONTROL:

Businesses in the Motion & Flow Control segment produce switches and valves for industrial and aerospace applications, products for the marine and leisure markets under the brands Jabsco(R), Rule(R), Flojet(R) and Danforth(R), fluid handling materials such as tubing systems and connectors for various automotive and industrial markets, specialty shock absorbers under the brand KONI and brake components for the transportation industry. The Motion & Flow Control segment comprises approximately 19% of the Company's sales and revenues and approximately 20% of its segment operating income for 2002.

ELECTRONIC COMPONENTS:

This business consists of the Company's products marketed under the Cannon(R) brand. These products include connectors, switches and cabling used in communications, computing, aerospace and industrial applications as well as network services. This segment comprises about 12% of the Company's sales and revenues and 12% of its segment operating income for 2002.

CORPORATE AND OTHER:

This primarily includes the operating results and assets of Corporate Headquarters.

NOTE 24

QUARTERLY RESULTS FOR 2002 AND 2001

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)(UNAUDITED)	THREE MONTHS ENDED MAR. 31	JUNE 30	SEPT. 30	DEC. 31	YEAR
2002					
Sales and revenues	$1,185.8	$1,320.1	$1,235.1	$1,244.3	$4,985.3
Costs of sales and revenues	770.6	866.0	798.8	776.5	3,211.9
Income from continuing operations	71.5	92.9	120.4	95.1	379.9
Net income	71.5	92.9	120.4	95.1	379.9
Income from continuing operations per share -- Basic	$ 0.80	$ 1.02	$ 1.31	$ 1.04	$ 4.17
-- Diluted(a)	$ 0.77	$ 0.99	$ 1.28	$ 1.01	$ 4.06
Net income per share -- Basic	$ 0.80	$ 1.02	$ 1.31	$ 1.04	$ 4.17
-- Diluted(a)	$ 0.77	$ 0.99	$ 1.28	$ 1.01	$ 4.06
Common stock information Price range:					
High	$ 64.50	$ 70.85	$ 70.46	$ 66.38	$ 70.85
Low	$ 45.80	$ 62.40	$ 53.91	$ 56.90	$ 45.80
Close	$ 63.04	$ 70.60	$ 62.33	$ 60.69	$ 60.69
Dividends per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.60
2001					
Sales and revenues	$1,186.0	$1,184.3	$1,123.6	$1,181.8	$4,675.7
Costs of sales and revenues	771.7	773.3	736.3	763.2	3,044.5
Income from continuing operations	59.1	76.1	67.5	14.0	216.7
Net income	59.1	76.1	67.5	74.0	276.7
Income from continuing operations per share -- Basic(a)	$ 0.67	$ 0.87	$ 0.77	$ 0.16	$ 2.46
-- Diluted	$ 0.65	$ 0.84	$ 0.75	$ 0.15	$ 2.39
Net income per share -- Basic(a)	$ 0.67	$ 0.87	$ 0.77	$ 0.84	$ 3.14
-- Diluted	$ 0.65	$ 0.84	$ 0.75	$ 0.81	$ 3.05
Common stock information Price range:					
High	$ 44.25	$ 49.00	$ 46.20	$ 52.00	$ 52.00
Low	$ 35.55	$ 37.95	$ 42.00	$ 43.19	$ 35.55
Close	$ 38.75	$ 44.25	$ 44.80	$ 50.50	$ 50.50
Dividends per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.60

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(a) The sum of the quarters' earnings per share does not equal the full year amounts due to rounding.

The above table reflects the range of market prices of the Company's common stock for 2002 and 2001. The prices are as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which the Company's common stock is traded, under the symbol "ITT."

The Company's common stock is listed on the following exchanges: Frankfurt, London, Midwest, New York, Pacific, and Paris.

During the period from January 1, 2003 through February 28, 2003, the high and low reported market prices of the Company's common stock were $62.09 and $54.11, respectively. The Company declared dividends of $0.16 per common share in the first quarter of 2003. There were approximately 33,243 holders of record of the Company's common stock on February 28, 2003.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

	BALANCE AT JANUARY 1	CHARGED TO COSTS AND EXPENSES	TRANSLATION ADJUSTMENT	WRITE-OFF/ PAYMENTS/ OTHER	BALANCE AT DECEMBER 31
YEAR ENDED DECEMBER 31, 2002					
Trade Receivables -- Allowance for doubtful accounts................	$ 21.7	$ 5.8	$ 1.4	$ (6.2)	$ 22.7
Restructuring.....................	51.9	9.6	--	(45.2)	16.3
YEAR ENDED DECEMBER 31, 2001					
Trade Receivables -- Allowance for doubtful accounts................	$ 21.0	$ 5.9	$(0.7)	$ (4.5)	$ 21.7
Restructuring.....................	18.5	61.0	--	(27.6)	51.9
YEAR ENDED DECEMBER 31, 2000					
Trade Receivables -- Allowance for doubtful accounts................	$ 22.1	$ 9.0	$(0.9)	$ (9.2)	$ 21.0
Restructuring.....................	44.7	--	--	(26.2)	18.5

SIGNATURES

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

ITT INDUSTRIES, INC.

By /s/ EDWARD W. WILLIAMS

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

March 27, 2003

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

SIGNATURE
TITLE DATE

----- ----
/s/ LOUIS
J.
GIULIANO
Chairman,
President
and Chief
March 11,
2003 - ---

Executive
Officer
and
Director
LOUIS J.
GIULIANO
(PRINCIPAL
EXECUTIVE
OFFICER)
/s/ DAVID
J.
ANDERSON
Senior
Vice
President
and Chief
March 11,
2003 - ---

Financial
Officer
DAVID J.
ANDERSON
(PRINCIPAL
FINANCIAL
OFFICER)
/s/ RAND
V. ARASKOG
Director
March 11,
2003 - ---

RAND V.

ARASKOG
/s/ CURTIS
J.
CRAWFORD
Director
March 11,
2003 - ---

CURTIS J.
CRAWFORD
/s/
CHRISTINA
A. GOLD
Director
March 11,
2003 - ---

CHRISTINA
A. GOLD
/s/ /S/
RALPH F.
HALE
Director
March 11,
2003 - ---

RALPH F.
HALE /s/
JOHN J.
HAMRE
Director
March 11,
2003 - ---

JOHN J.
HAMRE /s/
RAYMOND W.
LEBOEUF
Director
March 11,
2003 - ---

RAYMOND W.
LEBOEUF
/s/ FRANK
T.
MACINNIS
Director
March 11,
2003 - ---

FRANK T.
MACINNIS
/s/ LINDA
S. SANFORD
Director
March 11,
2003 - ---

LINDA S.

SANFORD
/s/ MARKOS
I.
TAMBAKERAS
Director
March 11,
2003 - ---

MARKOS I.
TAMBAKERAS

CERTIFICATIONS

I, Louis J. Giuliano certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2002 of ITT Industries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ LOUIS J. GIULIANO

Name: Louis J. Giuliano
Title: Chairman, President and Chief Executive Officer (Principal executive officer)

Date: March 27, 2003

I, David J. Anderson, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2002 of ITT Industries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ DAVE J. ANDERSON

Name: Dave J. Anderson
Title: Senior Vice President and Chief Financial Officer (Principal financial officer)

Date: March 27, 2003

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3	(a) ITT Industries, Inc.'s Restated Articles of Incorporation...........	Incorporated by reference to Exhibit 3(i) to ITT Industries' Form 10-Q for the quarterly period ended June 30, 1997 (CIK No. 216228, File No. 1-5627).
	(b) Form of Rights Agreement between ITT Indiana, Inc. and The Bank of New York, as Rights Agent...............	Incorporated by reference to Exhibit 1 to ITT Industries' Form 8-A dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(c) ITT Industries, Inc.'s By-laws, as amended December 3, 2002...........	Attached.
4	Instruments defining the rights of security holders, including indentures.............	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries upon request of the Commission.
9	Voting Trust Agreement....................	None.
10	Material contracts (a) ITT Industries 1997 Long-Term Incentive Plan.....................	Incorporated by reference to Appendix II to ITT Industries' Proxy Statement dated March 26, 1997 (CIK No. 216228, File No. 1-5627).
	(b) ITT Industries 1997 Annual Incentive Plan for Executive Officers.........	Incorporated by reference to Appendix I to ITT Industries' Proxy Statement dated March 26, 1997 (CIK No. 216228, File No. 1-5627).
	(c) Form of group life insurance plan for non-employee members of the Board of Directors..........................	Incorporated by reference to exhibits to ITT Delaware's Form 10-K for the fiscal year ended December 31, 1983 (CIK No. 216228, File No. 1-5627).
	(d) ITT Industries 1986 Incentive Stock Plan...............................	Incorporated by reference to ITT Delaware's Registration Statement on Form S-8 (Registration No. 33-5412) (CIK No. 216228, File No. 1-5627).
	(e) Form of indemnification agreement with directors..........................	Incorporated by reference to Exhibit 10(h) to ITT Industries' Form 10-K for the fiscal year ended December 31, 1996 (CIK No. 216228, File No. 1-5627).
	(f) ITT Industries, Inc. Senior Executive Severance Pay Plan.................	Incorporated by reference to Exhibit 10.15 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).

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

EXHIBIT NUMBER DESCRIPTION LOCATION (q) Agreement with Continental AG with respect to the sale of the Automotive Brakes and Chassis Business........................... Incorporated by reference to Exhibit 2.1 to ITT Industries' Form 8-K Current Report dated October 13, 1998 (CIK No. 216228, File No. 1-5627). (r) ITT Industries Deferred Compensation Plan............................... Incorporated by reference to Exhibit 10(r) to ITT Industries' Form 10-K for the fiscal year ended December 31, 2000 (CIK No. 216228, File No. 1-5627). 11 Statement re computation of per share earnings................................ Not required to be filed. 12 Statement re computation of ratios......... Filed herewith. 13 Annual report to security holders, Form 10-Q or quarterly report to security Not required to be filed. holders................................. 14 ITT Industries, Inc. Code of Corporate Attached Conduct................................. 16 Letter re change in certifying Incorporated by reference to Exhibit accountant............................... 16 to ITT Industries' From 8-K Current Report dated March 26, 2002 (CIK No. 216228, File No. 1-5627). 18 Letter re change in accounting None. principles............................... 21 Subsidiaries of the Registrant............ Filed herewith. 22 Published report regarding matters submitted to vote of security holders.... Not required to be filed. 23.1 Consent of Deloitte & Touche LLP.......... Filed herewith. 23.2 Consent of Arthur Andersen LLP............ Filed herewith. 24 Power of attorney........................ None. 99.1 Certification Pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of Attached. 2002.................................... 99.2 Certification Pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of Attached. 2002....................................

[ITT INDUSTRIES LOGO]

BY-LAWS

BY-LAWS

OF

ITT INDUSTRIES, INC.

1. SHAREHOLDERS.

1.1 Place of Shareholders' Meetings. All meetings of the shareholders of the Corporation shall be held at such place or places, within or outside the state of Indiana, as may be fixed by the Corporation's Board of Directors (the "Board", and each member thereof a "Director") from time to time or as shall be specified in the respective notices thereof.

1.2 Day and Time of Annual Meetings of Shareholders. An annual meeting of shareholders shall be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Failure to hold an annual meeting of shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation.

1.3 Purposes of Annual Meetings. (a) At each annual meeting, the shareholders shall elect the members of the Board for the succeeding term. At any such annual meeting any business properly brought before the meeting may be transacted.

(b) To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given written notice thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not less than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not later than 120 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made. Any such notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Articles of Incorporation or By-laws of the Corporation, the language of the proposed amendment, (ii) the name and address of the shareholder proposing such business, (iii) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, (iv) any material interest of the shareholder in such business and (v) if the shareholder intends to solicit proxies in support of such shareholder's proposal, a representation to that effect. The foregoing notice requirements shall be deemed satisfied by a shareholder if the shareholder has notified the Corporation of his or her intention to present a proposal at an annual meeting and such shareholder's proposal has been included in a proxy statement that has been prepared by management of the Corporation to solicit proxies for such annual meeting; provided, however, that, if such shareholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. No business shall be conducted at an annual meeting of shareholders except in accordance with this Section 1.3(b), and the chairman of any annual meeting of shareholders may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures or if the shareholder solicits proxies in support of such shareholder's proposal without such shareholder having made the representation required by clause (v) of the preceding sentence.

1.4 Special Meetings of Shareholders. Except as otherwise expressly required by applicable law, special meetings of the shareholders or of any class or series entitled to vote may be called for any purpose or purposes by the Chairman or by a majority vote of the entire Board, to be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Only such business as is specified in the notice of any special meeting of the shareholders shall come before such meeting.

1.5 Notice of Meetings of Shareholders. Except as otherwise expressly required or permitted by applicable law, not less than ten days nor more than sixty days before the date of every shareholders' meeting the Secretary shall give to each shareholder of record entitled to vote at such meeting written notice stating the place, day and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as provided in Section 1.6(d) or as otherwise expressly required by applicable law, notice of any adjourned meeting of shareholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken. Any notice, if mailed, shall be deemed to be given when deposited in the United States mail, postage prepaid, addressed to the shareholder at the address for notices to such shareholder as it appears on the records of the Corporation.

1.6 Quorum of Shareholders. (a) Unless otherwise expressly required by applicable law, at any meeting of the shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of votes thereat shall constitute a quorum. Shares of the Corporation's stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in an election of the directors of such other corporation is held by the Corporation, shall neither be counted for the purpose of determining the presence of a quorum nor entitled to vote at any meeting of the shareholders.

(b) At any meeting of the shareholders at which a quorum shall be present, a majority of those present in person or by proxy may adjourn the meeting from time to time without notice other than announcement at the meeting. In the absence of a quorum, the officer presiding thereat shall have power to adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting other than announcement at the meeting shall not be required to be given, except as provided in Section 1.6(d) below and except where expressly required by applicable law.

(c) At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting originally called, but only those shareholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board.

(d) If a new date, time and place of an adjourned meeting is not announced at the original meeting before adjournment, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in the manner specified in Section 1.5 to each shareholder of record entitled to vote at the meeting.

1.7 Chairman and Secretary of Meeting. The Chairman or, in his or her absence, another officer of the Corporation designated by the Chairman, shall preside at meetings of the shareholders. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary, an Assistant Secretary shall so act, or if neither is present, then the presiding officer may appoint a person to act as secretary of the meeting.

1.8 Voting by Shareholders. (a) Except as otherwise expressly required by applicable law, at every meeting of the shareholders each shareholder shall be entitled to the number of votes specified in the Articles of Incorporation, in person or by proxy, for each share of stock standing in his or her name on the books of the Corporation on the date fixed pursuant to the provisions of Section 5.6 of these By-laws as the record date for the determination of the shareholders who shall be entitled to receive notice of and to vote at such meeting.

