

ITT INDUSTRIES INC
Form 10-K/A
March 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1
ANNUAL REPORT

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

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. 1-5672

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)

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

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.....

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 registrant 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, 2004 was approximately \$7.7 billion.

As of February 28, 2005, there were outstanding 92,281,113 shares of Common Stock, \$1 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of 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 10, 2005, are incorporated by reference in Part III of this Form 10-K.

EXPLANATORY NOTE

ITT Industries, Inc. filed its Annual Report on Form 10-K for the year ended December 31, 2004 on March 11, 2005. The conformed signature of Deloitte & Touche LLP, the independent registered public accounting firm, was inadvertently omitted from its report on the consolidated financial statements and financial statement schedule, and its report on management's report of the effectiveness of internal control over financial reporting.

ITT Industries, Inc. is filing this amendment to its Annual Report on Form 10-K for the year ended December 31, 2004 to include this information.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedule herein.

ITEM 9B. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that ITT Industries, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Management Report on Internal Control Over Financial Reporting, management excluded from their assessment the internal control over financial reporting at WEDECO AG Water Technology ("WEDECO") and Remote Sensing Systems ("RSS"), which were acquired on January 19, 2004 and August 13, 2004 respectively, and whose combined financial statements reflect total assets and revenues constituting 17.7 percent and 4.8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. Accordingly, our audit did not include the internal control over financial reporting at WEDECO and RSS. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or

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procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control -- Integrated Framework issued

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by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2004, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year then ended and the financial statement schedule listed on page S-1, and our report dated March 11, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Stamford, Connecticut

March 11, 2005

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

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

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

2. See Exhibit Index appearing on page II-2 for a list of the exhibits filed herein as part of this report. Please note that not all exhibits filed or incorporated by reference to the Annual Report on Form 10-K filed on March 11, 2005, were refiled as part of this report.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of ITT Industries, Inc. and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed on page S-1. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission

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and our report dated March 11, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Stamford, Connecticut
March 11, 2005

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

	Year ended December 31,		
	2004	2003	2002
	(in millions, except per share amounts)		
Sales and revenues.....	\$6,764.1	\$5,610.8	\$4,962.7
Costs of sales and revenues.....	4,466.4	3,672.0	3,195.8
Selling, general and administrative expenses.....	991.1	817.2	712.7
Research, development and engineering expenses....	634.0	558.3	518.0
Restructuring and asset impairment charges (reversals).....	37.7	30.1	(3.5)
Total costs and expenses.....	6,129.2	5,077.6	4,423.0
Operating income.....	634.9	533.2	539.7
Interest income.....	22.5	53.3	24.1
Interest expense.....	50.4	43.2	56.5
Gain on sale of investments.....	20.8	--	--
Miscellaneous expense (income).....	17.8	7.9	(3.6)
Income from continuing operations before income taxes.....	610.0	535.4	510.9
Income tax expense.....	172.5	141.4	129.6
Income from continuing operations.....	437.5	394.0	381.3
Discontinued operations:			
(Loss) income from discontinued operations, including tax benefit of \$2.9, \$2.4 and \$0.7.....	(5.2)	9.9	(1.4)
Net income.....	\$ 432.3	\$ 403.9	\$ 379.9
EARNINGS PER SHARE			
Income from continuing operations:			
Basic.....	\$ 4.74	\$ 4.27	\$ 4.19
Diluted.....	\$ 4.63	\$ 4.18	\$ 4.07
Discontinued operations:			
Basic.....	\$ (0.06)	\$ 0.11	\$ (0.02)
Diluted.....	\$ (0.05)	\$ 0.11	\$ (0.01)
Net income:			

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Basic.....	\$ 4.68	\$ 4.38	\$ 4.17
Diluted.....	\$ 4.58	\$ 4.29	\$ 4.06
AVERAGE COMMON SHARES -- BASIC.....	92.3	92.1	91.0
AVERAGE COMMON SHARES -- DILUTED.....	94.4	94.1	93.6

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

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ITT INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31, 2004		
	(in millions)		
	PRETAX INCOME (EXPENSE)	TAX (EXPENSE) BENEFIT	AFTER-TAX AMOUNT
Net income.....			\$432.3
Other comprehensive income (loss):			
Foreign currency translation:			
Adjustments arising during period.....	\$101.5	\$ --	101.5
Minimum pension liability.....	119.6	(37.8)	81.8
Other comprehensive income (loss).....	\$221.1	\$(37.8)	183.3
Comprehensive income.....			\$615.6

	Year ended December 31, 2003		
	(in millions)		
	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income.....			\$403.9
Other comprehensive income (loss):			
Foreign currency translation:			
Adjustments arising during period.....	\$188.3	\$ --	188.3
Unrealized gain (loss) on investment securities and cash flow hedges.....	1.7	(0.6)	1.1
Minimum pension liability.....	282.6	(100.1)	182.5
Other comprehensive income (loss).....	\$472.6	\$(100.7)	371.9
Comprehensive income.....			\$775.8

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	Year ended December 31, 2002		
	(in millions)		
	Pretax Income (Expense)	Tax (Expense) Benefit	After-Tax Amount
Net income.....			\$ 379.9
Other comprehensive income (loss):			
Foreign currency translation:			
Adjustments arising during period.....	\$ 99.0	\$ --	99.0
Unrealized (loss) gain on investment securities and cash flow hedges.....	(0.1)	--	(0.1)
Minimum pension liability.....	(1,172.2)	406.7	(765.5)
Other comprehensive (loss) income.....	\$ (1,073.3)	\$406.7	(666.6)
Comprehensive loss.....			\$ (286.7)

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

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(In millions, except share and per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 262.9	\$ 414.2
Receivables, net.....	1,174.3	971.5
Inventories, net.....	708.4	575.8
Current assets of discontinued operations.....	7.3	8.3
Deferred income taxes.....	107.2	68.2
Other current assets.....	69.1	68.9
Total current assets.....	2,329.2	2,106.9
Plant, property and equipment, net.....	980.9	892.0
Deferred income taxes.....	212.1	373.2
Goodwill, net.....	2,514.1	1,629.1
Other intangible assets, net.....	240.3	74.8
Other assets.....	1,000.1	861.6

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Total non-current assets.....	4,947.5	3,830.7
	-----	-----
TOTAL ASSETS.....	\$7,276.7	\$5,937.6
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable.....	\$ 719.8	\$ 633.1
Accrued expenses.....	717.2	652.7
Accrued taxes.....	277.4	253.5
Notes payable and current maturities of long-term debt....	729.2	141.5
Current liabilities of discontinued operations.....	--	1.1
Other current liabilities.....	2.2	4.6
	-----	-----
Total current liabilities.....	2,445.8	1,686.5
	-----	-----
Pension benefits.....	1,079.7	1,187.7
Postretirement benefits other than pensions.....	298.8	216.2
Long-term debt.....	542.8	460.9
Other liabilities.....	566.6	538.6
	-----	-----
Total non-current liabilities.....	2,487.9	2,403.4
	-----	-----
TOTAL LIABILITIES.....	4,933.7	4,089.9
Shareholders' Equity:		
Common stock: Authorized -- 200,000,000 shares, \$1 par value per share outstanding -- 92,289,113 shares and 92,271,319 shares.....	92.3	92.3
Retained earnings.....	2,589.1	2,277.1
Accumulated other comprehensive loss:		
Unrealized loss on investment securities and cash flow hedges.....	(0.6)	(0.6)
Minimum pension liability.....	(520.4)	(602.2)
Cumulative translation adjustments.....	182.6	81.1
	-----	-----
Total accumulated other comprehensive loss.....	(338.4)	(521.7)
	-----	-----
Total shareholders' equity.....	2,343.0	1,847.7
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$7,276.7	\$5,937.6
	=====	=====

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

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

Year ended December 31,		
2004	2003	2002
-----	-----	-----
(in millions)		

OPERATING ACTIVITIES

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Net income.....	\$ 432.3	\$ 403.9	\$ 379.9
Loss (income) from discontinued operations.....	5.2	(9.9)	1.4
	-----	-----	-----
Income from continuing operations.....	437.5	394.0	381.3
Adjustments to income from continuing operations:			
Depreciation and amortization.....	198.6	186.9	170.5
Restructuring and asset impairments.....	37.7	30.1	(3.5)
Payments for restructuring.....	(33.6)	(24.6)	(32.1)
Change in receivables, inventories, accounts payable, and accrued expenses.....	(85.2)	(0.5)	33.1
Change in accrued and deferred taxes.....	102.4	168.0	126.0
Change in other current and non-current assets.....	(59.9)	(202.7)	(56.8)
Change in other non-current liabilities.....	(55.2)	25.1	(33.4)
Other, net.....	(13.7)	3.4	9.8
	-----	-----	-----
Net Cash -- operating activities.....	528.6	579.7	594.9
	-----	-----	-----
INVESTING ACTIVITIES			
Additions to plant, property and equipment.....	(165.1)	(153.3)	(152.7)
Acquisitions, net of cash acquired.....	(1,010.0)	(46.2)	(159.2)
Proceeds from sale of assets and businesses.....	7.4	17.0	11.6
Sale of investments.....	24.9	43.5	--
Other, net.....	0.2	(2.0)	(3.2)
	-----	-----	-----
Net Cash -- investing activities.....	(1,142.6)	(141.0)	(303.5)
	-----	-----	-----
FINANCING ACTIVITIES			
Short-term debt, net.....	554.2	(144.1)	(235.8)
Long-term debt repaid.....	(68.7)	(42.7)	(3.3)
Long-term debt issued.....	120.3	0.3	0.7
Repurchase of common stock.....	(159.6)	(69.7)	(32.3)
Proceeds from issuance of common stock.....	76.8	45.3	93.3
Dividends paid.....	(61.8)	(58.0)	(54.3)
Other, net.....	(0.2)	--	--
	-----	-----	-----
Net Cash -- financing activities.....	461.0	(268.9)	(231.7)
	-----	-----	-----
EXCHANGE RATE EFFECTS ON CASH AND CASH EQUIVALENTS.....	17.6	35.4	5.3
NET CASH -- DISCONTINUED OPERATIONS.....	(15.9)	6.8	15.9
	-----	-----	-----
Net change in cash and cash equivalents.....	(151.3)	212.0	80.9
Cash and cash equivalents -- beginning of year.....	414.2	202.2	121.3
	-----	-----	-----
CASH AND CASH EQUIVALENTS -- END OF YEAR.....	\$ 262.9	\$ 414.2	\$ 202.2
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest.....	\$ 45.2	\$ 43.9	\$ 51.5
Income taxes (net of refunds received).....	\$ 70.1	\$ (26.6)	\$ 22.4
	-----	-----	-----

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

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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YEAR ENDED DECEMBER 31, -----	Shares Outstanding			Dollars		
	2004	2003	2002	2004	2003	2002
	(In millions, except per share amounts)					
COMMON STOCK						
Beginning balance.....	92.3	91.8	88.8	\$ 92.3	\$ 91.8	\$ 88.8
Stock incentive plans.....	2.0	1.5	3.7	2.0	1.5	3.7
Repurchases.....	(2.0)	(1.0)	(0.7)	(2.0)	(1.0)	(0.7)
Ending balance.....	92.3	92.3	91.8	\$ 92.3	\$ 92.3	\$ 91.8
RETAINED EARNINGS						
Beginning balance.....				\$2,277.1	\$1,939.1	\$1,514.0
Net income.....				432.3	403.9	379.9
Cash dividend declared on common stock -- \$.68, \$.64 and \$.60.....				(62.8)	(59.0)	(54.8)
Issuances (repurchases).....				(57.5)	(6.9)	100.0
Ending balance.....				\$2,589.1	\$2,277.1	\$1,939.1
ACCUMULATED OTHER COMPREHENSIVE LOSS						
Minimum Pension Liability:						
Beginning balance.....				\$ (602.2)	\$ (784.7)	\$ (19.2)
Recognition of minimum pension liability.....				81.8	182.5	(765.5)
Ending balance.....				\$ (520.4)	\$ (602.2)	\$ (784.7)
Unrealized Loss on Investment Securities and Cash Flow Hedges:						
Beginning balance.....				\$ (0.6)	\$ (1.7)	\$ (1.6)
Unrealized gain (loss).....				--	1.1	(0.1)
Ending balance.....				\$ (0.6)	\$ (0.6)	\$ (1.7)
Cumulative Translation Adjustments:						
Beginning balance.....				\$ 81.1	\$ (107.2)	\$ (206.2)
Translation of foreign currency financial statements.....				101.5	188.3	99.0
Ending balance.....				\$ 182.6	\$ 81.1	\$ (107.2)
Total accumulated other comprehensive loss.....				\$ (338.4)	\$ (521.7)	\$ (893.6)
TOTAL SHAREHOLDERS' EQUITY.....				\$2,343.0	\$1,847.7	\$1,137.3

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

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE STATED)

NOTE 1

SUMMARY OF SIGNIFICANT 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 75.4%, 78.5% and 78.2% of total RD&E costs were expended pursuant to customer contracts for each of the three years ended December 31, 2004, 2003 and 2002, 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 10.7% and 11.7% of total 2004 and 2003 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.

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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. Certain losses recognized in 2003 were recorded in restructuring and asset impairments. See Note 4, "Restructuring and

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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.

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 (losses)/gains from foreign currency transactions are reported currently in selling, general and administrative

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expenses and were \$(0.9), \$4.1 and \$0.2 in 2004, 2003, and 2002, 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

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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.

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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, 2004, the Company has one stock-based employee compensation plan that is issuing new options and restricted shares. The Company also has one stock-based employee compensation plan and two stock-based non-employee director's compensation plans that have options and restricted shares outstanding; however no new awards will be granted under these plans. These plans are described more fully in Note 20, "Shareholders' Equity." The Company accounts for these plans under the 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:

	2004	2003	2002
	-----	-----	-----
Net income			
As reported.....	\$432.3	\$403.9	\$379.9
Deduct: Total stock-based employee compensation expense determined under the fair value based method for awards not reflected in net income -- net of tax.....	(22.1)	(6.0)	(21.4)
	-----	-----	-----
Pro forma net income.....	\$410.2	\$397.9	\$358.5
Basic earnings per share			
As reported.....	\$ 4.68	\$ 4.38	\$ 4.17
Pro forma.....	4.44	4.32	3.94
Diluted earnings per share			
As reported.....	\$ 4.58	\$ 4.29	\$ 4.06
Pro forma.....	4.35	4.23	3.83
	-----	-----	-----

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 2004, 2003 and 2002: dividend yield of 1.39%, 1.57% and 1.65%, respectively; expected volatility of 25.77%, 28.72% and 28.30%, respectively; expected life of six years; and risk-free interest rates of 3.71%, 3.37% and 4.78%, 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, 2004, 2003 and 2002 were \$1.6, \$0.7, and \$0.6, respectively.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

EARNINGS PER SHARE:

Basic earnings per share is based on the weighted average number of common

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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

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123R") which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." This statement eliminates the option of using the intrinsic value method of accounting for employee stock options (historically utilized by the Company), which generally resulted in the recognition of no compensation cost. The provisions of the SFAS No. 123R require the recognition of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the awards as determined by option pricing models. The calculated compensation cost is recognized over the period that the employee is required to provide services per the conditions of the award. SFAS No. 123R is effective for the Company July 1, 2005. The adoption of this statement will not have a material impact on the Company's financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised December 2003) "Employers' Disclosures About Pensions and Other Post Retirement Benefits" ("SFAS No. 132"). This revised pronouncement retains the disclosure requirements of SFAS No. 132. Additionally, the pronouncement requires additional disclosures regarding the types of plan assets, investment strategy, measurement dates, plan obligations, cash flows and components of net periodic benefit cost recognized during interim periods for defined benefit pension plans and other defined benefit post retirement plans. The Company adopted this pronouncement effective December 31, 2003. Adoption did not have a material impact on the financial statements of the Company.

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 financial statements.

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 adoption of this standard did not have a material effect on the Company's financial statements.

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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 state-

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ments 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 April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 149 clarifies the circumstances under which a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133. In addition, SFAS No. 149 clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have a material effect on the Company's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS No. 150 were effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The Company did not have any financial instruments that met the provisions of SFAS No. 150; therefore, the adoption of this statement did not have a material effect on the Company's financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4" ("SFAS No. 151") This statement clarifies the criteria of "abnormal amounts" of freight, handling costs, and spoilage that are required to be expensed as current period charges rather than deferred in inventory. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for the Company July 1, 2005. The Company is currently in the process of determining the impact of this statement on the Company's financial statements.

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

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event that the specified triggering events or conditions occur. This 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," for additional information. The adoption of this interpretation did not have a material effect on the Company's financial statements.

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 were applicable 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. For variable interest entities created before January 31, 2003, the provisions were effective December 31, 2003. The Company did not create or obtain any variable interest entities during 2003.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company elected early adoption of the provisions of FIN 46 related to variable interest entities created prior to January 31, 2003 as of July 1, 2003. The adoption of this interpretation did not have a material effect on the Company's financial statements. In December 2003, the FASB issued a revision to FIN 46; however, it had no impact on the Company's adoption.

In January 2004, FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP No. 106-1") was issued. Subsequently, FSP No. 106-2 was issued, which amends FSP No. 106-1 and discusses the recognition of the effects for the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Modernization Act") in the accounting for postretirement health care plans under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and in providing disclosures related to the plan required by SFAS No. 132. The Company adopted this pronouncement effective July 1, 2004, but was unable to conclude whether benefits of its plans are actuarially equivalent based on the proposed regulations released in August 2004. Currently, the Company is analyzing the effect of the Medicare Modernization Act on the Company's plans based on the final regulations issued at the end of January 2005 and has not taken any action at this time to reflect the Medicare changes. In addition, it was assumed that the adoption of this pronouncement did not affect demographic factors used to determine plan assets and obligations at December 31, 2004, the Company's measurement date. See Note 19, "Employee Benefit Plans," for discussion of postretirement benefits.

In December 2004, the FASB issued FSP 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 ("FSP 109-1")." The American Jobs Creation Act of 2004 (the "AJCA") provides for a tax relief for U.S. domestic manufacturers. FSP 109-1 states that tax benefit should be recorded in the year in which it can be taken in the Company's tax return rather than reflecting a deferred tax asset in the period the AJCA was enacted. FSP 109-1 was effective upon issuance. Adoption of FSP 109-1 did not have a material effect on the Company's financial statements.

In December 2004, the FASB issued FSP 109-2, "Accounting Disclosures

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Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 ("FSP 109-2"). The Foreign Earnings Repatriation Provision Within the Act (the "Provision") provides a special limited-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer. FSP 109-2 states that a company should recognize the income tax effect related to the Provision when it decides on a plan for reinvestment or repatriation of foreign earnings. At this time, the Company does not expect to elect to apply this provision of the AJCA.

NOTE 3

ACQUISITIONS

2004 ACQUISITIONS

On August 13, 2004, the Company purchased all of the Remote Sensing Systems business ("RSS") for \$736.9 in cash. The RSS business is a leading supplier of high resolution satellite imaging systems and information services. Management believes that the acquisition of RSS will enhance the Company's competitive position in the space payload and service product offering industry and create a full spectrum provider with the latest visible and infrared satellite imaging technology in the remote sensing market.