(b) When a quorum is present at any meeting of the shareholders, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless express provision of law or the Articles of Incorporation require a greater number of affirmative votes.

(c) Except as required by applicable law, the vote at any meeting of shareholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot, each ballot shall be signed by the shareholder voting, or by his or her proxy, if there be such proxy, and shall state the number of shares voted.

1.9 Proxies. Any shareholder entitled to vote at any meeting of shareholders may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy by (i) the shareholder or the shareholder's designated officer, director, employee or agent executing a writing by signing it or by causing the shareholder's signature or the signature of the designated officer, director, employee or agent of the shareholder to be affixed to the writing by any reasonable means, including by facsimile signature; (ii) the shareholder transmitting or authorizing the transmission of an electronic submission which may be by any electronic means, including data and voice telephonic communications and computer network to (a) the person who will be the holder of the proxy; (b) a proxy solicitation firm; or (c) a proxy support service organization or similar agency authorized by the person who will be the holder of the proxy to receive the electronic submission, which electronic submission must either contain or be accompanied by information from which it can be determined that the electronic submission was transmitted by or authorized by the shareholder; or (iii) any other method allowed by law.

1.10 Inspectors. (a) The election of Directors and any other vote by ballot at any meeting of the shareholders shall be supervised by at least two inspectors. Such inspectors may be appointed by the Chairman before or at the meeting. If the Chairman shall not have so appointed such inspectors or if one or both inspectors so appointed shall refuse to serve or shall not be present, such appointment shall be made by the officer presiding at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

(b) The inspectors shall (i) ascertain the number of shares of the Corporation outstanding and the voting power of each, (ii) determine the shares represented at any meeting of shareholders and the validity of the proxies and ballots, (iii) count all proxies and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting, and their count of all proxies and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

1.11 List of Shareholders. (a) At least five business days before every meeting of shareholders, the Corporation shall cause to be prepared and made a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order by voting group, if any, and showing the address of each shareholder and the number of shares registered in the name of each shareholder.

(b) During ordinary business hours for a period of at least five business days prior to the meeting, such list shall be open to examination by any shareholder for any purpose germane to the meeting, either at the Corporation's principal office or a place identified in the meeting notice in the city where the meeting will be held.

(c) The list shall also be produced and kept at the time and place of the meeting, and it may be inspected during the meeting by any shareholder or the shareholder's agent or attorney authorized in writing.

(d) The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by this Section 1.11 or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

1.12 Confidential Voting. (a) Proxies and ballots that identify the votes of specific shareholders shall be kept in confidence by the tabulators and the inspectors of election unless (i) there is an opposing solicitation with respect to the election or removal of Directors, (ii) disclosure is required by applicable law, (iii) a shareholder expressly requests or otherwise authorizes disclosure, or (iv) the Corporation concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes.

(b) The tabulators and inspectors of election and any authorized agents or other persons engaged in the receipt, count and tabulation of proxies and ballots shall be advised of this By-law and instructed to comply herewith.

(c) The inspectors of election shall certify, to the best of their knowledge based on due inquiry, that proxies and ballots have been kept in confidence as required by this Section 1.12.

2. DIRECTORS.

2.1 Powers of Directors. The business and affairs of the Corporation shall be managed by or under the direction of the Board, which may exercise all the powers of the Corporation except such as are by applicable law, the Articles of Incorporation or these By-laws required to be exercised or performed by the shareholders.

2.2 Number, Method of Election, Terms of Office of Directors. The number of Directors which shall constitute the whole Board shall be such as from time to time shall be determined by resolution adopted by a majority of the entire Board, but the number shall not be less than three nor more than twenty-five, provided that the tenure of a Director shall not be affected by any decrease in the number of Directors so made by the Board. Each Director shall hold office until the next annual meeting of shareholders and until his or her successor is elected and qualified or until his or her earlier death, retirement, resignation or removal. Directors need not be shareholders of the Corporation or citizens of the United States of America.

Nominations of persons for election as Directors may be made by the Board or by any shareholder who is a shareholder of record at the time of giving of the notice of nomination provided for in this Section 2.2 and who is entitled to vote for the election of Directors. Any shareholder of record entitled to vote for the election of Directors at a meeting may nominate a person or persons for election as Directors only if written notice of such shareholder's intent to make such nomination is given in accordance with the procedures for bringing business before the meeting set forth in Section 1.3(b) of these By-Laws, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not later than (i) with respect to an election to be held at an annual meeting of shareholders, not less than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not later than 120 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of Directors, not later than 120 calendar days prior to such special meeting or 10 calendar days following the date on which public announcement of the date of the special meeting is first made and of the nominees to be elected at such meeting. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board; (e) the consent of each nominee to serve as a Director if so elected and (f) if the shareholder intends to solicit proxies in support of such shareholder's nominee(s), a representation to that effect. The chairman of any meeting of shareholders to elect Directors and the Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure or if the shareholder solicits proxies in support of such shareholder's nominee(s) without such shareholder having made the representation required by (f) of the preceding sentence.

At each meeting of the shareholders for the election of Directors at which a quorum is present, the persons receiving the greatest number of votes, up to the number of Directors to be elected, shall be the Directors.

2.3 Vacancies on Board. (a) Any Director may resign from office at any time by delivering a written resignation to the Chairman or the Secretary. The resignation will take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

(b) Any vacancy and any newly created Directorship resulting from any increase in the authorized number of Directors may be filled by vote of a majority of the Directors then in office, though less than a quorum, and any Director so chosen shall hold office until the next annual election of Directors by the shareholders and until a successor is duly elected and qualified or until his or her earlier death, retirement, resignation or removal. If there are no Directors in office, then an election of Directors may be held in the manner provided by applicable law.

2.4 Meetings of the Board. (a) The Board may hold its meetings, both regular and special, either within or outside the state of Indiana, at such places as from time to time may be determined by the Board or as may be designated in the respective notices or waivers of notice thereof.

(b) Regular meetings of the Board shall be held at such times and at such places as from time to time shall be determined by the Board.

(c) The first meeting of each newly elected Board shall be held as soon as practicable after the annual meeting of the shareholders and shall be for the election of officers and the transaction of such other business as may come before it.

(d) Special meetings of the Board shall be held whenever called by direction of the Chairman or at the request of Directors constituting one-third of the number of Directors then in office.

(e) Members of the Board or any Committee of the Board may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

(f) The Secretary shall give notice to each Director of any meeting of the Board by mailing the same at least two days before the meeting or by telegraphing or delivering the same not later than the day before the meeting. Such notice need not include a statement of the business to be transacted at, or the purpose of, any such meeting. Any and all business may be transacted at any meeting of the Board. No notice of any adjourned meeting need be given. No notice to or waiver by any Director shall be required with respect to any meeting at which the Director is present.

2.5 Quorum and Action. Except as otherwise expressly required by applicable law, the Articles of Incorporation or these By-laws, at any meeting of the Board, the presence of at least one-third of the entire Board shall constitute a quorum for the transaction of business; but if there shall be less than a quorum at any meeting of the Board, a majority of those present may adjourn the meeting from time to time. Unless otherwise provided by applicable law, the Articles of Incorporation or these By-laws, the vote of a majority of the Directors present (and not abstaining) at any meeting at which a quorum is present shall be necessary for the approval and adoption of any resolution or the approval of any act of the Board.

2.6 Presiding Officer and Secretary of Meeting. The Chairman or, in the absence of the Chairman, a member of the Board selected by the members present, shall preside at meetings of the Board. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the presiding officer may appoint a secretary of the meeting.

2.7 Action by Consent without Meeting. Any action required or permitted to be taken at any meeting of the Board or of any Committee thereof may be taken without a meeting if all members of the Board or Committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of their proceedings.

2.8 Standing Committees. By resolution adopted by a majority of the entire Board, the Board shall elect, from among its members, individuals to serve on the Standing Committees established by this Section 2.8. Each Standing Committee shall be comprised of such number of Directors, not less than three, as shall be elected to such Committee. Each Committee shall keep a record of all its proceedings and report the same to the Board. One-third of the members of a Committee, but not less than two, shall constitute a quorum, and the act of a majority of the members of a Committee present at any meeting at which a quorum is present shall be the act of the Committee. Each Standing Committee shall meet at the call of its chairman or any two of its members. The chairmen of the various Committees shall preside, when present, at all meetings of such Committees, and shall have such powers and perform such duties as the Board may from time to time prescribe. The Standing Committees of the Board, and functions of each, are as follows:

(a) Compensation and Personnel Committee. The Compensation and Personnel Committee shall exercise the power of oversight of the compensation and benefits of the employees of the Corporation, and shall be charged with evaluating management performance, and establishing executive compensation. This Committee shall have access to its own independent outside compensation counsel and shall consist of a majority of independent directors. For purposes of this Section 2.8(a), "independent director" shall mean a Director who: (i) has not been employed by the Corporation in an executive capacity within the past five years; (ii) is not, and is not affiliated with a company or firm that is, an advisor or consultant to the Corporation; (iii) is not affiliated with a significant customer or supplier of the Corporation; (iv) has no personal services contract(s) with the Corporation; (v) is not affiliated with a tax-exempt entity that receives significant contributions from the Corporation; and (vi) is not a familial relative of any person described by Clauses (i) through (v). This By-law shall not be amended or repealed except by a majority of the voting power of the shareholders present in person or by proxy and entitled to vote at any meeting at which a quorum is present.

(b) Audit Committee. The Audit Committee and the Board shall be the bodies to whom the independent auditors of the Corporation shall be ultimately accountable and shall have ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditors (or to nominate the independent auditors to be proposed for shareholder approval). The Audit Committee shall be responsible for assessing the objectivity and independence of said auditors; confirming the scope of audits to be performed by said auditors; reviewing audit results, internal accounting and control procedures and policies, fees paid to said auditors, and expense accounts of senior executives; reviewing and recommending approval of the audited financial statements of the Corporation and the annual reports to shareholders; and otherwise complying with the responsibilities and obligations of the Securities and Exchange Commission and the New York Stock Exchange applicable from time to time to audit committees. The Audit Committee shall consist entirely of "independent directors" as provided for in Section 2.12 of these By-Laws and shall be in compliance with the requirements of the Securities and Exchange Commission and the New York Stock Exchange applicable from time to time to audit committee members.

(c) Corporate Responsibility Committee. The Corporate Responsibility Committee shall review and define social responsibilities and shall review and consider major claims and litigation and legal, regulatory, intellectual property and related governmental policy matters affecting the Corporation and its subsidiaries. The Corporate Responsibility Committee shall also review and approve management policies and programs relating to compliance with legal and regulatory requirements and business ethics.

(d) Nominating and Governance Committee. The Nominating and Governance Committee shall consider and make recommendations as to the composition, structure, organization and future requirements of the Board and Committees thereof and as to other corporate governance issues relating to the Corporation; administer the Board evaluation process; propose nominees for election to the Board and Committees thereof; consider shareholder nominees for election to the Board; and consider matters concerning the qualifications, compensation and retirement of Directors. The Nominating and Governance Committee shall consist entirely of "independent directors" as provided for in Section 2.12 of these By-Laws.

2.9 Other Committees. By resolution passed by a majority of the entire Board, the Board may also appoint from among its members such other Committees, Standing or otherwise, as it may from time to time deem desirable and may delegate to such Committees such powers of the Board as it may consider appropriate, consistent with applicable law, the Articles of Incorporation and these By-laws.

2.10 Limitations on Committees. (a) Notwithstanding any other provision of these By-laws, and except as otherwise expressly required by applicable law, no Standing Committee created by Section 2.8, nor any other committee hereafter established, may:

(1) authorize dividends or other distributions, except a committee may authorize or approve a reacquisition of shares if done according to a formula or method prescribed by the Board of Directors;

(2) approve or propose to shareholders action that is required to be approved by shareholders;

(3) fill vacancies on the Board of Directors or on any of its committees;

(4) except as permitted under Section 2.10(a)(7) below, amend the Corporation's Articles of Incorporation under IC 23-1-38-2;

(5) adopt, amend, repeal or waive provisions of these By-laws;

(6) approve a plan of merger not requiring shareholder approval; or

(7) authorize or approve the issuance or sale or a contract for sale of shares, or determine the designation and relative rights, preferences, and limitations of a class or series of shares, except the Board of Directors may authorize a committee (or an executive officer of the Corporation designated by the Board of Directors) to take action described in this Section 2.10(a)(7) within limits prescribed by the Board of Directors.

(b) Except to the extent inconsistent with the resolutions creating a Standing Committee, Sections 2.2 to 2.7 and Section 10 of these By-laws, which govern meetings, action without meetings, notice and waiver of notice, quorum and voting requirements and telephone participation in meetings of the Board of Directors, apply to each committee and its members as well.

2.11 Compensation of Directors. Unless otherwise restricted by the Articles of Incorporation or these By-laws, Directors shall receive for their services on the Board or any Committee thereof such compensation and benefits, including the granting of options, together with expenses, if any, as the Board may from time to time determine. The Directors may be paid a fixed sum for attendance at each meeting of the Board or Committee thereof and/or a stated annual sum as a Director, together with expenses, if any, of attendance at each meeting of the Board or Committee thereof. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

2.12 Independent Directors. (a) Independence of Nominees for Election as Directors at the Annual Meeting. The persons nominated by the Board for election as Directors at any annual meeting of the shareholders of the Corporation shall include a sufficient number of persons who have been, on the date of their nomination, determined by the Board to be eligible to be classified as independent directors such that if all such nominees are elected, the majority of all Directors holding office would be independent directors.

(b) Directors Elected to Fill Vacancies on the Board. If the Board elects Directors between annual meetings of shareholders to fill vacancies or newly created Directorships, the majority of all Directors holding office immediately after such elections shall be independent directors.

(c) Definition of Independent Director. For purposes of this Section 2.12, "independent director" shall mean a Director who: (i) has not been employed by the Corporation in an executive capacity within the past five years; (ii) is not, and is not affiliated with a company or a firm that is, an adviser or consultant to the Corporation; (iii) is not affiliated with a significant customer or supplier of the Corporation; (iv) has no personal services contract(s) with the Corporation; (v) is not affiliated with a tax-exempt entity that receives significant contributions from the Corporation; (vi) is not a familial relative of any person described by Clauses (i) through (v); and (vii) is free of any other relationship which would interfere with the exercise of independent judgment by such Director.

3. OFFICERS.

3.1 Officers, Titles, Elections, Terms. (a) The Board may from time to time elect a Chairman, a Vice Chairman, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a Controller, a Treasurer, a Secretary, a General Counsel, one or more Assistant Controllers, one or more Assistant Treasurers, one or more Assistant Secretaries, and one or more Associate or Assistant General Counsels, to serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election and until their successors are elected and qualified or until their earlier death, retirement, resignation or removal.

(b) The Board may elect or appoint at any time such other officers or agents with such duties as it may deem necessary or desirable. Such other officers or agents shall serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election or appointment and, in the case of such other officers, until their successors are elected and qualified or until their earlier death, retirement, resignation or removal. Each such officer or agent shall have such authority and shall perform such duties as may be provided herein or as the Board may prescribe. The Board may from time to time authorize any officer or agent to appoint and remove any other such officer or agent and to prescribe such person's authority and duties.

(c) No person may be elected or appointed an officer who is not a citizen of the United States of America if such election or appointment is prohibited by applicable law or regulation.

(d) Any vacancy in any office may be filled for the unexpired portion of the term by the Board. Each officer elected or appointed during the year shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until his or her successor is elected or appointed and qualified or until his or her earlier death, retirement, resignation or removal.

(e) Any officer or agent elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the entire Board.

(f) Any officer may resign from office at any time. Such resignation shall be made in writing and given to the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

3.2 General Powers of Officers. Except as may be otherwise provided by applicable law or in Article 6 or Article 7 of these By-laws, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer and the Secretary, or any of them, may (i) execute and deliver in the name of the Corporation, in the name of any Division of the Corporation or in both names any agreement, contract, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any Division of the Corporation, including without limitation agreements or contracts with any government or governmental department, agency or instrumentality, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, instrument, power of attorney or other document.

3.3 Powers and Duties of the Chairman. The Chairman shall be the Chief Executive of the Corporation and shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the

Board, the Chairman shall manage and direct the business and affairs of the Corporation and shall communicate to the Board and any Committee thereof reports, proposals and recommendations for their respective consideration or action. He or she may do and perform all acts on behalf of the Corporation and shall preside at meetings of the Board and the shareholders.

3.4 Powers and Duties of a Vice Chairman. A Vice Chairman shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.5 Powers and Duties of the President. The President shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.6 Powers and Duties of Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.7 Powers and Duties of the Chief Financial Officer. The Chief Financial Officer shall have such powers and perform such duties as the Board, the Chairman or any Vice Chairman may from time to time prescribe or as may be prescribed in these By-laws. The Chief Financial Officer shall cause to be prepared and maintained (i) a stock ledger containing the names and addresses of all shareholders and the number of shares of each class and series held by each and (ii) the list of shareholders for each meeting of the shareholders as required by Section 1.11 of these By-laws. The Chief Financial Officer shall be responsible for the custody of all stock books and of all unissued stock certificates.

3.8 Powers and Duties of the Controller and Assistant Controllers. (a) The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare and render such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chairman may require, and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Controller.

(b) Each Assistant Controller shall perform such duties as from time to time may be assigned by the Controller or by the Board. In the event of the absence, incapacity or inability to act of the Controller, then any Assistant Controller may perform any of the duties and may exercise any of the powers of the Controller.

3.9 Powers and Duties of the Treasurer and Assistant Treasurers. (a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer.

(b) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer (i) may sign all receipts and vouchers for payments made to the Corporation, (ii) shall render a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Treasurer. Each Assistant Treasurer shall perform such duties as may from time to time be assigned by the Treasurer or by the Board. In the event of the absence, incapacity or inability to act of the Treasurer, then any Assistant Treasurer may perform any of the duties and may exercise any of the powers of the Treasurer.

3.10 Powers and Duties of the Secretary and Assistant Secretaries. (a) The Secretary shall keep the minutes of all proceedings of the shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these By-laws and as required by applicable law. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Secretary.

(b) Each Assistant Secretary shall perform such duties as may from time to time be assigned by the Secretary or by the Board. In the event of the absence, incapacity or inability to act of the Secretary, then any Assistant Secretary may perform any of the duties and may exercise any of the powers of the Secretary.

4. INDEMNIFICATION.

4.1(a) Right to Indemnification. The Corporation, to the fullest extent permitted by applicable law as then in effect, shall indemnify any person who is or was a Director or officer of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a Director, officer, employee or agent of the Corporation or is or was serving 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 "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Director or officer of the Corporation with respect to a Proceeding that was commenced by such Director or officer prior to a Change in Control (as defined in Section 4.4(e)(i) of this Article 4). Any Director or officer of the Corporation entitled to indemnification as provided in this Section 4.1(a) is hereinafter called an "Indemnitee". Any right of an Indemnitee to indemnification shall be a contract right and shall include the right to receive, prior to the conclusion of any Proceeding, payment of any expenses incurred by the Indemnitee in connection with such Proceeding, consistent with the provisions of applicable law as then in effect and the other provisions of this Article 4.

(b) Effect of Amendments. Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article 4 (including, without limitation, this Section 4.1(b)) shall adversely affect the rights of any Director or officer under this Article 4 (i) with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision or (ii) after the occurrence of a Change in Control, with respect to any Proceeding arising out of any action or omission occurring prior to such amendment, repeal or adoption of an inconsistent provision, in either case without the written consent of such Director or officer.

4.2 Insurance, Contracts and Funding. The Corporation may purchase and maintain insurance to protect itself and any indemnified person against any expenses, judgments, fines and amounts paid in settlement as specified in Section 4.1(a) or Section 4.5 of this Article 4 or incurred by any indemnified person in connection with any Proceeding referred to in such Sections, to the fullest extent permitted by applicable law as then in effect. The Corporation may enter into contracts with any Director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity in furtherance of the provisions of this Article 4 and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article 4.

4.3 Indemnification; Not Exclusive Right. The right of indemnification provided in this Article 4 shall not be exclusive of any other rights to which any indemnified person may otherwise be entitled, and the provisions of this Article 4 shall inure to the benefit of the heirs and legal representatives of any indemnified person under this Article 4 and shall be applicable to Proceedings commenced or continuing after the adoption of this Article 4, whether arising from acts or omissions occurring before or after such adoption.

4.4 Advancement of Expenses; Procedures; Presumptions and Effect of Certain Proceedings; Remedies. In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to the advancement of expenses and the right to indemnification under this Article 4:

(a) Advancement of Expenses. All reasonable expenses incurred by or on behalf of the Indemnitee in connection with any Proceeding shall be advanced to the Indemnitee by the Corporation within 20 days after the receipt by the Corporation of a statement or statements from the Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Any such statement or statements shall reasonably evidence the expenses incurred by the Indemnitee and shall include any written affirmation or undertaking required by applicable law in effect at the time of such advance.

(b) Procedures for Determination of Entitlement to Indemnification. (i) To obtain indemnification under this Article 4, an Indemnitee shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Indemnitee and reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification (the "Supporting Documentation"). The determination of the Indemnitee's entitlement to indemnification shall be made not later than 60 days after receipt by the Corporation of the written request for indemnification together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that the Indemnitee has requested indemnification.

(ii) The Indemnitee's entitlement to indemnification under this Article 4 shall be determined in one of the following ways: (A) by a majority vote of the Disinterested Directors (as hereinafter defined), if they constitute a quorum of the Board; (B) by a written opinion of Independent Counsel as hereinafter defined) if (x) a Change in Control (as hereinafter defined) shall have occurred and the Indemnitee so requests or (y) a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (C) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to indemnification to the shareholders for their determination); or (D) as provided in Section 4.4(c) of this Article 4.

(iii) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 4.4(b)(ii), a majority of the Disinterested Directors shall select the Independent Counsel, but only an Independent Counsel to which the Indemnitee does not reasonably object; provided, however, that if a Change in Control shall have occurred, the Indemnitee shall select such Independent Counsel, but only an Independent Counsel to which a majority of the Disinterested Directors does not reasonably object.

(c) Presumptions and Effect of Certain Proceedings. Except as otherwise expressly provided in this Article 4, if a Change in Control shall have occurred, the Indemnitee shall be presumed to be entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification together with the Supporting Documentation in accordance with Section 4.4(b) of this Article 4, and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under Section 4.4(b) of this Article 4 to determine entitlement to indemnification shall not have been appointed or shall not have made a determination within 60 days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Indemnitee shall be deemed to be, and shall be, entitled to indemnification unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. The termination of any Proceeding described in Section 4.1 of this Article 4, or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, adversely affect the right of the Indemnitee to indemnification or create a presumption that the Indemnitee did not act in good faith and in a manner which the Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(d) Remedies of Indemnitee. (i) In the event that a determination is made pursuant to Section 4.4(b) of this Article 4 that the Indemnitee is not entitled to indemnification under this Article 4, (A) the Indemnitee shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Indemnitee's sole option, in (x) an appropriate court of the state of Indiana or any other court of competent jurisdiction or (y) an arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association; (B) any such judicial proceeding or arbitration shall be de novo and the Indemnitee shall not be prejudiced by reason of such adverse determination; and (C) if a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Corporation shall have the burden of proving that the Indemnitee is not entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control).

(ii) If a determination shall have been made or deemed to have been made, pursuant to Section 4.4(b) or (c) of this Article 4, that the Indemnitee is entitled to indemnification, the Corporation shall be obligated to pay the amounts constituting such indemnification within five days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. In the event that (x) advancement of expenses is not timely made pursuant to Section 4.4(a) of this Article 4 or (y) payment of indemnification is not made within five days after a determination of entitlement to indemnification has been made or deemed to have been made pursuant to Section 4.4(b) or (c) of this Article 4, the Indemnitee shall be entitled to seek judicial enforcement of the Corporation's obligation to pay to the Indemnitee such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the state of Indiana or any other court of competent jurisdiction, contesting the right of the Indemnitee to receive indemnification hereunder due to the occurrence of an event described in Subclause (A) or (B) of this Clause (ii) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(iii) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 4.4(d) that the procedures and presumptions of this Article 4 are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Article 4.

(iv) In the event that the Indemnitee, pursuant to this Section 4.4(d), seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of, this Article 4, the Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any expenses actually and reasonably incurred by the Indemnitee if the Indemnitee prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be prorated accordingly.

(e) Definitions. For purposes of this Article 4:

(i) "Change in Control" means a change in control of the Corporation of a nature that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A (or any amendment or successor provision thereto) promulgated under the Securities Exchange Act of 1934 (the "Act"), whether or not the Corporation is then subject to such reporting requirement; provided that, without limitation, such a change in control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Corporation representing 20% or more of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election of Directors without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such acquisition; (B) the Corporation is a party to any merger or consolidation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Corporation's common stock would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of the Corporation's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, (C) there is a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation, or liquidation or dissolution of the Corporation; (D) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or (E) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (including for this purpose any new Director whose election or nomination for election by the shareholders was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

(ii) "Disinterested Director" means a Director who is not or was not a party to the proceeding in respect of which indemnification is sought by the Indemnitee.

(iii) "Independent Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent: (a) the Corporation or the Indemnitee in any matter material to either such party or (b) any other party to the Proceeding giving rise to a claim for indemnification under this Article 4. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the Indemnitee in an action to determine the Indemnitee's rights under this Article 4.

4.5 Indemnification of Employees and Agents. Notwithstanding any other provision of this Article 4, the Corporation, to the fullest extent permitted by applicable law as then in effect, may indemnify any person other than a Director or officer of the Corporation who is or was an employee or agent of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an employee or agent of the Corporation or, at the request of the Corporation, a director, officer, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such employee, fiduciary or agent in connection with any such Proceeding, consistent with the provisions of applicable law as then in effect.

4.6 Severability. If any of this Article 4 shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

5. CAPITAL STOCK.

5.1 Stock Certificates. (a) Every holder of stock in the Corporation shall be entitled to have a certificate, which shall state on its face the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom the certificate was issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon his written request and without charge, a summary of the designations, relative rights, preferences, and limitations applicable to each class and the variations in rights, preferences, and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series), which certificate shall otherwise be in such form as the Board shall prescribe and as provided in Section 5.1(d). Each such certificate shall be signed by, or in the name of, the Corporation by the Chairman or any Vice Chairman or the President or any Vice President, and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary.

(b) If such certificate is countersigned by a transfer agent other than the Corporation or its employee, or by a registrar other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles, and, if permitted by applicable law, any other signature on the certificate may be a facsimile.

(c) In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer at the date of issue.

(d) Certificates of stock shall be issued in such form not inconsistent with the Articles of Incorporation. They shall be numbered and registered in the order in which they are issued. No certificate shall be issued until fully paid.

(e) All certificates surrendered to the Corporation shall be cancelled (other than treasury shares) with the date of cancellation and shall be retained by or under the control of the Chief Financial Officer, together with the powers of attorney to transfer and the assignments of the shares represented by such certificates, for such period of time as such officer shall designate.

5.2 Record Ownership. A record of the name of the person, firm or corporation and address of such holder of each certificate, the number of shares of each class and series represented thereby and the date of issue thereof shall be made on the Corporation's books. The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in any share on the part of any person, whether or not it shall have express or other notice thereof, except as required by applicable law.

5.3 Transfer of Record Ownership. Transfers of stock shall be made on the books of the Corporation only by direction of the person named in the certificate or such person's attorney, lawfully constituted in writing, and only upon the surrender of the certificate therefor and a written assignment of the shares evidenced thereby. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer if, when the certificates are presented to the Corporation for transfer, both the transferor and transferee request the Corporation to do so.

5.4 Lost, Stolen or Destroyed Certificates. Certificates representing shares of the stock of the Corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed in such manner and on such terms and conditions as the Board from time to time may authorize in accordance with applicable law.

5.5 Transfer Agent; Registrar; Rules Respecting Certificates. The Corporation shall maintain one or more transfer offices or agencies where stock of the Corporation shall be transferable. The Corporation shall also maintain one or more registry offices where such stock shall be registered. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of stock certificates in accordance with applicable law.

5.6 Fixing Record Date for Determination of Shareholders of Record. (a) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to notice of, or to vote at, any meeting of the shareholders or any adjournment thereof, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty days nor less than ten days before the date of a meeting of the shareholders. If no record date is fixed by the Board, the record date for determining the shareholders entitled to notice of or to vote at a shareholders' meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting and shall fix a new record date if such adjourned meeting is more than 120 days after the date of the original meeting.

(b) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or in order to make a determination of the shareholders for the purpose of any other lawful action, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty calendar days prior to such action. If no record date is fixed by the Board, the record date for determining the shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

6. SECURITIES HELD BY THE CORPORATION.

6.1 Voting. Unless the Board shall otherwise order, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the Controller, the Treasurer or the Secretary shall have full power and authority, on behalf of the Corporation, (i) to attend, act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock and at such meeting to exercise any or all rights and powers incident to the ownership of such stock, and to execute on behalf of the Corporation a proxy or proxies empowering another or others to act as aforesaid, and (ii) to delegate to any employee or agent such power and authority.

6.2 General Authorization to Transfer Securities Held by the Corporation. (a) Any of the following officers, to wit: the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the Controller, the Treasurer, any Assistant Controller, any Assistant Treasurer, and each of them, hereby is authorized and empowered (i) to transfer, convert, endorse, sell, assign, set over and deliver any and all shares of stock, bonds, debentures, notes, subscription warrants, stock purchase warrants, evidences of indebtedness, or other securities now or hereafter standing in the name of or owned by the Corporation and to make, execute and deliver any and all written instruments of assignment and transfer necessary or proper to effectuate the authority hereby conferred, and (ii) to delegate to any employee or agent such power and authority.