The excess of the purchase price of RSS over the fair value of net assets acquired of \$597.6 was recorded as goodwill and is deductible for tax purposes. The entire goodwill balance is reflected in the Defense Electronics & Services segment.

The Company has preliminarily assigned values to the assets and liabilities of RSS; however, the allocation is subject to further refinement.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of acquisition. The purchase price

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

allocations were based on preliminary data and changes are expected as evaluations of items, such as employee benefit obligations, are finalized and additional data becomes available.

AT AUGUST 13, 2004

Current assets.....	\$ 97.5
Plant, property and equipment.....	64.0
Goodwill.....	597.6
Intangibles.....	124.9
Other assets.....	24.4

Total assets acquired.....	908.4

Current liabilities.....	63.7
Deferred liabilities.....	107.8

Total liabilities.....	171.5

Net assets acquired.....	\$736.9

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The \$124.9 of intangible assets is comprised of \$120.0 of customer relationships (amortized over 16 years), \$3.4 of maintenance contracts (amortized over 15 years) and \$1.5 of product software (amortized over 12 years).

The Company also spent \$273.1 on additional 2004 acquisitions that it does not believe are material individually or in the aggregate to its results of operations or financial condition. These acquisitions include:

- WEDECO AG Water Technology ("WEDECO"), the world's largest manufacturer of UV disinfection and ozone oxidation systems, which are alternatives to chlorine treatment.
- Allen Osborne Associates, Inc. ("AOA"), a leader in the development of global positioning system receivers for both portable and fixed sites.
- Shanghai Hengtong Purified Water Development Co. Ltd. and Shanghai Hengtong Water Treatment Engineering Co. Ltd. ("Hengtong"), a Shanghai-based producer of reverse-osmosis, membrane and other water treatment systems for the power, pharmaceutical, chemical and manufacturing markets in China.
- Cleghorn Waring and Co. (Pumps) Limited, a distributor of pumps and marine products.

The excess of the purchase price over the fair value of net assets acquired in these transactions of \$247.0 was recorded as goodwill, of which \$240.1, \$3.5 and \$3.4 are reflected in the Fluid Technology, Defense Electronics & Services and Motion & Flow Control segments, respectively. Additionally, the purchase price allocations for the 2004 acquisitions were based on preliminary data and changes are expected as evaluations are finalized and additional information becomes available.

Intangibles assets relating to the acquisitions of WEDECO and AOA, totaled \$56.2. This amount includes \$25.4 of proprietary technology and other (amortized over 15 years), \$18.8 of customer relationships (amortized over 10 years), and \$12.0 of indefinite-lived tradenames.

The Company also finalized purchase price allocations related to the 2003 acquisitions, which resulted in an increase in goodwill of \$1.5.

PRO FORMA RESULTS

The following unaudited pro forma financial information presents the combined results of operations of the Company and RSS as if RSS was acquired on January 1, 2004 and 2003. The pro forma results presented below for 2004 combine the results of the Company for 2004 and the historical results of RSS from January 1, 2004 to August 12, 2004, respectively. The pro forma results presented for the 2003 combine the results of the Company for 2003 and the historical results of RSS for the comparable period. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had RSS been acquired as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations. Pro forma adjustments are tax effected at the Company's effective tax rate in each of the periods presented.

2004 2003

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Sales and Revenues.....	\$7,075.6	\$6,035.5	
	-----	-----	
Net Income.....	\$ 436.0	\$ 418.8	
	-----	-----	
Diluted earnings per share.....	\$ 4.62	\$ 4.45	
	-----	-----	

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2003 ACQUISITIONS

During 2003, the Company spent \$46.2 primarily for the acquisition of two entities, one in the Electronic Components segment and one in the Fluid Technology segment. The excess of the purchase price over the fair values of net assets acquired of \$30.5 was recorded as goodwill, of which \$5.6 was tax deductible. The Electronic Components segment was assigned \$24.0 of the goodwill balance and the Fluid Technology and Motion & Flow Control segments were assigned \$5.4 and \$1.1, respectively. 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 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:

- The VEAM/TEC Division of the Northrop Grumman Corporation, a designer and manufacturer of cylindrical, filter and fiber optic connectors for the military/aerospace, industrial, transit, entertainment and nuclear markets.
- Uniservice Wellpoint Srl., a manufacturer of high quality diesel and electric powered, vacuum primed centrifugal pumps, along with spear or well point dewatering systems for the rental market and sale.

Additionally, in 2003, the Company finalized purchase price allocations related to the 2002 acquisitions, which resulted in a decrease in goodwill of \$5.1.

2002 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 \$69.0 was tax deductible. The Fluid Technology segment was

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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.

NOTE 4

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

2004 RESTRUCTURING ACTIVITIES

During the fourth quarter of 2004, the Company recognized a \$12.4 charge, primarily for the planned severance of 727 employees. The actions by segment are as follows:

- The Fluid Technology segment recorded \$9.3 for the planned termination of 80 employees, including 20 factory workers and 60 office workers. Other costs totaling \$0.3 were also recognized during the quarter.
- The Motion & Flow Control segment recognized \$1.8 for the planned termination of 43 employees, including 14 factory workers, 25 office workers and four management employees. The segment also recorded \$0.1 for outplacement.
- The Electronic Components segment recorded \$0.9 for the planned termination of 604 employees. The terminations include 17 office workers and 587 factory workers.

In addition to the restructuring actions announced during the fourth quarter, the Motion & Flow Control segment recognized \$0.5 of severance and employee benefit costs related to actions announced during the first quarter of 2003 and \$0.1 of outplacement related to actions announced in 2002. Electronic Compo-

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

nents recognized an additional \$0.5 of severance related to actions announced during the first quarter of 2004 and an additional \$0.1 of moving costs related to actions announced in the third quarter of 2004.

During the third quarter of 2004, the Company recognized a \$5.5 charge, primarily for the planned severance of 71 employees and movement of production. The actions by segment are as follows:

- The Fluid Technology segment recorded \$3.3 for the planned termination of 36 employees, including nine factory workers, 23 office workers and four management employees. Other costs totaling \$0.2 were also recognized during the quarter.
- The Motion & Flow Control segment recognized \$0.5 for the planned termination of 30 employees, including 23 factory workers and seven office workers. The segment also recorded \$0.6 for relocation and moving costs.
- The Electronic Components segment recorded \$0.2 for the planned termination of five employees. The terminations include four office workers and one management employee. The segment also recorded a \$0.7 charge primarily for costs associated with moving two product lines from Weinstadt, Germany to Shenzhen, China and one product line from Santa Ana, CA to Nogales, Mexico.

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In addition to the restructuring actions announced during the third quarter, the Motion & Flow Control segment recognized \$0.1 of severance and employee benefit costs related to actions announced during the first quarter of 2003.

During the second quarter of 2004, the Company recognized a \$13.6 charge, primarily for the planned severance of 418 employees and the recognition of lease cancellation fees. The actions by segment are as follows:

- The Electronic Components segment recorded \$4.5 of the charge for the recognition of lease cancellation costs. Severance of \$0.9 was recorded for the planned reduction of 328 employees. The terminations include 273 factory workers, 52 office workers and three management employees. The segment also recorded a \$1.1 charge for the disposal of machinery and equipment.
- The Fluid Technology segment recorded \$2.4 for the planned termination of 45 employees, including eight factory workers and 37 office workers. Lease commitments totaling \$0.7 were recognized related to the closure of two facilities (one in Sweden and one in Florida). Asset write-offs and other costs totaling \$0.2 and \$0.1, respectively, were also recognized during the quarter.
- The Motion & Flow Control segment recognized \$2.1 for the planned termination of 44 employees, including seven factory workers, 32 office workers and five management employees.
- Corporate headquarters recorded \$1.6 for the severance of one management employee.

In addition to the restructuring actions announced during the second quarter, the Motion & Flow Control segment recognized \$0.3 of severance and employee benefit costs related to actions announced during the first quarter of 2003 and the Electronic Components segment recognized \$0.3 of severance and employee benefit costs related to actions announced during the first quarter of 2004 and \$0.1 of outplacement related to actions announced in 2003.

During the first quarter of 2004, the Company recognized a \$5.3 charge, primarily for the planned severance of 103 employees. The actions by segment are as follows:

- The Fluid Technology segment recorded \$2.7 for the planned termination of 50 employees, including 15 factory workers and 35 office workers. Asset write-offs and other costs totaling \$0.4 and \$0.1, respectively, were also recognized during the quarter.
- The Electronic Components segment recorded \$1.7 of the charge primarily for the planned reduction of 35 employees, including 23 factory workers, 11 office workers and one management employee.
- The Motion & Flow Control segment recognized \$0.2 for the planned termination of 16 employees, including three factory workers and 13 office workers.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- Corporate headquarters recorded \$0.2 for the planned severance of one office worker and one management employee.

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2003 RESTRUCTURING ACTIVITIES

During the fourth quarter of 2003 the Company announced actions to reduce operating costs primarily through the reduction of headcount. The new \$15.3 restructuring charge primarily reflects the planned severance of 296 employees. The actions by segment are as follows:

- The Electronic Components segment recorded \$1.4 of the charge for the planned termination of 127 employees, including 113 factory workers, ten office workers and four management employees.
- The Fluid Technology segment recognized \$12.4 of the charge for the planned severance of 134 employees, including 39 factory workers, 90 office workers and five management employees. Lease and other costs represent \$0.3 of the charge. The segment also recorded a \$0.2 charge associated with the disposal of machinery and equipment.
- The Defense Electronics & Services segment recorded a \$1.0 charge for the planned severance of 35 employees, including seven factory workers, 19 office workers and nine management employees.