(b) Whenever there shall be annexed to any instrument of assignment and transfer executed pursuant to and in accordance with the foregoing Section 6.2(a), a certificate of the Secretary or any Assistant Secretary in office at the date of such certificate setting forth the provisions hereof, stating that they are in full force and effect, setting forth the names of persons who are then officers of the corporation, and certifying as to the employees or agents, if any, to whom any such power and authority have been delegated, all persons to whom such instrument and annexed certificate shall thereafter come shall be entitled, without further inquiry or investigation and regardless of the date of such certificate, to assume and to act in reliance upon the assumption that (i) the shares of stock or other securities named in such instrument were theretofore duly and properly transferred, endorsed, sold, assigned, set over and delivered by the Corporation, and (ii) with respect to such securities, the authority of these provisions of these By-laws and of such officers, employees and agents is still in full force and effect.

7. DEPOSITARIES AND SIGNATORIES.

7.1 Depositaries. The Chairman, any Vice Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a Division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depositary and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depositary designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a Division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depositary, or from time to time the fact of any change in any depositary or in the signatories with respect thereto.

7.2 Signatories. Unless otherwise designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, each of whom is authorized to execute any of such items individually, all notes, drafts, checks, acceptances, orders for the payment of money and all other negotiable instruments obligating the Corporation for the payment of money, including any form of guaranty by the Corporation with respect to any such item entered into by any direct or indirect subsidiary of the Corporation, shall be (a) signed by any Assistant Treasurer and (b) countersigned by the Controller or any Assistant Controller, or (c) either signed or countersigned by any Executive Vice President, any Senior Vice President or any Vice President in lieu of either the officers designated in Clause (a) or the officers designated in Clause (b) of this Section 7.2.

8. SEAL.

The seal of the Corporation shall be in such form and shall have such content as the Board shall from time to time determine.

9. FISCAL YEAR.

The fiscal year of the Corporation shall end on December 31 in each year, or on such other date as the Board shall determine.

10. WAIVER OF OR DISPENSING WITH NOTICE.

(a) Whenever any notice of the time, place or purpose of any meeting of the shareholders is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice, signed by a shareholder entitled to notice of a shareholders' meeting, whether by telegraph, cable or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. The waiver must be included in the minutes or filed with the corporate records. Attendance of a shareholder in person or by proxy at a shareholders' meeting shall constitute a waiver of notice to such shareholder of such meeting, except when (i) the shareholder attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened, or (ii) the shareholder objects to consideration of a particular matter at the meeting at the time such matter is presented because it is not within the purpose or purposes described in the meeting notice.

(b) Whenever any notice of the time or place of any meeting of the Board or Committee of the Board is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice signed by a Director, whether by telegraph, cable or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. Unless the Director is deemed to have waived notice by attending the meeting, the waiver must be in writing, signed by the Director entitled to the notice and filed with the minutes or corporate records. Attendance of a Director at a meeting shall constitute a waiver of notice to such Director of such meeting, unless the Director at the beginning of the meeting (or promptly upon the Director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

(c) No notice need be given to any person with whom communication is made unlawful by any law of the United States or any rule, regulation, proclamation or executive order issued under any such law.

11. POLITICAL NONPARTISANSHIP OF THE CORPORATION.

The Corporation shall not make, directly or indirectly, any contributions or expenditures in connection with the election of any candidate for federal, state or local political office, or any committee campaigning for such a candidate, except to the extent necessary to permit in the United States the expenditure of corporate assets for the payment of expenses for establishing, registering and administering any political action committee and of soliciting contributions thereto, all as may be authorized by federal or state laws.

12. AMENDMENT OF BY-LAWS.

Except as otherwise provided in Section 2.8(a) of these By-laws, these By-laws, or any of them, may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the Board at any regular or special meeting of the Board, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board. These By-laws, or any of them, may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the shareholders at any regular or special meeting of the shareholders at which a quorum is present, if such supplement, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election of directors.

13. OFFICES AND AGENT.

(a) Registered Office and Agent. The registered office of the Corporation in the State of Indiana shall be One North Capitol Avenue, Suite 1180, Indianapolis, Indiana 46204. The name of the registered agent is The Corporation Trust Company. Such registered agent has a business office identical with such registered office.

(b) Other Offices. The Corporation may also have offices at other places, either within or outside the State of Indiana, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

CERTIFICATION

I hereby certify that the foregoing is a true and complete copy of the By-laws of ITT Industries, Inc., an Indiana corporation, as in effect on the date hereof.

WITNESS my hand and the seal of the Corporation.

Dated: March 27, 2003.

/s/ Kathleen S. Stolar

Secretary

ADOPTED
12/3/02

EXHIBIT 12

ITT INDUSTRIES, INC. AND SUBSIDIARIES

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

	YEARS ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
Earnings:					
Income (loss) from continuing operations...........................	$379.9	$216.7	$264.5	$232.9	$ (97.6)
Add (deduct): Adjustment for distributions in excess of (less than) undistributed equity earnings and losses(a).............	(7.0)	(2.5)	(3.5)	(3.1)	1.1
Income taxes (benefits)...............	128.9	116.7	155.4	136.8	(62.4)
	501.8	330.9	416.4	366.6	(158.9)
Fixed Charges:					
Interest and other financial charges...........................	36.9	68.8	93.1	84.8	125.8
Interest factor attributable to rentals(b).........................	20.0	16.7	18.5	17.3	15.1
	57.8	85.5	111.6	102.1	140.9
Earnings, as adjusted, from continuing operations...........................	$559.6	$416.4	$528.0	$468.7	$ (18.0)
Fixed Charges:					
Fixed charges above...................	$ 57.8	$ 85.5	$111.6	$102.1	$ 140.9
Interest capitalized.................	--	--	--	--	--
Total fixed charges................	57.8	85.5	111.6	102.1	140.9
Dividends on preferred stock (pre-income tax basis)................	--	--	--	--	--
Total fixed charges and preferred dividend requirements............	$ 57.8	$ 85.5	$111.6	$102.1	$ 140.9
Ratios:					
Earnings, as adjusted, from continuing operations to total fixed charges(c)........................	9.68	4.87	4.73	4.59	--
Earnings, as adjusted, from continuing operations to total fixed charges and preferred dividend requirements(c)....................	9.68	4.87	4.73	4.59	--

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Notes:

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

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

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

ITT INDUSTRIES

CODE OF CORPORATE CONDUCT

DOING THE RIGHT THING --ALWAYS

LETTER FROM THE CHAIRMAN

Dear Fellow Employees:

We have prepared this Code of Corporate Conduct to help you understand ITT Industries' standards of ethical business practice. This Code applies not only to all employees, officers and directors, but also to all consultants, agents and other representatives retained by ITT Industries.

The principles set forth in this Code describe how we should behave. ITT Industries will conduct its worldwide operations consistent with the highest business, legal and ethical considerations. Compliance with these principles is vital to maintain ITT Industries' global reputation as a responsible corporate citizen, and to achieve our goal of becoming the best and most respected diversified manufacturing company in the world. Personal responsibility is at the core of our principles and culture. We expect everyone associated with ITT Industries not only to know right from wrong, but also to always choose right over wrong. In every business decision we make, we must follow the ethics and compliance principles set forth in this booklet and in the ITT Industries Corporate Policy Manual. It is also our responsibility to report anything we observe or know about that might violate these principles.

No Code could ever anticipate every ethical decision we may face in business. So whenever you are in doubt about any matter that may have ethical implications, you should seek guidance within ITT Industries, your Company or individual business unit. This Code identifies the channels and procedures that we have established to help answer your questions.

Violation of this Code is a serious matter and could subject you or ITT Industries to civil liability or even criminal prosecution. It is important that you read this Code carefully and ask questions about anything you do not understand. Each of us must understand and accept our personal responsibility in preserving and enhancing ITT Industries' exceptional reputation for integrity. I know you and your colleagues will take pride in always doing the right thing.

BASIC PRINCIPLES

At ITT Industries, we are committed to always doing the right thing. That is why we have an ethics and compliance program and why we publish this Code. The Code is specifically designed to be part of an effective program to prevent and detect violations of law as set forth in the Organizational Sentencing Guidelines of the U.S. Sentencing Commission. Before you review specific principles, you should have a general sense of ITT Industries' basic principles reflected in this Code. These principles are:

1) We will always be truthful.

2) We will strictly adhere to the letter and spirit of all laws.

3) We will provide high-quality products and services.

4) We will be a good corporate citizen. We will obey the laws and conform to locally accepted standards of good corporate citizenship in each country in which we do business.

5) We will promote and sustain a work environment that fosters mutual respect, openness and individual integrity.

6) We will be fair in all aspects of our business.

When faced with a business decision that seems to have ethical overtones, here are several questions you should ask yourself to determine if your actions are proper:

1) Am I adhering to the spirit, as well as the letter, of any law or ITT Industries policy that may be involved?

2) Would I want my actions reported on the front page of a newspaper?

3) What would my family, friends or neighbors think of my actions?

4) Will there be any direct or indirect negative consequences for ITT Industries?

5) Are my actions consistent with the overall values set forth in this Code and the ITT Industries Corporate Policy Manual?

This Code is not just for our employees. All consultants, sales agents and representatives must be informed about the ITT Industries Code of Corporate Conduct. In some cases, U.S. or other countries' laws may impose on our business associates, including consultants, sales agents and representatives, an obligation to obey and to help us obey certain laws. Also, where the actions of our consultants, agents or representatives may be attributable to us, we must insist that they conduct themselves in accordance with this Code in carrying out those actions, and help us comply with applicable laws.

If you remain uncertain about what to do, stop and ask for help. Refer to the relevant section of this Code. Speak with your supervisor or, if you prefer, communicate with any of the other points of contact indicated in this Code.

IF YOU HAVE ANY DOUBT, ASK FOR HELP.

ACCURACY OF RECORDS

We rely on our employees to maintain accurate books and records to efficiently manage our business. As in all other aspects of our business, we expect our employees to adhere to the highest standards of honesty. At ITT Industries, we do not engage in inaccurate, false or misleading record keeping. If you are ever tempted or asked to make a representation - either in a document or in oral communication - that is other than fully accurate, do not do it. This applies to each and every detail of our business. It applies even in circumstances where one might believe that the consequences of the inaccuracy would be harmless.

ITT Industries' funds or assets will be utilized solely for a lawful and proper purpose and no transfer or expenditure of such funds or assets will be undertaken unless the stated purpose is, in fact, the actual purpose, and the transfer or expenditure is authorized in writing and within ITT Industries policy. No undisclosed or unrecorded fund or asset of ITT Industries shall be established for any purpose.

No false or artificial entries shall be made in the books and records of ITT Industries or any of its subsidiaries or companies for any reason, and no employee shall engage in any arrangement that results in such a prohibited act.

It is also ITT Industries' policy that no employee shall take or approve actions that result in incurring, or paying, the cost of anything from corporate funds if such an expenditure, when properly and accurately reported, is not authorized or not reimbursable to the employee under ITT Industries' rules.

Questions regarding this policy should be addressed to your Company's Controller.

ANTITRUST

ITT Industries energetically competes both in the United States and in the global marketplace. However, we will only do business according to the letter and spirit of all laws that govern and promote free and fair competition. That means we will strictly comply with the antitrust laws of the U.S. and, where applicable, the antitrust or related laws of any other country.

A violation of the antitrust laws is a serious offense. In the U.S., IT IS NOT UNCOMMON FOR INDIVIDUALS TO BE CRIMINALLY PROSECUTED.

The antitrust laws are complicated and voluminous, and cannot be covered here in their entirety. The ITT Industries Corporate Policy Manual identifies certain activities prohibited by U.S. antitrust laws and by the corresponding laws of many other countries. Prohibited activities include, for example, agreements with competitors to fix prices, boycotts of customers or third parties, or other agreements to restrain or restrict competition. Also, we may not fix the price at which a customer resells products or services, or enter into an unlawful tying arrangement with a customer.

If you have any questions regarding compliance with the antitrust laws, contact your Company Legal Department immediately. The pamphlet "Guidelines for Compliance with the U.S. Antitrust Laws" supplements these basic rules and is available to assist you in understanding and adhering to the law.

BUSINESS COURTESIES

A business courtesy is a gift (whether in money or in kind) provided to a business associate. In certain situations, the exchange of limited, non-cash business courtesies may be appropriate. We do not seek, however, to improperly influence the decisions of our customers or suppliers by offering business courtesies, just as we require that the decisions of employees at ITT Industries not be affected by having received a business courtesy. THERE ARE VERY STRINGENT RULES THAT APPLY TO OUR GOVERNMENT CUSTOMERS, WITH WHOM, IN MANY CASES, ANY BUSINESS COURTESY IS ABSOLUTELY PROHIBITED.

DEFINITION OF SUPPLIER OR VENDOR

A supplier or vendor is any business that furnishes, or is in a position to furnish, materials, equipment, supplies or services of any kind to ITT Industries or any of its Companies or Units. Services include, but are not limited to, banking, insurance, advertising, transportation, construction, auditing, engineering, consulting, testing and legal counsel.

GOVERNMENT BUSINESS

- - The U.S. government has a number of laws and regulations regarding offering business courtesies to government officials, or offering or receiving courtesies from subcontractors on a government contract. State and local governments, as well as foreign governments, may have similar rules. These rules are complex and frequently change. Sometimes there are differences between applicable foreign and U.S. laws. Your Company Legal Department can provide guidance in this area.

- - Do not offer anything of value - including gifts (even token gifts or Company-identified items), food or beverages (limited on-site food and beverages, such as coffee and donuts, are permissible), restaurant meals, special favors, payments, gratuities, transportation, lodging or services - to any U.S. federal, state or local employee, or to any subcontractor on a government contract, without the prior approval of your Legal Department. (Some government agencies permit gifts under $20 to cover small courtesies such as meals and beverages. Please check with your Company Legal Department so that you are sure of the rules.) You may not accept any such item from any subcontractor on a government contract without the prior approval of your Company Legal Department.

For purposes of this rule, members of Congress and their staffs are considered U.S. federal government employees. Prior approval for giving anything of value to a member of Congress or staff member must be provided by your Company Legal Department.

- - You must immediately report any offer of a fee or kickback to the Company Legal Department. Asking for or accepting a fee or kickback may be a criminal act. (Make sure you also read the specific rules under the Government Procurement section of this Code.)

NON-GOVERNMENT BUSINESS

- - Do not accept a gift related to Company business of more than token value. Even if the gift is less than token value, you should only accept it if it is consistent with common business practices. It is our policy to discourage receipt of business gifts of even token value. Any business gift offered that may exceed token value must be reported to your supervisor immediately.

- - Any business gift given must not exceed $200 in value unless prior approval is received as provided by ITT Industries Finance Policy 30-10. Sales or marketing representatives may make business gifts of their regular ITT Industries products or promotional items valued under $200 for the purpose of generating business goodwill. Moreover, when practical, any gift given by you as a business courtesy should include the ITT Industries name or other similar identification.

- - Regarding meals and entertainment, you may offer or receive infrequent, reasonable and appropriate meals or simple entertainment (which shall not involve travel or overnight lodging) provided that business is discussed and that the activity has a clear business purpose. Any activity that might be considered lavish or extravagant is not permitted. The guideline for reasonable and appropriate shall be normal industry practice in your locality consistent with local legal requirements. While the gift value limitations described above do not strictly apply in the case of meals and entertainment, those limitations are an indication of the reasonableness of the meals or entertainment.

- - You should also not accept any money or cash equivalents, or allow any member of your immediate family to accept anything from any person with whom ITT Industries has a business relationship.

- - Any offer to you of a gift or other business courtesy that exceeds $50 in value, or that seems inconsistent with common business practices, should be immediately reported to your supervisor. Employees must also immediately report any offers of cash, a fee or kickback to the Company Legal Department.

Common sense and good judgment must be exercised when accepting business-related meals or anything of token value to avoid any perception of impropriety or conflict of interest.

COMPUTER SOFTWARE AND EMAIL

COMPUTER SOFTWARE

Copyrights protect most computer programs in countries in which we operate. Our policy is to respect such copyrights and to strictly adhere to all relevant laws and regulations regarding the use and copying of computer software. Therefore, do not make copies of any part of a third-party computer program unless the copy is an authorized back-up copy or the computer software license specifically permits the copy to be made. If you are uncertain about this, you may consult with your Company's Information Technology Department. If you are engaged in writing computer programs, do not copy or refer to any lines of code written by a third party without the advice of the Company Legal Department or the written consent of the third party.

E-MAIL AND INTERNET

E-mail systems are not entirely secure and may be susceptible to interception. Unlike a spoken conversation, e-mail creates a permanent record. Any e-mail you send may be printed by the recipient and forwarded by the recipient to others, and is probably retained on company computers for a substantial period of time. Therefore, ITT Industries' employees should exercise the same care, caution and etiquette in sending an e-mail message as they would in normal written business communications.

Make sure your ITT Industries e-mail is professional and appropriate to the circumstances. Specifically, ITT Industries will not tolerate abusive, obscene, offensive or profane e-mail. In addition, because the e-mail system is an ITT Industries resource, ITT Industries may, in certain circumstances, have a need to examine and, therefore, reserves the right to read all e-mail communications.

Anyone who has been provided a connection to the Internet is provided such connection primarily for business use. Do not download any data that is not in the public domain or that is unprofessional, inflammatory or inappropriate for business use. Employees should not abuse access to the Internet for personal purposes. Corporate computer systems are increasingly capable of reviewing all Internet activity. ITT Industries may conduct such a review, and evidence of abuse of ITT Industries-provided Internet facilities may result in termination of the Internet connection and disciplinary action.

CONFIDENTIAL INFORMATION

Confidential ITT Industries information and trade secrets are important corporate assets that merit the same protection as our physical assets. All employees, agents, consultants and representatives must be careful not to disclose such information to unauthorized persons, either within or outside ITT Industries, and must exercise care to protect the confidentiality of such information received from another party.

Confidential information refers to information that is not already in the public domain, that a company would normally expect to be non-public and that might affect the company's competitive position. It includes information sometimes referred to as trade secrets.

Some examples of confidential information are:

- - Technical information about current or planned products and/or processes.

- - Procurement plans, vendor lists or purchase prices.

- - Cost, pricing, marketing or service strategies.

- - Non-public earnings reports and other financial reports.

- - Information related to divestitures, mergers and acquisitions.

SPECIFIC GUIDELINES

1) Employees, consultants, agents and representatives must be careful about where they discuss ITT Industries matters. It is inappropriate to discuss confidential matters in the presence or

within hearing range of unauthorized persons. Use care, since even family and friends may inadvertently convey such confidential information to others.

2) In instances where it is appropriate for business reasons to disclose ITT Industries confidential information to third parties, the Company Legal Department must be contacted before the disclosure for preparation of an appropriate agreement that includes the necessary safeguards.

3) No employee, consultant, agent or representative shall disclose or use any confidential information gained during ITT Industries employment or any other ITT Industries relationship for personal profit or to the advantage of the employee or any other person.

4) Obtaining confidential information from a third party without adequate legal safeguards is improper and may expose ITT Industries to legal risks. Accordingly, no employee may accept such information without the advice of the Company Legal Department and until an agreement in writing has been reached with the offeror. After such information is obtained, its confidentiality must be protected as provided in the agreement.

5) No prospective employee shall be hired in order to obtain the person's specific knowledge of a former employer's confidential information, nor shall any new employee be placed in a position that would inevitably require the individual to disclose or use a former employer's confidential information. If you are thinking of offering a job to an executive of a direct competitor, the approval of the Human Resources Department, Legal Department and the President of the ITT Industries Company is required before any active negotiations are undertaken.

Concerns with respect to confidential information may arise in the securities area as well. Please make sure to review the Securities section in this Code as well as the ITT Industries Corporate Policy Manual regarding confidential corporate information.

CONFLICTS OF INTEREST

A conflict of interest occurs when personal interests interfere with your ability to exercise your judgment objectively, or to do your job at ITT Industries in a way that is certain to be in the best interests of ITT Industries. Employees, consultants, agents and representatives must avoid actual or potential conflicts of interest. If an employee considers undertaking any activity that may create a conflict of interest, the employee must seek approval of the activity in advance from his or her supervisor or from the Corporate, Company or Unit Director of Human Resources.

EXAMPLES OF POTENTIAL CONFLICTS INVOLVING EMPLOYEES

1) Contracting with a supplier managed by a close friend or family member.

2) Working independently as a consultant to a supplier or customer.

3) Having a private business on your own time if you perform work that is similar to work that you perform at ITT Industries or that ITT Industries might be interested in performing.

Consult the ITT Industries Corporate Policy Manual for specific information on dealing with conflicts of interest.

CONSULTANTS

All consultants shall be approved in accordance with the ITT Industries Corporate Policy Manual, and consulting agreements shall be controlled to protect ITT Industries' confidential information.

No consultant may be retained to perform work for ITT Industries, its Companies or Units without a formal written agreement prepared by the Company Legal Department. These agreements must contain a detailed statement of work, a clear description of all amounts to be paid, and all specific provisions required by the Legal Department covering conflicts of interest, standards of conduct, government business ethics, confidentiality obligations, ownership of intellectual property and special provisions in foreign agency agreements. The use of consultants or lobbyists in the government relations area shall only be undertaken in consultation with the ITT Industries Corporate Relations Department.

Unless specifically approved by the Company Legal Department, all payment for services or products must be paid in the name of the consultant, agent or representative named as a party on the agreement, paid in the location where the services are performed and paid in local currency. All consultants must be informed about and agree to follow the ITT Industries Code of Corporate Conduct with respect to activities that affect ITT Industries' domestic and foreign businesses, employees or capital and securities markets.

DRUG & ALCOHOL POLICY AND EMPLOYEE ASSISTANCE

To remain competitive in today's business environment, it is essential that we make the best decisions. We expect that all our employees' judgments will be clear and unimpaired by drugs or alcohol.

SPECIFIC GUIDELINES

1) Employees shall not distribute, possess or use illegal or unauthorized drugs or alcohol on ITT Industries property, on ITT Industries time, in connection with ITT Industries business or in a manner that may affect performance of ITT Industries responsibilities.

2) Employees whose behavior, judgment or performance is impaired by drugs or alcohol will be prohibited from entering the ITT Industries premises or engaging in ITT Industries business. Violations of this policy are serious and will result in appropriate discipline, including possible termination.

3) Employee Assistance Programs (EAPs) are available to help employees with behavioral or medical problems that adversely affect job performance. Contact your Human Resources Department for additional information.

EMPLOYMENT AND MEDICAL RECORDS

Employment records of ITT Industries employees can only be disclosed to ITT Industries employees having a substantial and legitimate need to know the information in an employee's file or in response to appropriate legal process. ITT Industries employees with access to these files must take reasonable steps to keep them confidential in accordance with the ITT Industries Corporate Policy Manual.

ITT Industries employees' medical records are confidential and private. These medical records are kept separate from all other ITT Industries employee records and will not be released to any person unless required by law or based upon a written release from the ITT Industries employee concerned.

EMPLOYMENT OF CLOSELY RELATED PERSONS

ITT Industries wants to make sure that our workplace is fair and untainted by any possible perception of favoritism. We encourage the tradition of family service but have certain rules about employing closely related persons. Our policy is not to employ persons closely related to an ITT

Industries Officer without required approvals.

Other closely related persons cannot be employed in jobs where one ITT Industries employee has effective control over any aspect of the related ITT Industries employee's job. Related ITT Industries employees may not share responsibility for control or audit of significant ITT Industries assets.

ENVIRONMENT, SAFETY AND HEALTH

ITT Industries is committed to maintaining a leadership role in protecting human health and the environment. We will promote and protect the health and safety of our employees, the environment and the communities around the world in which we operate. Therefore, we will strictly adhere to all applicable laws and regulations relating to environmental protection and workplace health and safety. These principles are set forth in the ITT Industries Environment, Safety and Health Mission Statement.

Many environmental, safety and health laws and regulations are complex. If your work involves these fields, it is your responsibility to familiarize yourself with the requirements of relevant laws and regulations, including record keeping.

We have a publication entitled "ITT Industries Environment, Safety & Health (ESH) Manual" to assist you. If you have any questions, contact your Company's ESH Director or Company Legal Department.

Incidents that involve 1) a fatality, 2) environmental contamination or 3) a health or safety circumstance that is likely to subject ITT Industries or its employees to adverse consequences, must be immediately reported to your Company's senior management, to the ITT Industries, Inc. Vice President, ESH and to the ITT Industries, Inc. Corporate Relations Department. Such reports must be made as soon as possible and, in all cases, not later than 24 hours after the occurrence. Of course, federal, state or local laws and regulations regarding reporting requirements must be complied with within the appropriate time frames. Company senior management receiving any such report shall follow the ITT Industries Corporate Policy Manual in making further reports.

EQUAL OPPORTUNITY

It is ITT Industries' policy to ensure equal employment and advancement opportunity for all qualified individuals without distinction or discrimination because of age, color, national origin, race, religion, sex, physical or mental disability or veteran status.

This policy applies to all employees and applicants for employment and to all aspects of the employment relationship, including recruitment, hiring, compensation, benefits, training, transfer, and any other terms and conditions of employment. Equal employment opportunity principles must be communicated periodically to all employees and reaffirmed each year. ITT Industries businesses not subject to U.S. law shall apply the intent and provisions of this policy consistent with national or local laws in other countries.

Your Company President is responsible for implementing our equal opportunity policy. Your Company or unit has an EEO coordinator to whom you can address any concerns regarding any potential violations of this policy. ITT Industries, Inc. also has an EEO coordinator to whom concerns can be addressed.

FRAUDS AND THEFTS

It is ITT Industries' policy to ensure that incidents of fraud and theft relating to ITT Industries are promptly investigated, reported and, where appropriate, prosecuted.

Any suspected incident should be immediately reported to the ITT Industries Headquarters

Committee on Frauds and Thefts. The Committee will review the incident and advise regarding prosecution, if appropriate. No one may sign a criminal complaint on behalf of ITT Industries without prior written approval of the ITT Industries Headquarters Committee on Frauds and Thefts. The Committee also has jurisdiction over related personnel actions and civil litigation. To report an incident, please contact your Company Director of Human Resources or the Legal Department. Refer to the ITT Industries Corporate Policy Manual for further information.

GOVERNMENT INVESTIGATIONS

It is our policy to fully cooperate with any appropriate government investigation. If you or someone you supervise learns about a possible government investigation or inquiry, inform your Company Legal Department immediately.

SPECIFIC GUIDELINES

1) Never destroy any ITT Industries documents in anticipation of a request for those documents from ITT Industries or Company investigators, any government agency or a court. Documents include electronic media such as disks, computer-stored information and e-mail transmissions.

2) Never alter any historical ITT Industries document or record.

3) Never make any untrue or misleading statement to any government investigator.

4) Never try to influence any other ITT Industries employee or any other person to provide untruthful information to any ITT Industries or Company investigator or government investigator, or to provide any incomplete, false or misleading information.

5) If any government inquiry arises through a written subpoena or a written request for information (such as a Civil Investigative Demand), you must submit the subpoena or written request to your Company Legal Department immediately, before any action is taken or promised.

6) If you are approached outside the workplace by a government investigator, you have the right, if you wish, to consult with the Company Legal Department (or, if you prefer, your own private legal counsel) before speaking with the investigator.

GOVERNMENT PROCUREMENT

In many instances, conduct that is commonplace and legal in the commercial sector may violate laws and regulations that pertain to U.S. federal government contracts. Such violations may result in penalties and fines, as well as debarment or suspension from government contracting, or possible criminal prosecution of individual employees or ITT Industries.

Although this Code lists many specific guidelines, employees, consultants, sales agents and marketing representatives must be aware that federal government contracts are subject to numerous rules and regulations too detailed to be fully addressed by this Code. Therefore, if your work involves federal government contracts and you have any questions, you should contact your supervisor or your Company Legal Department to ensure that you are aware of all relevant laws and regulations.

SPECIFIC GUIDELINES

1) Employees must strictly adhere to the Anti-Kickback Act of 1986, which prohibits government contractors and subcontractors from giving or receiving anything of value in order to receive favorable treatment. Employees involved with government contracts should never give anything of value to or receive anything of value from a supplier, customer or

subcontractor without receiving prior approval from their supervisors.

2) Employees must strictly adhere to all laws and regulations regarding the protection of classified information, which should only be made available to individuals who have a need to know and who hold the proper government security clearance. Violations may result in imprisonment or fines. If you are aware of a potential violation, you must immediately report it to the head of security at your facility, as well as to your supervisor.

3) Employees shall not attempt to obtain or use confidential information of other companies or source selection information of the government. Source selection information is information that the government uses in evaluating bids or proposals. If you think that you have received either confidential information or source selection information, you should immediately contact your supervisor and your Company Legal Department. You should not examine the information or copy it.

4) There are detailed rules regarding employment of current or former government officials. Before initiating employment discussions with any present or former government official, you must contact your Company Director of Human Resources or your Legal Department.

5) There are many other requirements with which ITT Industries must comply. In particular, we must:

   a) Bill labor and material costs correctly;

   b) Submit cost and pricing data correctly in accordance with the Truth in Negotiations Act, as well as comply with all other requirements of this Act;

   c) Not submit any fraudulent claims within the meaning of the False Claims Act;

   d) Fully comply with all contract specifications and requirements;

   e) Correctly account for research and development costs and report inventions made under contract; and

   f) Maintain appropriate records, such as inspection and testing records, invoices and time cards.