In addition to the new restructuring actions announced during the fourth quarter, the Motion & Flow Control segment recognized \$0.5 of severance and employee benefit costs related to actions announced during the first quarter and the Electronic Components segment recognized \$0.2 of outplacement related to actions announced earlier in 2003.

During the third quarter of 2003 the Company announced actions to reduce operating costs primarily through the reduction of headcount. The \$2.6 restructuring charge primarily reflects the planned severance of 71 employees. The actions by segment are as follows:

- The Electronic Components segment recorded \$1.2 of the charge for the planned termination of 39 employees, including 15 factory workers and 24 office workers. The segment also recorded a \$0.1 charge associated with the disposal of machinery and equipment.
- The Fluid Technology segment recognized a \$0.5 charge for the planned severance of 13 factory workers and 14 office workers. Lease and other costs represent \$0.4 of the charge.
- The Motion & Flow Control segment recorded a \$0.4 charge for the planned severance of one management employee and four office workers.

In addition to the restructuring actions announced during the third quarter, the Motion & Flow Control segment recognized \$0.2 of severance and employee benefit costs related to actions announced during the first quarter.

During the second quarter of 2003 the Company continued its program to reduce structural costs and increase profitability. Restructuring actions totaling \$4.4 were announced during the period. The charge primarily reflected the planned severance of 143 employees and the cancellation of an operating lease. The actions by segment are as follows:

- The Electronic Components segment comprises \$2.4 of the charge and the actions taken at this segment include the planned termination of five management employees, 19 factory workers and 67 office workers.
- The Motion & Flow Control segment recognized \$1.0 for the planned severance of 50 employees, including six management employees, 31 factory workers and 13 office workers. Lease termination fees of \$0.7 and asset disposal costs of \$0.1 were also reflected in the charge.

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- At Corporate Headquarters, a charge of \$0.2 was recorded for the planned termination of one management employee and one office worker.

In addition to the restructuring actions announced during the second quarter, the Motion & Flow Control segment recognized \$1.2 of severance and employee benefit costs related to actions announced during the first quarter.

During the first quarter of 2003 the Company recorded an \$8.9 restructuring charge primarily for the planned severance of 461 persons. Severance of \$8.2 represents the majority

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of the charge. The actions by segment are as follows:

- The Electronic Components segment recorded \$6.7 of the charge for the planned termination of 222 persons, comprised of 98 office workers, 116 factory workers and eight management employees. Idle facility costs of \$0.3 and asset disposal costs of \$0.4 were also reflected in the charge. The actions were prompted by management's projections of continued weakness in certain businesses.
- Corporate Headquarters recorded \$1.1 of the charge for the consolidation of administrative tasks, including the planned termination of two management employees.
- The Motion & Flow Control segment recorded \$0.4 of the charge for the planned termination of 237 employees, comprised of 21 office workers and 216 factory workers. The charge relates to the closure of a manufacturing facility in Arkansas. The actions will be completed during 2003 and 2004 and the total estimated charge of approximately \$2.6 will be recognized ratably over the restructuring period as the terminations become effective. Management deemed the restructuring actions necessary to address the anticipated loss of certain platforms during the second half of 2003.

Also during 2003, the Company recorded a \$1.4 asset impairment charge primarily for a technology license that will not be utilized based on management's projections of future market conditions. 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.

2002 RESTRUCTURING ACTIVITIES

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

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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 planned 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 the Fluid Technology and the 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 platforms in the automotive fluid handling systems 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.

2001 RESTRUCTURING ACTIVITIES

On December 14, 2001, the Company announced a restructuring program to reduce structural costs and improve profitability

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

whereby the Company recorded a charge of \$82.9 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 3,386 persons and other asset impairments. The cash portion of the charge of \$60.6 primarily relates to severance and lease termination costs. The non-cash portion of the charge of \$22.3 primarily relates to machinery and equipment that became impaired as a result of the announced plans.

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 following table displays a rollforward of the cash restructuring

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accruals:

YEAR ENDED DECEMBER 31, -----	FLUID TECHNOLOGY -----	DEFENSE ELECTRONICS & SERVICES -----	MOTION & FLOW CONTROL -----	ELECTRONIC COMPONENTS -----	CORPORATE AND OTHER -----
Balance January 1, 2002.....	\$11.5	\$ 1.0	\$ 7.1	\$ 28.7	\$ 3.6
Payments and other related to prior charges.....	(9.2)	--	(4.1)	(15.6)	(2.3)
Reversals of prior charges.....	(1.5)	(1.0)	(1.5)	(8.7)	(0.4)
2002 charge.....	6.0	--	3.0	0.6	--
Payments related to the 2002 charge.....	(0.3)	--	--	(0.6)	--
-----	-----	-----	-----	-----	-----
Balance December 31, 2002.....	\$ 6.5	\$ --	\$ 4.5	\$ 4.4	\$ 0.9
Payments and other related to prior charges.....	(5.3)	--	(3.3)	(2.1)	(0.8)
Reversals of prior charges.....	--	--	(0.1)	(0.9)	--
2003 charges.....	13.6	1.0	4.4	12.2	1.3
Reversal of 2003 charges.....	--	--	--	(3.4)	--
Payments and other related to the 2003 charges.....	(3.5)	(0.2)	(1.8)	(6.7)	(0.6)
-----	-----	-----	-----	-----	-----
Balance December 31, 2003.....	\$11.3	\$ 0.8	\$ 3.7	\$ 3.5	\$ 0.8
Additional charges for prior year plans.....	--	--	1.0	0.1	--
Payments and other related to prior charges.....	(9.9)	(0.7)	(3.5)	(2.2)	(0.6)
Reversals of prior charges.....	(0.4)	--	--	(0.5)	--
2004 charges.....	19.1	--	5.3	9.8	1.8
Reversal of 2004 charges.....	--	--	(0.1)	--	(0.1)
Payments and other related to the 2004 charges.....	(9.0)	--	(2.2)	(4.5)	(0.8)
-----	-----	-----	-----	-----	-----
Balance December 31, 2004.....	\$11.1	\$ 0.1	\$ 4.2	\$ 6.2	\$ 1.1
=====	=====	=====	=====	=====	=====

During the third and fourth quarters of 2004, a total of \$0.2 of restructuring accruals related to 2004 restructuring actions were reversed into income.

During the second quarter of 2004, \$0.1 and \$0.2 of restructuring accruals related to 2003 and 2002 restructuring actions, respectively, were reversed into income. The reversals related to the 2003 actions primarily reflect lower than anticipated severance costs on completed actions at the Electronic Components segment. The reversals related to the 2002 actions represent lower than anticipated severance costs on completed actions at the Fluid Technology segment.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During the first quarter of 2004, \$0.2 and \$0.4 of restructuring accruals related to 2003 and 2001 restructuring actions, respectively, were reversed into income. The reversals related to the 2003 actions primarily reflect lower than

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anticipated severance costs on completed actions due to favorable employee attrition at the Electronic Components segment. The reversals associated with the 2001 actions represent lower than anticipated closed facility costs.

During 2003, \$3.4, \$0.1 and \$0.9 of restructuring accruals related to 2003, 2002 and 2001 programs, respectively, were reversed into income as a result of quarterly reviews of the Company's remaining restructuring actions. The reversals primarily reflected lower than anticipated severance costs on completed actions and favorable employee attrition at the Electronic Components segment. Additionally, certain actions were not completed as they were no longer deemed feasible. The Company also reversed other non-cash charges totaling \$0.2.

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 Components' 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 earlier restructuring plans that management determined will not be incurred.

At December 31, 2003, the accrual balance for restructuring activities was \$20.1. Cash payments of \$33.6 and additional cash charges of \$37.1 were recorded in 2004. Also, management reviewed the Company's remaining restructuring actions and determined that certain 2004, 2003, 2002 and 2001 actions totaling \$1.1 would be completed for less than planned. Accordingly, restructuring accruals totaling \$1.1 were reversed into income during 2004. The accrual balance increased by \$0.2 due to the effect of foreign currency translation. The accrual balance at December 31, 2004 is \$22.7, which includes \$16.6 for severance and \$6.1 for facility carrying costs and other.

As of December 31, 2003, remaining actions under restructuring activities announced in 2003, 2002 and 2001 were to close one facility and reduce headcount by 208. During 2004, the Company closed three facilities, reduced headcount by 833 persons related to all plans and experienced employee attrition, leaving a balance of 685 planned reductions. Actions announced during the fourth quarter of 2004 will be substantially completed by the second quarter of 2005. Actions announced during the second quarter of 2004 will be substantially completed by the end of the first quarter of 2005. Actions announced during the first and third quarters of 2004 are substantially completed. Actions announced during 2003 were substantially completed in 2004. All of the actions contemplated under the 2002 and 2001 plans were substantially completed in 2003.

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 businesses 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.

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At December 31, 2004, the Company had automotive discontinued operations accruals of \$188.7 that are primarily related to taxes (\$154.1), product recalls (\$7.8), environmental obligations (\$14.2) and employee benefits

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(\$12.6). In 2004, the Company made immaterial payments of its automotive discontinued operations liabilities. The Company expects that it will settle \$154.1 of tax obligations in 2005.

NS&S -- DISCONTINUED OPERATIONS

In the 4th quarter of 2004, the Company decided to sell its Network Systems & Services (NS&S) business. NS&S produces robust structured cabling and intelligent high-speed network solutions. After a comprehensive review of the Company's expected future profitability, and market participation the Company believed that NS&S would provide greater value for an organization whose primary focus is the networking market.

Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Longed-Lived Assets," ("SFAS 144") requires the Company to classify the assets and liabilities of the disposal group as held for sale and the results of operations of the component classified as discontinued operations.

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,		
	2004	2003	2002
	-----	-----	-----
Product sales.....	\$5,545.0	\$4,732.4	\$4,254.5
Service revenues.....	1,219.1	878.4	708.2
	-----	-----	-----
Total sales and revenues.....	\$6,764.1	\$5,610.8	\$4,962.7
	=====	=====	=====
Costs of product sales.....	\$3,599.4	\$3,068.5	\$2,749.7
Costs of service revenues.....	867.0	603.5	446.1
	-----	-----	-----
Total costs of sales and revenues.....	\$4,466.4	\$3,672.0	\$3,195.8
	=====	=====	=====

The Defense Electronics & Services segment comprises \$1,103.9, \$792.2 and \$627.8 of total service revenues for the years ended December 31, 2004, 2003 and 2002, respectively, and \$760.1, \$525.0 and \$374.0 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.

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NOTE 7
INCOME TAXES

Income tax data from continuing operations is as follows:

	For the years ended December 31,		
	2004	2003	2002
United States and foreign components of income from continuing operations before income taxes			
U.S.	\$335.2	\$281.0	\$309.8
Foreign.....	274.8	254.4	201.1
	-----	-----	-----
	\$610.0	\$535.4	\$510.9
	=====	=====	=====
Provision (benefit) for income tax			
Current			
U.S. federal.....	\$ 23.8	\$(50.6)	\$(47.6)
State and local.....	2.6	3.7	0.9
Foreign.....	84.5	90.3	45.0
	-----	-----	-----
	110.9	43.4	(1.7)
	-----	-----	-----
Deferred			
U.S. federal.....	59.4	117.2	104.0
State and local.....	(1.4)	(2.7)	--
Foreign.....	3.6	(16.5)	27.3
	-----	-----	-----
	61.6	98.0	131.3
	-----	-----	-----
Total income tax expense.....	\$172.5	\$141.4	\$129.6
	=====	=====	=====

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,		
	2004	2003	2002
Tax provision at U.S. statutory rate.....	35.0%	35.0%	35.0%
Foreign tax rate differential.....	(2.4)	(2.9)	0.4
Effect of repatriation of foreign earnings.....	(2.1)	(4.3)	(1.6)
Research credit.....	(0.5)	(0.6)	--
Tax examinations.....	--	1.3	--
Export sales.....	(1.9)	(2.6)	(0.9)
Capital loss carryback.....	--	--	(6.0)
Other.....	0.2	0.5	(1.6)
	-----	-----	-----

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Effective income tax expense rate.....	28.3%	26.4%	25.3%
	====	====	====

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 and carryforwards.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred tax assets (liabilities) include the following:

	December 31,			
	2004		2003	
	DEFERRED ASSETS	DEFERRED LIABILITIES	DEFERRED ASSETS	DEFERRED LIABILITIES
Employee benefits....	\$180.6	\$ --	\$239.5	\$ --
Accelerated depreciation.....	--	(68.7)	--	(60.1)
Accruals.....	151.6	--	179.1	--
Uniform capitalization.....	5.7	--	6.3	--
Partnership investment.....	--	(59.5)	--	(59.5)
Loss carryforwards...	35.0	--	25.1	--
Foreign tax credit...	52.1	--	46.2	--
State credit carryforwards.....	4.4	--	3.0	--
Intangibles/Other....	--	(41.3)	--	(4.0)
Subtotal.....	429.4	(169.5)	499.2	(123.6)
Valuation allowance.....	(43.9)	--	(40.7)	--
	\$385.5	\$ (169.5)	\$458.5	\$ (123.6)
	=====	=====	=====	=====

The Company's deferred taxes in the Consolidated Balance Sheets consist of the following:

	December 31,	
	2004	2003
Current assets.....	\$ 107.2	\$ 68.2
Non-current assets.....	212.1	373.2
Other current liabilities.....	(2.2)	(4.6)
Other liabilities.....	(101.1)	(101.9)

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-----	-----
\$ 216.0	\$ 334.9
=====	=====

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of certain subsidiaries amounting to approximately \$669.6, because these amounts are permanently reinvested. While the amount of federal income taxes, if such earnings are distributed in the future, cannot now be determined, such taxes may be reduced by tax credits and other deductions.

As of December 31, 2004, the Company had approximately \$52.1 of foreign tax credit carryforwards. The credit carryforwards will expire as follows: \$33.9 on December 31, 2010, \$12.1 on December 31, 2011 and \$6.1 on December 31, 2013. The Company had approximately \$2.0 of general business credit carryforwards which will expire on December 31, 2020 and \$2.9 which will expire on December 31, 2021. The Company had net operating losses from some U.S. subsidiaries in the amount of \$66.8, which will begin to expire on December 31, 2019. The Company had net operating losses from some foreign subsidiaries in the amount of \$38.2, which have no expiration.

As of December 31, 2004, a valuation allowance of approximately \$43.9 exists for deferred income tax benefits related to certain U.S. subsidiary loss carryforwards and certain foreign tax credits that may not be realized. During 2004, the valuation allowance increased by \$3.2.

Shareholders' equity at December 31, 2004 and 2003 reflects tax benefits related to the stock options exercised in 2004 and 2003 of approximately \$26.4 and \$18.1, respectively.

The Company expects to settle \$154.1 in tax obligations that relate to the reorganization and disposition of its automotive businesses in 1998, as part of the current IRS examination of the Company's federal consolidated tax returns for the years ended December 31, 1998 through December 31, 2000. As of December 31, 2004, the Company believes the accrual for income taxes payable is sufficient to cover potential liabilities arising from these examinations.

In addition, the Company has contingent tax obligations in other jurisdictions related to the 1998 dispositions and reorganizations of approximately \$85.0. The Company has determined that payment of this amount is unlikely.

On October 22, 2004, the AJCA was signed into law and includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. Under the AJCA, the Company may elect to apply this provision to qualifying earnings repatriations occurring in its 2004 or 2005 taxable year. At this time, the Company has made a determination that it does not expect to elect to apply the provision to any distributions occurring in either of these taxable years.

NOTE 8
EARNINGS PER SHARE

A reconciliation of the data used in the calculation of basic and diluted earnings per

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

share computations for income from continuing operations is as follows:

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	For the years ended December 31,		
	2004	2003	2002
Basic Earnings Per Share			
Income from continuing operations available to common shareholders.....	\$437.5	\$394.0	\$381.3
Average common shares outstanding.....	92.3	92.1	91.0
Basic earnings per share.....	\$ 4.74	\$ 4.27	\$ 4.19
Diluted Earnings Per Share			
Income from continuing operations available to common shareholders.....	\$437.5	\$394.0	\$381.3
Average common shares outstanding.....	92.3	92.1	91.0
Add: Impact of stock options.....	2.1 (1)	2.0 (2)	2.6 (3)
Average common shares outstanding on a diluted basis.....	94.4	94.1	93.6
Diluted earnings per share.....	\$ 4.63	\$ 4.18	\$ 4.07

- (1) Options to purchase 127,500 shares of common stock at an average price of \$83.02 per share were outstanding at December 31, 2004 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 2014.
- (2) Options to purchase 78,940 shares of common stock at an average price of \$65.37 per share were outstanding at December 31, 2003 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 and 2013.
- (3) 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.

NOTE 9
RECEIVABLES, NET

Receivables consist of the following:

December 31,	
2004	2003

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	-----	-----
Trade.....	\$1,124.4	\$932.8
Other.....	84.6	67.4
Less -- allowance for doubtful accounts and cash discounts.....	(34.7)	(28.7)
	-----	-----
	\$1,174.3	\$971.5
	=====	=====

NOTE 10
INVENTORIES, NET

Inventories consist of the following:

	December 31,	
	-----	-----
	2004	2003
	-----	-----
Finished goods.....	\$187.9	\$157.0
Work in process.....	294.6	182.3
Raw materials.....	324.9	312.6
Less -- progress payments.....	(99.0)	(76.1)
	-----	-----
	\$708.4	\$575.8
	=====	=====

NOTE 11

OTHER CURRENT ASSETS

At December 31, 2004 and 2003, 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,	
	-----	-----
	2004	2003
	-----	-----
Land and improvements.....	\$ 65.3	\$ 60.5
Buildings and improvements.....	527.1	465.0
Machinery and equipment.....	1,757.4	1,613.4
Furniture, fixtures and office equipment.....	246.3	247.9
Construction work in progress...	69.7	68.2
Other.....	58.7	45.1
	-----	-----
	2,724.5	2,500.1
Less -- accumulated depreciation and amortization.....	(1,743.6)	(1,608.1)

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-----	-----
\$ 980.9	\$ 892.0
=====	=====

NOTE 13
GOODWILL AND OTHER INTANGIBLE ASSETS

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. 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 Com-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

pany completed a transitional and initial goodwill impairment test at its 12 identified reporting units and determined that no impairment exists. Both tests were conducted in the first quarter of 2002. The Company also conducted its annual impairment tests in the first quarters of 2004 and 2003 (as of the beginning of the year) and determined that no impairment exists.