This list is by no means exhaustive. If you have any questions regarding any of these special requirements for government contractors, contact your Company Legal Department immediately.

INTERNATIONAL BUSINESS: GENERAL

ITT Industries is a global company. Many of the countries in which we operate have significantly different laws than those of the U.S. We must know and comply with the letter and spirit of the laws of all countries where we do business and that affect our international operations. We will also be sensitive to the cultures and customs of the countries where we operate and respect the communities and environment where we do business.

THE U.S. FOREIGN CORRUPT PRACTICES ACT

Many U.S. laws are applicable to ITT Industries' non-U.S. businesses and to the conduct of our U.S. businesses outside the U.S. In particular, our employees should be familiar with the U.S. Foreign Corrupt Practices Act. This Act prohibits giving anything of value to officials of foreign governments in order to obtain or retain business. Any proposed incentive to be given to government personnel to secure an improper advantage is not permitted. Contact your Company Legal Department before any incentive is offered or if you have questions. (1)

ITT Industries, its employees, agents, consultants and marketing representatives, in their relations with governmental agencies or customers, will not directly or indirectly engage in bribery, kickbacks, payoffs or other corrupt business practices.

The U.S. Foreign Corrupt Practices Act applies to our consultants, marketing representatives and agents, as well as our employees. Compliance with this Act requires our constant vigilance. Specifically, if an employee, consultant, marketing representative or agent suspects that any payment is being used for improper purposes, he or she must immediately report the situation to his or her ITT Industries supervisor and to the Company Legal Department for investigation.

All sales agents, consultants or marketing representatives must work under an approved prior written agreement. The ITT Industries Corporate Policy Manual outlines the requirements for retaining sales agents or marketing representatives. Refer to that Manual for additional guidance.

FOREIGN MILITARY SALES

We will strictly adhere to all laws and regulations that deal with government-to-government and commercial foreign military sales. Because the laws and regulations that govern these transactions are complex, consult with your Company Legal Department before pursuing such transactions.

BOYCOTTS

Certain countries are engaged in a boycott of Israel. Some countries try to enforce this boycott in their contracts with U.S. companies. U.S. anti-boycott regulations are directed at the boycott of Israel and any other secondary boycott of a country friendly to the U.S. No ITT Industries business shall agree to a contract, document or oral request containing language that could be interpreted as an attempt by any country to enforce a boycott. Even providing information may constitute a violation of U.S. law, which requires that boycott requests be immediately reported to the government even when a response is not provided, and calls for the imposition of fines and other penalties on U.S. parent companies in cases where their non-U.S. subsidiaries violate U.S. anti-boycott regulations. Therefore, any request for information or receipt of boycott-related documentation must be immediately reported to your Company Legal Department. Refer to the ITT Industries Corporate Policy Manual for specific guidance.

EXPORT CONTROLS

It is ITT Industries' policy to fully comply with all applicable U.S. export, customs and trade control laws and regulations, licensing requirements, relevant non-U.S. laws and international sanctions. The ITT Industries policy regarding customs compliance can be found in ITT Industries Financial Policies Number 60-06. Each ITT Industries Company is responsible for customs, export and trade control compliance, and shall establish licensing and compliance programs to attain this objective. To the extent feasible, each ITT Industries Company is expected to perform due diligence and know its customer (including the end use and end user) in any business transaction. Your Company Legal Department is available to assist units about trade control policy and procedures. Any investigation or inquiry by a U.S. government organization regarding alleged trade control violations or irregularities should be immediately reported to the Company Legal Department prior to taking any action. The ITT Industries Corporate Policy Manual provides specific guidance in this area.

If you need advice about customs, export licensing and trade controls, ITT Industries has resources available to answer your questions. Your Company Legal Department and Controller are available to provide information and assistance to units, and should be consulted as the need arises.

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1 In certain instances, the U.S. Foreign Corrupt Practices Act does allow what are referred to as "facilitating payments." Typically, these are nominal payments given to relatively low-ranking government personnel to hasten the inspection of goods or the performance of other basic administrative tasks. Nonetheless, ITT Industries strongly discourages such payments, and in any case, the payment must also be consistent with applicable laws of the host country. Therefore, if you are ever faced with or anticipate a situation that may involve a facilitating payment, contact your Company Legal Department before you take any action.

POLITICAL ACTIVITIES

ITT Industries is firmly committed to following all federal, state and local laws that govern elections and campaign contributions in the U.S. and abroad. ITT Industries does not discourage its employees from appropriate involvement in the political process that reflects individual beliefs and commitments. However, unless pursuant to a Company-managed grassroots initiative involving issues of importance to ITT Industries, any political activity must take place on an employee's own time. The resources and reputation of ITT Industries cannot be used for any political activities unless specifically permitted by law and approved by the ITT Industries Office of the General Counsel.

No assets of ITT Industries, its subsidiaries or companies, will be used directly or indirectly, at home or abroad, for political purposes, including the support of any candidate or party, even in those countries where it may be traditional, customary and legal to do so. ITT Industries is not to become involved in the internal political affairs of host countries. This should not be construed to prohibit legitimate and authorized expression of ITT Industries' opinion on issues that may have an economic effect on ITT Industries after consultation with the Office of the General Counsel.

SPECIFIC GUIDELINES

1) Do not allow your status as an employee to be used in support of a particular candidate or issue. An employee cannot act as a representative of ITT Industries or any of its businesses regarding political issues without specific approval from the ITT Industries Office of the General Counsel and the ITT Industries Director of Corporate Relations.

2) Employees must not pressure, either directly or indirectly, other employees to make political contributions or to participate in support of a political party, issue or candidate. An employee cannot act as a representative of ITT Industries or any of its businesses regarding political issues without specific approval from the ITT Industries Office of the General Counsel and the ITT Industries Director of Corporate Relations.

3) Corporate funds or assets cannot be used to support a political party, an elected official, or the campaign of any candidate for local, state or federal elected office. Also, you should advise the ITT Industries Corporate Relations Department and your Company Legal and Public Relations Departments of any planned visits to an ITT Industries facility by an elected official, political party member or candidate for elected office.

4) Non-U.S. companies are not permitted to contribute to U.S. political candidates, elected officials, parties or campaigns. Non-U.S. citizens (unless they are "green card" holders) are not permitted to contribute to U.S. political candidates, elected officials, parties or campaigns. If you have any questions or need guidance, contact your Company Legal Department or the ITT Industries Office of the General Counsel.

5) ITT Industries encourages its managers and executives to develop appropriate working relationships with members of Congress and their staffs, particularly those who represent localities in which ITT Industries has facilities. It is essential, however, to inform your Company Legal Department and the Corporate Relations Department of any proposed visits that take place either in Washington, D.C. or in the local district. The Company Legal Department and the Corporate Relations Department must also be advised of any written submissions or other significant contacts with federal legislators or their staffs. Other government relations activities, including communications with offices of federal government departments, either regional or in Washington, D.C., as well as contacts with high-ranking state officials (such as governors), should also be coordinated with your Company Legal Department and the Corporate Relations Department. (Different rules may apply outside the U.S. Please consult with your Company Legal Department for guidance.)

6) The Corporate Relations Department and the Company Legal Department must be informed of any request to testify on behalf of ITT Industries before any federal, state, local or other

regulatory or legislative body.

PUBLIC STATEMENTS

Generally, employees must refrain from making public statements regarding issues or matters about which they are not authorized spokespersons. If an employee is contacted by the media about an ITT Industries matter, the employee should refer the media contact to the ITT Industries Director of Corporate Relations or the Director of Public Relations for one of the ITT Industries Companies or Units.

SALES AGENTS/MARKETING REPRESENTATIVES

You must contact your Company Legal Department before retaining any sales agents or marketing representatives. There are extensive rules and ITT Industries procedures regarding the retention of sales agents or marketing representatives, particularly those operating outside the U.S.

Where sales agents or marketing representatives are retained, ITT Industries will retain such representatives only pursuant to a written agreement that fully describes all services to be performed and all consideration to be paid. ITT Industries will retain only those representatives who are independently engaged in carrying out sales or marketing functions in a commercial manner. Compensation for the services of such representatives shall be comparable to customary compensation for such services in the locale in which the sales are made, considering the nature and scope of the contract or activity.

Unless specifically approved by the Company Legal Department, all payment for services or products must be paid in the name of the agent or marketing representative named as a party in the agreement, paid in the location where the services are performed and paid in local currency. ITT Industries Financial Policy 30-07 has specific guidelines for relationships with sales agents and representatives outside the U.S.

Without approval from your Company Legal Department, no sales agent or marketing representative shall be retained if the sales agent or marketing representative, or any person employed by the sales agent or marketing representative or financially interested in the sales agent's or marketing representative's business, is an employee or official of a customer, a potential customer of ITT Industries or is a close relative of such an employee or official.

SECURITIES

Our employees may have the opportunity to learn or gain access to information about ITT Industries or companies with whom we do business that is unavailable to the public. Such information may be "insider information" within the meaning of U.S. federal securities law. Consultants and other persons we hire to perform services for ITT Industries may also learn or gain access to "inside information." The U.S. federal securities laws apply to those persons as well if inside information is used to make investment decisions.

Our employees are prohibited from using any such inside information when they make personal investment decisions or investment decisions for others regarding our stock or the stock of companies with whom we do business. In addition, no employee may inform persons outside ITT Industries of such information. This includes communications with family and friends. Refer to the ITT Industries Corporate Policy Manual for specific guidelines. If you have any questions regarding compliance with these laws and principles, please contact your Company Legal Department immediately.

SEXUAL HARASSMENT

ITT Industries will not tolerate sexual harassment, which involves the solicitation of sexual favors or the initiation of any unwelcome sexual advance by one employee toward another. It may also involve other sexually related physical or verbal conduct. The creation of a work environment that is hostile, intimidating or offensive to an individual or group because of gender may also constitute sexual harassment.

Men and women throughout ITT Industries should treat one another with courtesy, dignity and respect, regardless of gender. All employees should recognize that there has been rapid social change as to appropriate conduct in the workplace, and workplace behavior should always reflect our principles of COURTESY, DIGNITY and RESPECT.

ITT Industries managers, supervisors and executives must be alert to the possible presence of sexual harassment in the workplace. Appropriate steps must be taken to prevent sexual harassment. Complaints about sexual harassment can be made to your supervisor, your ITT Industries Unit or Company Human Resources Department, the ITT Industries or Company Legal Department, anyone else in management or the Ombudsman. Any complaints must be promptly, fairly and thoroughly investigated. There will be no retaliation for truthfully reporting sexual harassment or participating in the Company's investigation of a complaint.

If sexual harassment occurs, there will be a prompt disciplinary consequence ranging from a warning to dismissal.

WORKPLACE VIOLENCE

Employees should have a safe place in which to work. Workplace violence, including threats, threatening behavior, harassment, intimidation, assaults and similar conduct, will not be tolerated. Any threats or concerns about your safety or the safety of others should be immediately reported to your manager. Firearms are not permitted on any ITT Industries facility without prior written approval from the Company Human Resources and Legal Departments.

QUESTIONS AND ANSWERS

GENERAL

Q: To whom should I direct questions or problems regarding ethical matters?

A: In most cases, you should contact your supervisor. In some instances, we realize that this may not be possible, would be impractical, or for some reason might be uncomfortable. Therefore, you can also contact your Company Legal Department, your Company Director of Human Resources or your Company Controller. You can also address your concerns to a Company Ombudsman or to the ITT Industries Director of Corporate Policy Compliance at ITT Industries Headquarters in White Plains, New York. Telephone numbers for the ITT Industries Ombudsman and the Director of Corporate Policy Compliance are provided on the inside back cover of this booklet. If you would like to make your inquiry or report anonymously, an Ombudsman should be your first point of contact.

Q: What should I do if I am faced with a situation where the correct ethical decision would mean that ITT Industries loses money? Should I be ethical even if we are going to lose business?

A: Yes. We want our employees to act ethically in every circumstance - even if it means that we will lose business. We value ITT Industries' long-term reputation. Employees should never compromise our long-term well-being and reputation in order to meet short-term financial targets.

Q: Will I get in trouble if I report something that I think is wrong but am not entirely sure about?

A: No. It is your duty to report any possible violation of the Code. If you are unsure, but have a good faith suspicion that something is wrong, you will not be subject to any discipline.

Q: My supervisor has asked me to do something that I think violates this Code or the law. What should I do?

A: Express your concerns to your supervisor, or, if you prefer, to one of the other contact points identified, such as your Company Legal Department, Human Resources Department or the Company Ombudsman. Do not go ahead without receiving an explanation through one of these Company channels.

Q: Does this Code apply to consultants?

A: Yes. Consultants, sales agents and marketing representatives are given a copy of the Code and agree to abide by applicable sections. In some circumstances, U.S. laws underlying our Code of Corporate Conduct impose on our business associates an obligation to obey and to help us obey those laws. Even beyond that, however, where the actions of our consultants, agents or marketing representatives may be attributable to us, we must insist that in carrying out those actions, they conduct themselves in accordance with the Code.

ACCURACY OF BOOKS AND RECORDS

Q: I was on a long business trip. Although I usually keep good track of my receipts for all reimbursable expenses, this time I lost one. Can I still be reimbursed?

A: You need to correctly account for all business expenses. In the rare case where you have lost a receipt and cannot obtain a replacement, you should contact your supervisor to discuss how the expenditure can be documented.

Q: On a recent business trip, I stayed overnight with an old friend. Can I include the equivalent cost of a hotel room on my travel voucher, since I took my friend and his wife out to dinner and paid for it myself?

A: No. All vouchers, time cards and other ITT Industries documents must always be completed in a correct and accurate manner. It is never proper to knowingly create a false, misleading or erroneous ITT Industries document or entry on an expense voucher.

Q: My buddy asked me to punch in his time card because he is going to be a few minutes late. What should I do?

A: Even though your buddy said he will only be a few minutes late, do not punch his time card. All records, including time cards, must be accurate.

ANTITRUST

Q: At a trade association meeting, I played golf with a Vice President from a competing firm. We are old friends from college. While sitting in the cart, we started talking about how business was going. He indicated that his firm was looking very closely at raising prices next month. I quickly broke in and said that I did not think it was appropriate to be discussing that sort of information. Since we had just finished the last hole, I returned to my hotel room and left a message for someone in our Company Legal Department to call me. Now I am thinking that I was too quick to act. After all, everything was very informal. What do you think? Was I too harsh on my friend?

A: You did the right thing. Even informal discussions among competitors about price may be potential antitrust violations with possible criminal penalties. When the Company Legal Department lawyer reaches you, explain exactly what happened.

Q: I was asked by a competitor to provide information for a "benchmarking study." What should I do?