Changes in the carrying amount of goodwill for the years ended December 31, 2004 and 2003 by operating segment are as follows:

YEAR ENDED DECEMBER 31,	FLUID TECHNOLOGY	DEFENSE ELECTRONICS & SERVICES	MOTION & FLOW CONTROL	ELECTRONIC COMPONENTS	CORPORATE AND OTHER	TOTAL
-----	-----	-----	-----	-----	-----	-----
Balance as of December 31, 2002.....	\$ 769.9	\$303.7	\$176.1	\$295.8	\$5.0	\$1,550.
Goodwill acquired during the period.....	5.4	--	1.1	24.0	--	30.
Other, including foreign currency translation....	34.1	--	4.4	9.6	--	48.
	-----	-----	-----	-----	-----	-----
Balance as of December 31, 2003.....	809.4	303.7	181.6	329.4	5.0	1,629.
Goodwill acquired during the period.....	240.1	601.1	3.4	--	--	844.
Other, including foreign currency translation....	31.4	--	2.3	6.7	--	40.
	-----	-----	-----	-----	-----	-----
Balance as of December 31, 2004.....	\$1,080.9	\$904.8	\$187.3	\$336.1	\$5.0	\$2,514.
	=====	=====	=====	=====	=====	=====

Information regarding the Company's other intangible assets follows:

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	December 31,	
	2004	2003
Finite-lived intangibles --		
Customer Relationships.....	\$138.8	\$ --
Proprietary Technology.....	21.4	--
Patents and other.....	44.1	34.1
Accumulated amortization.....	(18.8)	(8.4)
Indefinite-lived intangibles --		
Brands and trademarks.....	29.7	17.7
Pension related.....	25.1	31.4
	-----	-----
Net intangibles.....	\$240.3	\$74.8
	=====	=====

During the first quarter of 2004, the Company completed the acquisition of WEDECO. The acquisition of WEDECO resulted in the recognition of \$238.3 of goodwill, \$12.0 of intangibles for tradenames, \$21.4 of proprietary technology, \$18.8 of customer relationships and \$2.7 of patents and other. During the third quarter of 2004, the Company completed the acquisition of RSS. This acquisition preliminarily resulted in the recognition of \$597.6 of goodwill, \$120.0 of intangible assets related to customer relationships and \$4.9 of other intangible assets.

Amortization expense related to intangible assets for the years ended December 31, 2004, 2003 and 2002 was \$10.4, \$2.7 and \$0.9, respectively.

Estimated amortization expense for each of the five succeeding years is as follows:

2005	2006	2007	2008	2009
-----	-----	-----	-----	-----
\$23.0	\$23.2	\$21.1	\$18.3	\$16.6

Customer relationships, proprietary technology and patents and other are amortized over weighted average lives of 15 years, 15 years and 25 years, respectively.

NOTE 14
OTHER ASSETS

At December 31, 2004 and 2003, 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 \$17.1 and \$29.4 at December 31, 2004 and 2003, respectively.

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Investments in unconsolidated companies consist of the following:

	December 31,	

	2004	2003
	-----	-----
Investments accounted for under the equity method:		
Motion & Flow Control 50% ownership of HiSAN joint venture.....	\$ 8.6	\$ 9.0
Fluid Technology 40% ownership in Sam McCoy, Malaysia.....	3.3	3.2
Fluid Technology other investments...	4.2	3.1
Investments accounted for under the cost method:		
Defense Electronics & Services investment in Mesh Networks.....	--	11.4
Other.....	--	1.1
	-----	-----
	\$16.1	\$27.8
	=====	=====

In December 2004, the Company sold its interest in Mesh Networks, a technology company in the wireless telecommunications market for \$31.2, including \$24.9 received in cash and \$6.3 placed in escrow.

During 2003 the Company sold substantially all of its interest in DigitalGlobe Inc., a developmental stage company that launched a satellite capable of collecting high-resolution digital imagery, for \$43.5.

The Company recorded sales to unconsolidated affiliates during 2004, 2003 and 2002 totaling \$24.1, \$21.0 and \$24.2, respectively. In addition, the Company provided services to unconsolidated affiliate companies in 2004, 2003 and 2002 and received \$0.6, \$0.5 and \$0.5, 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 \$152.

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 \$82.7, \$66.6 and \$60.1 for 2004, 2003 and 2002, respectively. Future minimum operating lease payments under long-term operating leases as of December 31, 2004 are shown below.

2005.....	\$ 88.7
2006.....	72.6
2007.....	62.0

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2008.....	47.5
2009.....	40.3
2010 and thereafter.....	194.0

Total minimum lease payments.....	\$505.1
	=====

NOTE 16
DEBT

Debt consists of the following:

	December 31,	
	2004	2003
	-----	-----
Commercial paper.....	\$696.3	\$120.0
Short-term loans.....	19.8	18.6
Current maturities of long-term debt.....	13.1	2.9
	-----	-----
Notes payable and current maturities of long-term debt.....	\$729.2	\$141.5
	=====	=====

LONG-TERM DEBT	MATURITY	INTEREST RATE	2004	2003
-----	-----	-----	-----	-----
Notes and debentures:.....	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
	12/15/2014	4.700%	119.7	--
	2/15/2021	9.750%	--	19.1
	4/15/2021	9.500%	--	13.6
	11/15/2025	7.400%	250.0	250.0
	8/25/2048	(1)	18.1	18.1
Other.....	2005 - 2014	(2)	23.3	25.1
Interest rate swaps.....			81.6	77.6
			-----	-----
Subtotal notes and debentures.....			575.0	485.8
Less - unamortized discount.....			(19.1)	(22.0)
			-----	-----
Long-term debt.....			555.9	463.8
Less - current maturities.....			(13.1)	(2.9)
			-----	-----
Net long-term debt.....			\$542.8	\$460.9
			=====	=====

(1) The interest rate for the note/debenture was 2.27% and 1.02% at December 31, 2004 and 2003, respectively.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(2) The weighted average interest rate was 4.72% and 5.12% at December 31, 2004 and 2003, respectively.

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

2005	2006	2007	2008	2009
-----	-----	-----	-----	-----
\$13.1..	\$10.2	\$11.1	\$23.1	\$11.0
=====	=====	=====	=====	=====

The weighted average interest rate for short-term borrowings was 2.31% and 1.53% at December 31, 2004 and 2003, 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, 2004, the fair value of long-term debt was \$555.7, compared to the fair value of \$484.0 at December 31, 2003. The year-over-year increase in fair value primarily reflects the impact of the increase in long-term debt levels related to 2004 acquisitions.

In March 2004, the Company entered into a revolving credit agreement which expires in March 2005, with five domestic and foreign banks providing aggregate commitments of \$400.0. 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 for total aggregate commitments of \$1.4 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, 2004, the Company's coverage ratio was well in excess of the minimum requirement. Additionally, borrowing through commercial paper under the revolving credit agreement may not exceed \$1.4 billion in the aggregate outstanding at any time. The commitment fee on the revolving credit agreements is .125% of the total commitment, based on the Company's current debt ratings. The revolving credit agreements serve as backup for the commercial paper program and are not otherwise restricted.

In December 2004, the Company recorded a \$120.0 obligation associated with a ten year agreement involving the sale and the subsequent leasing back of certain properties. Under the terms of the agreement, the Company is required to make annual payments of principal and interest. At the end of the agreement, the Company has the option to repurchase the applicable properties for a nominal fee. This transaction is reflected as debt.

The book value of assets pledged as collateral amounted to \$67.6 as of December 31, 2004.

NOTE 17

CASH FLOW INFORMATION

The change in receivables, inventories, payables and accrued expenses

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listed on the Consolidated Statements of Cash Flows for the twelve months ended December 31, 2004, 2003 and 2002 consist of the following:

TWELVE MONTHS ENDED DECEMBER 31, -----	2004 -----	2003 -----	2002 -----
Change in accounts receivable.....	\$(21.8)	\$(61.6)	\$(1.0)
Change in inventories.....	(80.3)	31.0	(3.2)
Change in accounts payable and accrued expenses.....	16.9	30.1	37.3
	-----	-----	-----
Change in receivables, inventories, accounts payable and accrued expenses.....	\$(85.2)	\$ (0.5)	\$33.1
	=====	=====	=====

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, interna-

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

tional 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, 2004 and 2003, the Company had interest rate swaps outstanding with notional values totaling \$335.8 in both periods. The carrying value of the swaps at December 31, 2004 and 2003 were \$84.9 and \$81.6, respectively, including \$3.3 and \$4.0 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 "Debt" above, from fixed to variable rate borrowings. The variable interest rates are based on

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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 2.64% and 7.40% at December 31, 2004. 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.

At December 31, 2004 the Company had one foreign currency cash flow hedge outstanding that had no change in value during 2004. At December 31, 2003 the Company had no foreign currency cash flow hedges outstanding. There were no changes in the forecasted transactions during 2004 regarding their probability of occurring that would require amounts to be reclassified to earnings.

The notional amount of the foreign currency forward contract utilized to hedge cash flow exposures was \$0.1 at December 31, 2004. The applicable fair value of this contract at December 31, 2004 was approximately zero. There were no ineffective portions of changes in fair values of cash flow hedge positions reported in earnings for the twelve months ended December 31, 2004, 2003 and 2002, and no amounts were excluded from the measure of effectiveness reported in earnings during these periods.

At December 31, 2004 and 2003, the Company had foreign currency forward contracts with notional amounts of \$93.3 and \$81.1, respectively, to hedge the value of recognized assets, liabilities and firm commitments. The fair values of the contracts were \$(0.4) and \$0.2 at December 31, 2004 and 2003, respectively. The ineffective portion of changes in fair values of such hedge positions reported in operating income during 2004, 2003 and 2002 amounted to \$(0.4), \$(0.3) and \$(0.1), 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. In addition to Company sponsored

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

pension plans, certain employees of the Company participate in multi-employer pension plans sponsored by local or national unions. The Company's contribution

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to such plans amounted to \$1.2, \$0.7 and \$0.4 for the years ended 2004, 2003 and 2002, 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.

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 \$31.2, \$27.2 and \$25.3 for the years ended 2004, 2003 and 2002, 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 2004 and 2003 were as follows:

	PENSION		OTHER B
	2004	2003	2004
CHANGE IN BENEFIT OBLIGATION			
Benefit obligation at beginning of year.....	\$4,330.7	\$4,058.7	\$ 645.6
Service cost.....	87.9	73.3	6.5
Interest cost.....	267.9	256.5	39.2
Amendments made during the year/other.....	3.6	7.4	--
Actuarial (gain) loss.....	188.5	139.0	44.1
Benefits paid.....	(292.1)	(264.0)	(44.0)
Liabilities assumed through acquisition/other.....	264.3	--	82.8
Effect of currency translation.....	34.7	59.8	--
	-----	-----	-----
Benefit obligation at end of year.....	\$4,885.5	\$4,330.7	\$ 774.2
	=====	=====	=====
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning of year.....	\$3,470.3	\$2,734.8	\$ 211.5
Actual return on plan assets.....	542.0	746.8	32.3
Assets assumed through acquisition/other.....	237.9	--	--
Employer contributions.....	129.1	210.7	--
Employee contributions.....	2.6	1.7	--
Benefits paid.....	(266.6)	(246.0)	(8.5)
Effect of currency translation.....	15.3	22.3	--
	-----	-----	-----
Fair value of plan assets at end of year.....	\$4,130.6	\$3,470.3	\$ 235.3
	=====	=====	=====
Funded status.....	\$ (754.9)	\$ (860.4)	\$ (538.9)
Unrecognized net transition asset.....	0.1	0.3	--
Unrecognized net actuarial (gain) loss.....	1,116.6	1,164.0	241.1
Unrecognized prior service cost.....	23.7	29.4	(1.0)
	-----	-----	-----
Net accrued benefit cost recognized in the balance sheet.....	\$ 385.5	\$ 333.3	\$ (298.8)
	=====	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Amounts recognized in the Consolidated Balance Sheets consist of:

	PENSION BENEFITS		OTHER BENEFITS	
	2004	2003	2004	2003
Prepaid benefit cost.....	\$ 640.2	\$ 569.9	\$ --	\$ --
Accrued benefit cost.....	(1,079.7)	(1,187.6)	(298.8)	(216.2)
Intangible assets....	25.1	31.4	--	--
Accumulated other comprehensive income.....	799.9	919.6	--	--
Net amount recognized.....	\$ 385.5	\$ 333.3	\$ (298.8)	\$ (216.2)

In 2004, the Company recorded a total after tax increase of \$81.8 to its shareholders' equity which reflects a decrease in the minimum pension liability.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	DECEMBER	
	2004	2003
Projected benefit obligation.....	\$4,762.9	\$4,263.5
Accumulated benefit obligation.....	\$4,463.7	\$4,013.4
Fair Value of plan assets.....	\$3,993.6	\$3,372.0

ACCUMULATED BENEFIT OBLIGATION:

The accumulated benefit obligation for all defined benefit plans was \$4,586.3 and \$4,104.3 at December 31, 2004 and 2003, respectively.

TABLE OF ASSUMPTIONS:

Weighted-average assumptions used to determine benefit obligations at December 31:

PENSION BENEFITS	OTHER BENEFITS
------------------	----------------

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	2004	2003	2004	2003
	-----	-----	-----	-----
Discount Rate.....	5.94%	6.18%	5.75%	6.25%
Rate of future compensation increase.....	4.41%	4.42%	4.50%	4.50%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

	PENSION BENEFITS			OTHER BENEFITS		
	2004	2003	2002	2004	2003	2002
	-----	-----	-----	-----	-----	-----
Discount Rate.....	6.18%	6.44%	7.14%	6.25%	6.50%	7.25%
Expected return on plan assets.....	8.89%	8.86%	9.61%	9.00%	9.00%	9.75%
Rate of future compensation increase.....	4.42%	4.88%	4.89%	4.50%	5.00%	5.00%

Management develops each assumption 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.

	PENSION			OTH
	2004	2003	2002	2004
	-----	-----	-----	-----
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost.....	\$ 87.9	\$ 73.3	\$ 61.9	\$ 6.5
Interest cost.....	267.9	256.5	251.2	39.2
Expected return on plan assets.....	(344.2)	(327.0)	(335.0)	(18.6)
Amortization of transitional asset.....	0.1	0.3	0.3	--
Amortization of net actuarial (gain) loss.....	43.3	23.5	3.2	11.4
Amortization of prior service cost.....	7.1	6.4	8.0	(3.8)
Net periodic benefit cost.....	\$ 62.1	\$ 33.0	\$ (10.4)	\$ 34.7
Effect of curtailments/settlements.....	3.3	2.4	--	--
Total benefit expense.....	\$ 65.4	\$ 35.4	\$ (10.4)	\$ 34.7
	=====	=====	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

PLAN ASSETS:

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The pension and welfare benefit plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments, hedge funds and in cash and cash equivalents. The assets of the domestic pension U.S. Master Trust which covers all of the domestic pension plans and the various welfare benefit plan trusts had the following asset allocations as of December 31:

ASSET CATEGORY	PENSION PLAN ASSETS AT DECEMBER 31,		OTHER BENEFITS PLAN ASSETS AT DECEMBER 31,	
	2004	2003	2004	2003
Equity securities....	66.2%	68.5%	72.1%	65.1%
Fixed income securities.....	16.4%	21.6%	14.3%	19.0%
Hedge funds.....	9.9%	9.7%	6.9%	7.0%
Cash and other.....	7.5%	0.2%	6.7%	8.9%
Total.....	100.0%	100.0%	100.0%	100.0%

The strategic asset allocation target for the Company's domestic pension funds apportions 70% to equity investments and 30% to fixed income instruments. The investment in the Company's stock within the U.S. Master Trust approximates 1% in 2004 and 2003.

CONTRIBUTIONS:

The Company currently anticipates making contributions to its pension plans in a range of \$120.0 to \$140.0, during 2005, of which \$102.4 was made in the first quarter of 2005, to the U.S. Master Trust.

CASH FLOWS:

ESTIMATED FUTURE BENEFIT PAYMENTS

The following benefit payments covering domestic pension and other benefit plans have been projected based on benefits earned to date and the expectation that certain future service will be earned by currently active employees:

	PENSION BENEFITS	OTHER BENEFITS
2005.....	\$ 268.0	\$ 52.9
2006.....	271.9	55.1
2007.....	277.8	56.9
2008.....	284.2	58.6
2009.....	292.9	60.0
2010 - 2014.....	1,584.1	324.2

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 8.0% for 2004. The assumed rate is 10.0% for 2005, decreasing ratably to 5.0% in 2010. Increasing the health care trend rates

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by one percent per year would have the effect of increasing the benefit obligation by \$39.9 and the aggregate service and interest cost components by \$3.1. A decrease of one percent in the health care trend rate would reduce the benefit obligation by \$40.4 and the aggregate service and interest cost components by \$2.6. 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 accounting pronouncements, the review of various indexes, discussion with our 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.

On December 8, 2003, the Medicare Modernization Act was signed into law. The Medicare Modernization Act introduces a prescription drug benefit under Medicare (Medicare Part D) that provides several options for Medicare eligible participants and employers, including a federal subsidy to companies that elect to provide a retiree prescription drug benefit which is at least actuarially equivalent to Medicare Part D. The Medicare Modernization Act provides for a two year transitional period to allow for, among other items, the possibility that companies may amend existing plans. There are significant uncertainties regarding the eventual regulations required to implement the Medicare Modernization Act as well as the Medicare

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Modernization Act's overall effect on plan participant's coverage choices and the related impact on their health care costs. As such, the effects of the Medicare Modernization Act are not reflected in the accumulated postretirement benefit obligation as of December 31, 2004, or in the 2004 net periodic postretirement benefit cost. The Company is currently evaluating the provisions of the Medicare Modernization Act and its potential impact to our postretirement medical plans which we believe will ultimately reduce our accumulated postretirement benefit obligation and other postretirement benefit costs.

OTHER MATTERS:

As a result of the acquisition of RSS in August, 2004, the Company assumed \$260.0 in liabilities related to the pension benefits accrued by the acquired employees under the Kodak Retirement Income Plan. These benefits were merged into and became part of the ITT Industries domestic salaried pension plan. Under the terms of the purchase and sale agreement, the Kodak plan made a preliminary transfer of assets to the U.S. Master Trust, effective as of the closing date, in the amount of \$279.5 subject to adjustment in order to comply with IRS regulations relative to the transfer of assets from one pension plan to another. The Company and its actuaries believe that the ultimate transfer amount allowed under such regulations will be approximately \$235.0. Accordingly, the Company has reflected a payable of \$44.5 in the accounts of the pension plan and the amounts shown in the table of assets above have been presented net of the amount that is expected to be refunded to the Kodak trust fund.

NOTE 20 SHAREHOLDERS' EQUITY

CAPITAL STOCK:

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The Company has authority to issue an aggregate of 250,000,000 shares of capital stock, of which 200,000,000 shares have been designated as "Common Stock" having a par value of \$1 per share and 50,000,000 shares 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, 2004 and 2003, 52,853,895 and 52,876,689 shares of Common Stock were held in treasury, respectively.