A: Contact your Company Legal Department for guidance before you say or do anything. Any exchange among competitors of price, cost and other sensitive information is risky because it may provide the basis for finding an unlawful agreement to restrain competition. Merely calling such an exchange "benchmarking" will not avoid this risk. Any proposed exchange of benchmarking information with competitors, or any request to participate in a benchmarking study with competitors, should be reviewed in advance by your Company Legal Department.

BUSINESS COURTESIES

Q: I received a nice watch from a supplier. It is worth several hundred dollars. May I keep it?

A: No. Any gift of more than token value cannot be accepted. Promptly return the gift to the supplier and notify your supervisor.

Q: A supplier offered me a 5 percent discount for my personal purchases. Is this okay?

A: No, unless everyone at your Unit received such a discount, and even then, your Company Legal Department should be advised before you agree to any such discount with the supplier.

Q: Do gift regulations vary among government agencies? Are state rules different from federal rules? What about non-U.S. rules?

A: There are significant differences. You need to ask your Company Legal Department. However, as a rule, ITT Industries does not generally offer any form of gifts to its government customers.

Q: I am involved with event planning. That means I frequently deal with hotels, restaurants and travel agents. One restaurant I often use for our meetings has offered me a free meal for my entire family. I would like to accept it. Am I doing anything wrong?

A: Yes. By accepting the free meal, it may look as though the restaurant is attempting to sway your future business decisions. You must decline.

COMPUTER SOFTWARE AND E-MAIL

Q: I have a number of friends who work at companies that provide them access to Internet e-mail. I find Internet e-mail is a good way to stay in touch with these friends. May I send them e-mail from my office?

A: This type of e-mail is discouraged. First, sending social e-mail wastes ITT Industries' time - during the workday, you are supposed to be focused on ITT Industries business. Second, providing you with a computer terminal and Internet access is an expense, and ITT Industries funds should properly be directed to ITT Industries business and not to personal activities.

Q: I would like to use one of the computer programs that we have at work on my home computer. Is that allowed?

A: Probably not. Computer program licensing restrictions usually prohibit dual use. Check with your Company's Information Technology and Legal Departments before you use any ITT Industries-furnished software program on your home computer.

Q: I received an e-mail chain letter. Can I send the letter to friends in ITT Industries on the ITT Industries e-mail system?

A: No. An ITT Industries-furnished computer and e-mail system should not be used to originate or forward non-business matters such as chain letters.

CONFIDENTIALITY

Q: I accidentally received some confidential information about a competitor. What should I do?

A: Send the material immediately to your Company Legal Department. Do not read the material and do not make copies of it. If someone, without authorization, attempts to verbally convey confidential information, stop the discussion immediately and indicate that it is contrary to ITT Industries policy to have such a discussion without appropriate legal safeguards.

Q: We have just hired a new employee. She worked ten years for a major competitor and she knows all the "inside information" about how they run their operations. May I ask her to brief our department?

A: Probably not. This may be confidential information. In such circumstances, you should contact the Company Legal Department to discuss measures that should be taken to avoid any suggestion of misappropriation of another's confidential information.

CONFLICTS OF INTEREST

Q: My spouse has been offered a job with one of our suppliers. Is this a problem?

A: Possibly. The answer depends in part upon whether you make decisions that affect our business relationship with that supplier. Contact your supervisor and fully explain the situation.

Q: My department needs to quickly hire a caterer for a last-minute office function. My spouse runs a catering business. He offers good food on short notice, at a rock-bottom, discounted price. May we hire him without getting any competitive bids?

A: Not if it creates the appearance of bias. We realize that this may sound rigid, but we cannot give the impression that we play favorites. Your Company Human Resources Department should be consulted for an independent determination.

Q: A supplier has asked me to work as a consultant one night a week. May I take the job?

A: No. Even if the job would not affect your view of the supplier and even if you do not make decisions on that particular supplier, it might make others perceive you as being potentially biased, in a position to have an impact on competitive supply decisions, or capable of providing special channels of communication. It is our duty to treat all suppliers impartially and fairly, and to avoid the appearance of undue influence.

Q: I have the opportunity to make a purely financial investment in a company that may be selling products to ITT Industries. May I go ahead and invest?

A: Possibly. This depends on the size of your investment, your role at your Company or Unit and ITT Industries, and the business relationship between ITT Industries and the other company. You will need to obtain prior approval from your Company's Legal and Human Resources Departments.

Q: Do the conflict of interest principles apply to relatives outside my household or to friends?

A: Generally, the conflicts policy applies to members of your immediate family. However, if your relationship with a relative or friend is particularly close and you could lose your objectivity regarding ITT Industries matters, then, in certain circumstances, the conflicts policy would apply. If you have any doubts, you should disclose the relationship and discuss the matter with your supervisor.

EMPLOYMENT ISSUES

Q: I think that my supervisor is discriminating against me because I am an immigrant. What should I do?

A: Contact your Unit Human Resources Department or the Company Human Resources Department. It is strictly against ITT Industries' policy to discriminate on the basis of national origin.

Q: My supervisor takes a different view of vacations, sick leave and maternity leave than do all the other supervisors at my facility. How should I deal with this?

A: If it is practical, speak with your supervisor first. If you do not get an answer that satisfies you, or if you feel uncomfortable raising the issue with your supervisor, then speak with someone in your Company's Human Resources or Legal Departments. You could also contact the Ombudsman. Different rules may apply to different locations and to union employees.

GOVERNMENT PROCUREMENT

Q: I am in charge of administering a government contract that has many testing requirements. I know that we are making a good product, and I think that some of the tests are duplicative and wasteful of the public's tax money. Do I really need to perform them?

A: Yes. We are obligated to do exactly as the contract specifies. Of course, we could inform the government that some of the tests might be unnecessary and seek the approval of appropriate government officials to modify the contract.

Q: I received a fax today. The cover sheet leads me to believe that the attached pages are misdirected and contain a competitor's proposal. What is the right thing to do?

A: Do not look at the attached pages. Do not copy the document. Contact your Company Legal Department immediately.

INTERNATIONAL BUSINESS

Q: My department works with sales agents to increase sales in emerging markets. I sometimes hear stories that certain agents use money paid by other companies for expensive gifts to senior foreign government officials. I'd like to stay competitive. What are my responsibilities?

A: Contact your Company Legal Department. You have an obligation to adhere to U.S. laws that strictly forbid such gratuities to non-U.S. government officials. Your agent is obligated to adhere to these laws as well. You must immediately report any situation that concerns you to your supervisor and Company Legal Department. Do not make payments to an agent under his contract until you are sure that no inappropriate activities are taking place. Otherwise, you have exposed both the Company and yourself to legal sanction. Under no circumstance does ITT Industries in any way condone or allow any such improper payments or gifts. Your Company Legal Department will advise you regarding any obligations you may have concerning information you have heard about other companies and the actions of their agents.

Q: I have heard that it's sometimes necessary to make small payments to low-level administrative workers in certain countries to expedite the processing of forms. I have also heard that if you do not make payments, the forms get lost or take months to get processed. How do I deal with a situation like this?

A: U.S. law distinguishes between facilitating payments and bribes. It allows certain facilitating payments. These payments must also be allowable under the other country's laws. However, ITT Industries takes a very narrow view of what is allowable. Check with your Company Legal Department before proceeding with any facilitating payment, no matter how small. Otherwise, you might be putting yourself and ITT Industries in jeopardy.

Q: Some ITT Industries companies import parts and materials in connection with their businesses. Do any special laws apply to imports?

A: Yes. The U.S. Customs Modernization Act ("Mod Act"), enacted in 1994, places the responsibility for accuracy of import data on the importer of record. Compliance with all Mod Act requirements is vital. The Mod Act applies to a number of areas, including the value and classification of imports. It also requires precise information on the country of origin and exact record-keeping of specific information concerning imports. Customs compliance is very important and very technical. Please contact your Company Customs Manager, Controller or Legal Department if you have any questions. ITT Industries Financial Policies Number 60-06 should also be consulted for advice on customs compliance.

POLITICAL ACTIVITIES

Q: I am doing some volunteer work for the upcoming election for state attorney general. I would like to use the office fax machine to send out some press releases. Is this okay?

A: No. By doing so, you would be using ITT Industries resources for a political purpose.

Q: My manager's spouse is running for city council. He has asked me to make a political contribution. What should I do?

A: Contact the Company Legal Department or the Ombudsman. Even if the request seems innocuous, the fact that this person is your manager means that the request could appear to be coercive and, possibly, even illegal.

SECURITIES

Q: I have learned through a reliable office rumor that ITT Industries is going to buy another company. May I buy ITT Industries stock or the other company's stock?

A: No. You could only buy stock after such information becomes publicly available. Buying stock based on inside information could make you subject to dismissal or even criminal prosecution.

Q: I am a participant in the ITT Industries Investment and Savings Plan for Salaried Employees and, although not a part of management, have become aware of important non-public information that could have an impact on the market price of ITT Industries common stock. Would it be permissible for me to enter into a transaction in the Savings Plan that would involve ITT Industries common stock before such information became publicly known?

A: No. It would not be permissible for you or any other person to enter into such a transaction, or any other transaction involving ITT Industries common stock, while in possession of such information before it became widely distributed to the public. Stock purchases based on inside information, even those in a 401(k) plan, could make you subject to dismissal or even criminal prosecution.

Q: I know that I am not allowed to buy any ITT Industries stock based on confidential information I have heard at the office, but can I tell my relatives or friends to buy stock?

A: No. This is just as much a violation as buying the stock yourself. You and your relatives or friends would be subject to criminal prosecution.

SEXUAL HARASSMENT

Q: I overheard a male manager tell a secretary that the dress she was wearing was "hot." He thought he was giving a compliment. Is such a comment considered sexual harassment?

A: Such a comment is clearly inappropriate and may constitute sexual harassment. Comments concerning a co-worker's attire or appearance that are in any way ambiguous or subject to misinterpretation should be avoided.

POINTS OF CONTACT

Your supervisor is normally the first person you should contact if you have questions about anything in this booklet or if you have a problem. Under some circumstances, it may be impractical or you may feel uncomfortable raising a matter with your supervisor. In those instances, you are encouraged to contact any one of the following:

1) Your Company's Legal Department.

2) Your Company's Human Resources Department.

3) Your Company's Controller.

4) In the U.S., your own Company's Ombudsman or the ITT Industries Corporate Headquarters Ombudsman. In Europe or elsewhere outside the U.S., there may not be a Company Ombudsman appointed by ITT Industries for your specific location. If you have a concern, please contact one of the other individuals mentioned or you may contact the ITT Industries Corporate Headquarters

Ombudsman.

5) The Director of Corporate Policy Compliance at ITT Industries Corporate Headquarters in White Plains, New York.

6) If you have any concerns or complaints regarding any aspect of ITT's accounting, including internal accounting controls or auditing matters, you may report your concern or complaint on a confidential basis. You may call or mail your report to the Director of Internal Audit at ITT Headquarters.

7) If you prefer to submit your report on an anonymous basis directly to the Audit Committee of the Board of Directors, you should put your report in a sealed envelope labeled, "Audit Committee." This envelope should be put in a larger envelope and mailed to the Corporate Secretary, ITT Industries, Inc., 4 West Red Oak Lane, White Plains, New York, 10604, USA.

Ombudsman telephone numbers are located in the Company Contacts section of this site or in the back of the Code of Corporate Conduct booklet. Several other important phone numbers, as well as space for you to fill in Company-specific phone numbers for quick reference, are also located in the back of the booklet.

You may be unfamiliar with the concept of an Ombudsman. An Ombudsman has the responsibility to receive and investigate reports of possible violations of the Code of Corporate Conduct. There is an Ombudsman for each of the Companies of ITT Industries as well as for the Corporate Headquarters. If you are aware of a possible violation, you must report it to one of the individuals or departments identified above. Your report to an Ombudsman may be anonymous. ITT Industries has a policy of protecting the confidentiality of those making reports of possible misconduct to an Ombudsman to the maximum extent legally permissible. We also have a policy of ensuring that there will not be any retaliation against someone for merely reporting an activity that he or she in good faith believes to be a violation of this Code.

COMPANY CONTACTS

ITT Industries Headquarters
Director of Corporate Policy Compliance
Richard Swanson
Phone: 914-641-2072
richard.swanson@itt.com

ITT Industries Headquarters
Vice President and Director
Thomas Martin
Phone: 914-641-2157

ITT Industries Headquarters
Ombudsman:
Joe Daniel
Phone: 1-914-641-2079
1-800-777-1738
joe.daniel@itt.com

REPORT AN ISSUE

For more information on reporting an issue, please see the Points of Contact section.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

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

JURISDICTION IN NAME UNDER WHICH NAME
WHICH ORGANIZED DOING BUSINESS ---- -----
---------- --------------- ITT
Industries, Inc.
.... Indiana
ELECTRONIC COMPONENTS C & K Components,
Inc. ....
Massachusetts C & K Components (Hong
Kong) Ltd. .... Hong Kong C & K
Components SA ....
Costa Rica C & K Holdings, Inc.
.... Massachusetts
C & K Holdings (Hong Kong) Ltd.
.... Hong Kong C & K Holdings
(United Kingdom) Ltd. .... United
Kingdom C & K Switches Ltd.
.... United
Kingdom Cablecom Electronics (Shenzhen)
Co., Ltd. ..... Taiwan Cablecom
International Limited.................
Hong Kong Great American Gumball
Corporation............. California ITT
Cannon Santa Clara ITT Advanced Imaging,
Inc...................... Delaware ITT
Canadian Enterprises,
Ltd.................. Canada ITT Cannon
Division........................... N/A
ITT Cannon/MobileCom, ITT Cannon RF
Products, ITT Cannon Switch Products and
Cannon SanTeh ITT Cannon
GmbH...............................
Germany ITT Cannon (Hong Kong)
Ltd..................... Hong Kong ITT
Cannon International, Inc.
.... Delaware ITT
Cannon/Network Systems & Services ITT
Cannon Italy S.p.A.
.... Italy ITT Cannon
Korea...............................
Korea ITT Cannon, Ltd.
.... Japan ITT
Cannon Mexico, Inc.
.... Delaware ITT
Cannon de Mexico S.A. de C.V.
.... Mexico ITT Cannon
(Zhenjiang) Electronics, Ltd. ......
China ITT Datacommunications
Limited................. United Kingdom
ITT Cannon Network Systems & Services ITT
Industries
SAS............................. France
ITT Industries (Tianjin) Co. Ltd.
.... China ITT Industries
PTE,LTD ....
Singapore ITT Industries VEAM LLC
.... Delaware ITT
Kobay Sdn
BHD.............................
Malaysia ITT Schadow
Division.......................... N/A
Man Machine Interface
Division................. N/A Nantong San
Teh Xing Electronic Industry Co. Ltd.
....
China Nantong San Teh Xing Precision
Mechanical Engineering Co. Ltd.
.... China Rudolf
Schadow GmbH..........................
Germany San Teh Precision Engineering
Pte. Ltd. .... Singapore San Teh
Products Co. Ltd. ....

Hong Kong San Teh Xing (China) Group Co. Ltd. .... China San Teh Xing (Tianjin) Industrial Co., Ltd. ... China TEC Electrical Components Ltd. .... United Kingdom VEAM SRL.. Italy VEAM Elektro Anschlusstechnik GmbH............. Germany Xiamen San Teh Precision Mechanical Engineering Co. Ltd. .... China Xiamen San Teh Xing Electronic & Science Technology Industry Co. .... China

JURISDICTION IN NAME UNDER WHICH NAME WHICH
ORGANIZED DOING BUSINESS ---- -------------
- --------------- DEFENSE ELECTRONICS &
SERVICES Advanced Engineering & Sciences
Division....... N/A Felec Services, Inc.
.... Delaware Gilcron
Corporation...........................
Delaware ITT Aerospace/Communications
Division.......... N/A ITT Antarctic
Services, Inc. .... Delaware
ITT Arctic Services, Inc.
.... Delaware ITT Avionics
Division......................... N/A ITT
Avionics Systems International, Inc. ......
Delaware ITT Commercial Services, Inc.
.... Delaware ITT Defence Ltd.
.... United
Kingdom ITT Defense
Division.......................... N/A ITT
Defense International, Inc. ....
Delaware ITT Employment and Training
Systems, Inc. ..... Delaware ITT Federal
Services Arabia Ltd. .... Saudi
Arabia ITT Federal Services
Corporation.............. Delaware ITT
Federal Services GmbH.....................
Germany ITT Federal Services International
Corporation.................................
Delaware ITT Federal Services International,
Ltd. ...... Cayman Islands ITT FSC
Investment Corporation.................
Delaware ITT FSC Management
Corporation................ Delaware ITT
Gilfillan Division........................
N/A ITT Gilfillan Inc.
.... Delaware ITT
Job Training Services, Inc. ....
Delaware ITT Night Vision
Division..................... N/A ITT
Systems Division..........................
N/A ITT Systems & Sciences
Corporation............ Delaware K and M
Electronics, Inc. ....
Massachusetts FLUID TECHNOLOGY AC Custom
Pumps Division...................... N/A
AGJ Holding
AB................................ Sweden
A.G. Johansons Metallfabrik
AB................ Sweden Anadolu Flygt
Pompa Sanayi Ve Ticaret.......... Turkey
Avis Werberg
GmbH............................ Austria
BECAC,
Inc...................................
Delaware Bombas Goulds de
Argentina.................... Argentina
Goulds Bombas Goulds de Mexico S. de R.L. de
C.V. .... Mexico Goulds Bombas Goulds de
Venezuela, C.A. .... Venezuela
Goulds Distribuidora Arbos, C.A.
.... Venezuela Flowtronex
PSI, Inc.......................... Nevada
Flygt Argentina
SA........................... Argentina
Flygt Flygt do
Brazil..............................
Brazil Flygt Flygt
Chile..................................
Chile Flygt Flygt Hellas
SA............................... Greece
Flygt Flygt Huolto
OY............................... Finland
Flygt Flygt Korea
Ltd............................... Korea
Flygt Flygt Peru S.A.
.... Peru Flygt
Flygt Portugal Technologia Agua do
Ambiente.... Portugal Flygt Flygt Pumpet

OY................................. Finland
Goulds Pumps Administration, Inc.
.... New York Goulds Goulds Pumps
Canada, Inc. .... Canada
Goulds

JURISDICTION IN NAME UNDER WHICH NAME
WHICH ORGANIZED DOING BUSINESS ---- ----
----------- --------------- Goulds
Pumps Co., Ltd. ....
Korea Goulds Goulds Pumps Delaware Inc.
.... Delaware Goulds
Goulds Pumps Financial Services Ltd.
.... Ireland Goulds Goulds Pumps
Holdings Inc. ....
Delaware Goulds Goulds Pumps,
Incorporated....................
Delaware Goulds Goulds Pumps (IPG) Inc.
.... Delaware Goulds
Goulds Pumps (Ireland)
Limited................. Ireland Goulds
Goulds Pumps (NY) Inc.
.... New York Goulds
Goulds Pumps (PA) Inc.
.... Delaware Goulds
Goulds Pumps (Philippines), Inc.
.... Philippines Goulds Goulds
Pumps Polska Co. Ltd. ....
Poland Goulds Goulds Pumps (TX), L.P.
.... Texas Goulds
Goulds Pumps World Sales (VI) Ltd.
.... Virgin Islands Goulds
Grindex
AB.....................................
Sweden Innotec Water Management
BV.................... Netherlands ITT
Bell & Gossett
Division.................... N/A Bell &
Gossett ITT Engineered Valves
Division................. N/A ITT Fluid
Technology Asia Pte Ltd. ....
Singapore ITT Fluid Technology
Division.................. N/A ITT Fluid
Technology International.............
Delaware ITT Fluid Technology
International Asia Pacific Pte Ltd.
....
Singapore ITT Fluid Technology
International (Hong Kong), Ltd.
....
Hong Kong ITT Fluid Technology
International, (Australia) Pty
Ltd......................................
Australia ITT Fluid Technology
International (Thailand), Ltd.
....
Thailand ITT Fluid Technology
SA....................... Chile ITT
Flygt
AB..................................
Sweden Flygt ITT Flygt
ApS.................................
Denmark Flygt ITT Flygt
A/S.................................
Norway Flygt ITT Flygt B.V.
.... The
Netherlands Flygt ITT Flygt
BVBA................................
Belgium Flygt ITT Flygt
Corporation.........................
Delaware Flygt ITT Flygt
GmbH................................
Austria Flygt ITT Flygt HK Ltd.
.... Hong Kong
Flygt ITT Flygt
Kft.................................
Hungary Flygt ITT Flygt
Limited.............................
Australia Flygt ITT Flygt
Lituanica...........................
Lithuania Flygt ITT Flygt Ltd.
.... Ireland
Flygt ITT Flygt Ltd.
.... United

Kingdom Flygt ITT Flygt Pumpen
GmbH........................... Germany
Flygt ITT Flygt (PTY) Ltd.
.... S. Africa
Flygt ITT Flygt
SAS..................................
France Flygt ITT Flygt SDC
SAS.............................. France
Flygt ITT Flygt
Srl..................................
Italy Flygt ITT Flygt sp
zoo...............................
Poland Flygt ITT Flygt (Shenyang) Pumps
Ltd................. China Flygt ITT
Flygt Werk
GmbH............................ Germany
Flygt ITT Goulds Benelux
BV.......................... The
Netherlands Goulds ITT Grindex Pumps
Division..................... N/A

JURISDICTION IN NAME UNDER WHICH NAME WHICH ORGANIZED DOING BUSINESS ---- -------------- --------------- ITT Heat Transfer Division.................... N/A ITT Industrieholding GmbH & Co. Kg............ Germany ITT Industries Holding AB..................... Sweden ITT McDonnell & Miller Division................ N/A McDonnell & Miller ITT Pure-Flo (UK) Ltd. .... United Kingdom ITT Sanitaire Ltd............................. United Kingdom Lowara Deutschland GmbH....................... Germany Lowara Lowara France S.A.S. .... France Lowara Lowara (Ireland) Limited...................... Ireland Lowara Lowara Nederland B.V. .... The Netherlands Lowara Lowara Portugal............................... Portugal Lowara Lowara Srl .... Italy Lowara Lowara UK Limited............................ England Lowara Nanjing Goulds Pumps Ltd. .... China Goulds OY Flygt Nova AB............................. Finland Flygt PCI Membranes Inc............................ Delaware Portacel, Inc................................. Delaware PT Sam McCoy................................. Indonesia Pumpenfabrik Ernst Vogel GmbH................. Austria Vogel ITT Pure-Flo MPC, Inc......................... Delaware Robot Pumps BV............................... Netherlands Sam McCoy Engineering Pte Ltd. .... Singapore Sam McCoy Engineering SDN BHD................. Malaysia Sam McCoy Manufacturing SDN BHD............... Malaysia Sanitaire Division........................... N/A Sanitaire Shanghai Goulds Pumps Co. Ltd. .... China SRP Acquisition Corp.......................... Delaware Tecnicas de Filtracion Bombeo SA.............. Spain Trimate Industries Ltd. .... New Zealand Vogel Pumpen Drv............................. Hungary 1448170 Ontario Limited....................... Canada McIntyre Industrial MOTION & FLOW CONTROL Flojet Division............................... N/A Flojet (Europe) Limited...................... England Fulton-Rohr GmbH & Co. KG .... Germany Hisan do Brasil LTDA......................... Brazil Hisan, Inc. .... Michigan Hisan of Canada, Ltd. .... Canada Hydro Air Industries Division................. N/A ITT Aerospace Controls Division............... N/A ITT Automotive Europe Beteiligungs GmbH........ Germany ITT Automotive Europe GmbH & Co. KG........... Germany ITT Automotive Fluid Handling Systems, S.A. de C.V................................. Mexico ITT Automotive, Inc.......................... Delaware ITT

Conoflow Division..........................
N/A ITT Industries Fluid Handling Systems do
Brasil
Ltd..
Brazil ITT Industries Galfer
S.r.l.................... Italy ITT
Industries Italia S.r.l....................
Italy ITT Industries Vermoegensverwaltungs
GmbH...... Germany ITT Jabsco
Division............................ N/A
Jabsco ITT Specialty Products
Division................ N/A

JURISDICTION IN NAME UNDER WHICH NAME WHICH
ORGANIZED DOING BUSINESS ---- -------------
- --------------- Jabsco
GmbH...................................
Germany Jabsco Koni
B.V......................................
The Netherlands Koni Koni France
SARL.............................. France
Koni NHK
Jabsco....................................
Japan Jabsco Rule Industries, Inc.
.... Massachusetts Rule
OTHER Admiral
Corporation...........................
Florida Admiral Carbon Industries, Inc.
.... West Virginia Carbon
Computer & Equipment Leasing
Corporation....... Wisconsin Corporp A&F,
Inc. .... Delaware
Howard
Corporation............................
North Carolina International Standard
Electric Corporation.... Delaware ITT AES
Enterprises, Inc. ....
Delaware ITT Asset Management
Inc...................... Delaware ITT
Automotive Enterprises, Inc................
Delaware ITT Benefits Management,
Inc................... Delaware ITT Canada
Company............................ Nova
Scotia ITT Community Development
Corporation.......... Delaware ITT Delaware
Investments, Inc. .... Delaware
ITT Gesellschaft fur Beteiligungen
mbH......... Germany ITT
Industriebeteiligungsgesellschaft mbH......
Germany ITT Industries (China) Investment
Company,
Limited......................................
China ITT Industries Holding
SARL................... Luxembourg ITT
Industries Limited........................
United Kingdom ITT Industries Luxembourg
SARL................ Luxembourg ITT
Industries NV............................
Belgium ITT Industries
SARL........................... Luxembourg
ITT Industries UK
Holdings.................... United Kingdom
ITT Industries World Sales
Limited............ Bermuda ITT Industries
of Canada Ltd. .... Canada ITT
Manufacturing Enterprises, Inc. ....
Delaware ITT Remediation Management,
Inc................ Delaware ITT Resource
Development Corporation.......... Delaware
ITT Transportation Distribution Services
Division....................................
N/A Paul N. Howard
Company......................... North
Carolina Sunsport Recreation, Inc.
.... Florida Winifrede
Railroad Corporation................ West
Virginia 138197 Canada
Limited......................... Canada
3099415 Canada, Inc.
.... Canada

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

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

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-45756 of ITT Industries on Form S-3, and Registration Statement Nos. 33-53771, 333-1109, 333-64161, 333-66293, 333-84917, 333-41806, and 333-41808 on Form S-8, of our report dated January 22, 2003, relating to the consolidated financial statements of ITT Industries, Inc. as of and for the year ended December 31, 2002 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the adoption of a new accounting standard and the application of procedures relating to certain disclosures of financial statement amounts related to the 2001 and 2000 financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures) appearing in this Annual Report on Form 10-K of ITT Industries, Inc. for the year ended December 31, 2002.

/s/ Deloitte & Touche LLP
Stamford, CT
March 27, 2003

EXHIBIT 23.2

EXPLANATION CONCERNING ABSENCE OF CURRENT WRITTEN CONSENT OF ARTHUR ANDERSEN LLP

On March 22, 2002, ITT Industries, Inc. (the "Company") announced that it had appointed Deloitte & Touche LLP ("Deloitte & Touche") to replace Arthur Andersen LLP ("Arthur Andersen") as its independent public accountants. After reasonable efforts, the Company has been unable to obtain Arthur Andersen's updated written consent to the incorporation by reference in this document of Arthur Andersen's audit reports with respect to the financial statements as of December 31, 2001 and December 31, 2000 and for the years then ended for this Annual Report on Form 10-K. Under these circumstances, Rule 437a under the Securities Act of 1933 permits the Company to omit Arthur Andersen's updated written consent from this filing, and permits us to incorporate by reference the financial statements, supplementary data and financial statement schedule included herein into present and future registration statements, without the written consent of Arthur Andersen.

Section 11(a) of the Securities Act provides that if any part of a registration statement at the time it becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement or as having prepared or certified any report or valuation which is used in connection with the registration statement with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

As noted above, Arthur Andersen has not consented to the incorporation by reference of its audit reports in this filing, although it has consented to the incorporation by reference of its audit reports contained in the filing of the Company on Form 10-K for the fiscal year ended December 31, 2001. While the extent of any resulting limitations on recovery is unclear, Arthur Andersen may not be liable under Section 11(a) of the Securities Act because it has not consented to being named as an expert in any present or future registration statement into which this Form 10-K may be incorporated by reference or the lack of a currently dated consent could limit the time in which any such liability could be asserted. The Company believes, however, that other persons who may be liable under Section 11(a) of the Securities Act, including the Company's officers and directors, may still rely on Arthur Andersen's audit reports as being made by an expert under the due diligence defense provision of Section 11(b) of the Securities Act.

The following is a copy of Arthur Andersen's consent which was filed in connection with the Company's Form 10-K on March 26, 2002. This consent has not been reissued by Arthur Andersen.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To ITT Industries, Inc.:

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

ARTHUR ANDERSEN LLP

Stamford, Connecticut
March 25, 2002

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ITT Industries, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities And Exchange Commission on the date hereof (the "Report"), I, Louis J. Giuliano, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ LOUIS J. GIULIANO

Louis J. Giuliano
Chairman, President and
Chief Executive Officer

March 27, 2003

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ITT Industries, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities And Exchange Commission on the date hereof (the "Report"), I, David J. Anderson, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID J. ANDERSON

David J. Anderson
Senior Vice President and
Chief Financial Officer

March 27, 2003

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.