The Company included \$35.6, \$93.1 and \$100.0 of Capital Surplus in Retained Earnings at December 31, 2004, 2003 and 2002, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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, 2004, 2003 and 2002, and changes during the years then ended is presented below (shares in thousands):

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	2004		2003		SHARES
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	Weighted-Average EXERCISE PRICE	
Outstanding at beginning of year.....	8,173	\$42.64	7,887	\$35.59	9,426
Granted.....	1,952	75.49	1,964	61.72	2,114
Exercised.....	(1,998)	38.20	(1,501)	29.97	(3,628)
Canceled or expired.....	(133)	38.65	(177)	47.42	(25)
	-----	-----	-----	-----	-----
Outstanding at end of year...	7,994	\$51.84	8,173	\$42.64	7,887
	=====	=====	=====	=====	=====
Options exercisable at year-end.....	6,059	\$44.30	6,255	\$36.75	7,834
	=====	=====	=====	=====	=====
Weighted-average fair value of options granted during the year.....		\$20.94		\$17.67	
		=====		=====	

The following table summarizes information about the Company's stock options at December 31, 2004 (shares in thousands):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISED	
	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
\$20.32 - 28.38.....	517	1.5 years	\$24.50	517	\$24.50
30.31 - 39.56.....	2,765	4.8 years	35.60	2,765	35.60
42.74 - 45.64.....	59	6.2 years	42.96	59	42.96
50.65 - 58.57.....	1,220	7.0 years	50.75	1,218	50.75
61.77 - 69.11.....	1,502	8.0 years	61.97	1,494	61.97
74.92 - 79.10.....	1,804	9.1 years	74.97	6	74.97
81.82 - 84.00.....	127	9.5 years	83.02	--	--
	-----			-----	
	7,994			6,059	
	-----			-----	

The 2003 Equity Incentive Plan was established in May of 2003. This plan provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units. The number of shares initially available for awards under this plan was 6,100,000. As of December 31, 2004, 4,105,057 net shares were available for future grants. During 2004 and 2003, the Company awarded 6,194 and 9,489 restricted shares with five-year restriction periods respectively in payment of the annual retainer for non-employee directors. During 2004, the Company awarded 13,100 restricted shares to employees with a weighted average restriction period of 2.4 years.

The 2003 Equity Incentive Plan replaces the 2002 ITT Industries Stock Option Plan for Non-Employee Directors, the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors and the 1994 ITT Industries Incentive Stock Plan on a prospective basis. All awards granted under these prior plans will continue to vest and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

be exercisable in accordance with their original terms; however, no future grants will be made from these prior plans.

The 1994 incentive stock plan provides for awarding restricted stock subject to a restriction period in which the stock cannot be sold, exchanged or pledged. There were no restricted shares awarded in 2004 or 2003, and 10,000 restricted shares were awarded in 2002, under this plan.

Pursuant to the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors, the Company did not grant awards in 2004 and 2003. In 2002, 6,098 restricted shares with five-year restriction periods were awarded 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, 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 cash flows.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. 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, 2004, the Company is responsible, or is alleged

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to be responsible, for approximately 80 environmental investigation and remediation sites in various countries. In many of these proceedings, the Company's liability is considered de minimis. At December 31, 2004, the Company calculated a best estimate of \$98.0, which approximates its accrual, related to the cleanup of soil and ground water. The low range estimate for its environmental liabilities is \$72.9 and the high range estimate for those liabilities is \$160.8. On an annual basis the Company spends between \$8.0 and \$11.0 on its environmental remediation liabilities. These estimates, and related accruals, 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.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company is 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 SW 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 operation of the water treatment system is expected to continue until 2013. ITT and the other PRPs continue to pay their respective allocated costs of the operation of the water treatment system and the Company does not anticipate a default by any of the PRPs which would increase its allocated share of the liability. As of December 31, 2004, the Company's accrual for this liability was \$10.4 representing its best estimate; its low estimate for the liability is \$7.0 and its high estimate is \$15.9.

ITT Corporation 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 completed the investigation of the site in coordination with state and federal environmental authorities and is in the process of evaluating various remedies. A remedy for the site has not yet been selected. Currently, the estimated range for the remediation is between \$5.5 and \$19.3. The Company has accrued \$8.1 for this matter, which approximates its best estimate.

The Company is involved with a number of PRPs regarding property in the City of Bronson, Michigan operated by a former subsidiary of ITT Corporation, Higbie Manufacturing, prior to the time ITT acquired Higbie. The Company 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 \$5.7 and \$13.5. It has an accrual for this matter of \$9.2 which represents its best estimate of its current liabilities. The Company 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

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incurred were solely due to administrative (versus judicial) actions. A hearing is expected in 2005. 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.

PRODUCT LIABILITY:

The Company 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 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 former 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 2004, ITT and Goulds resolved in excess of 4,200 claims through settlement or dismissal. The average amount of settlement per plaintiff has been nominal and substantially

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

all defense and settlement costs have been covered by insurance. 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 ("ACE") 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. 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 since 1991. The New York action has been stayed in favor of the California suit. ITT and ACE have successfully resolved the matter and the Company is working with other parties in the suit to resolve the matter as to those insurers. In addition, Utica National, Goulds' historic insurer, has requested that the Company negotiate a coverage in place agreement to allocate the Goulds' asbestos liabilities between insurance policies issued by Utica and those issued by others. The Company is continuing to receive the benefit of insurance payments during the pendency of these proceedings. The Company believes that these actions will not materially affect the availability of its insurance coverage and will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is one of several defendants in a suit filed in El Paso, Texas, 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. Numerous motions are currently pending before the

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Court. A hearing on class certification is expected in late 2005. On October 5, 2004, the Company filed an action, ITT Industries, Inc. et al. v. Fireman's Fund Insurance Company et al., Superior Court, County of Los Angeles, C.A. No. B.C. 322546, against various insurers who issued historic aircraft products coverage to the Company seeking a declaration that each is liable for the costs of defense of the El Paso matter. The parties have an agreement in principle to resolve this matter whereby the Company will continue to receive the cost of defense of this matter from the insurers. Management believes that the El Paso suit will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has received demands from U.S. Silica for partial indemnity regarding personal injury actions alleging injury due to silica. In 1985, the Company sold the stock of its subsidiary Pennsylvania Glass Sand to U.S. Silica. As part of that transaction, the Company provided an indemnity to U.S. Silica for silica personal injury suits. That indemnity expires in September 2005. Costs incurred in these matters related to the defense, settlements or judicial awards are allocated between U.S. Silica and the Company. The Company's allocated portion is paid in part by its historic product liability carriers and then shared pursuant to the Distribution Agreement. See "Company History and Certain Relationships" within Part 1, Item 1 of this Annual Report for a description of the Distribution Agreement. 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.

OTHER:

The Company is involved in an arbitration with Rayonier, Inc., a former subsidiary of the Company's predecessor ITT Corporation. The arbitration involves a claim by Rayonier stemming from the 1994 Distribution Agreement for the spinoff of Rayonier by ITT Corporation. Rayonier seeks a portion of the proceeds from certain settlements in connection with the Company's environmental insurance recovery litigation-

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

tion. The parties completed the arbitration hearings in late 2004. A decision is expected in the spring of 2005. The Company believes the claim is grossly overstated 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, 2004 the Company has an accrual of \$7.8 which is its best estimate of the potential exposure.

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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 that 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, 2004 the Company has an accrual of \$14.2 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 nine 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 has been released from its obligation to perform under both of these guarantees in the third quarter of 2004. The third guarantee 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, 2004, the Company has an accrual related to the expansion of a bridge in the amount of \$10.0.

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 \$44.8, 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, 2004, the Company does not believe that a loss contingency is probable and therefore does not have an accrual recorded in its financial statements.

The Company has a number of individually immaterial guarantees outstanding at December 31, 2004, that may be affected by various conditions and external

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forces, some of which could require that payments be made under such guarantees. The Company does not believe these payments 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.

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, 2004, the Company has a product warranty accrual in the amount of \$40.3.

PRODUCT WARRANTY LIABILITIES

BEGINNING BALANCE JANUARY 1, 2004	ACCRUALS FOR PRODUCT WARRANTIES ISSUED IN THE PERIOD	CHANGES IN PRE-EXISTING WARRANTIES INCLUDING CHANGES IN ESTIMATES	(PAYMENTS)	ENDING BALANCE DECEMBER 31, 2004
\$34.3	\$26.4	\$2.9	\$ (23.3)	\$40.3

BEGINNING BALANCE JANUARY 1, 2003	ACCRUALS FOR PRODUCT WARRANTIES ISSUED IN THE PERIOD	CHANGES IN PRE-EXISTING WARRANTIES INCLUDING CHANGES IN ESTIMATES	(PAYMENTS)	ENDING BALANCE DECEMBER 31, 2003
\$40.2	\$22.8	\$ (4.5)	\$ (24.2)	\$34.3

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 23

BUSINESS SEGMENT INFORMATION

	FLUID TECHNOLOGY	DEFENSE ELECTRONICS & SERVICES	MOTION & FLOW CONTROL	ELECTRONIC COMPONENTS	CORPORATE ELIMINATIONS & OTHER
2004					
Sales and revenues.....	\$2,594.1	\$2,414.0	\$1,070.5	\$696.9	\$ ()
Operating income (loss).....	285.9	254.1	147.8	29.5	()
Interest income.....					
Interest expense.....					
Gain on sale of assets.....					
Miscellaneous expense (income).....					

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Income from continuing operations
before income tax expense.....

Long-lived assets.....	381.2	218.8	235.0	141.2	
Investments in unconsolidated companies.....	7.5	--	8.6	--	
Total assets.....	2,577.4	1,717.1	763.8	796.8	1,4
Gross plant additions.....	54.3	37.4	44.1	28.0	
Depreciation.....	63.5	31.8	45.7	33.7	
Amortization.....	4.8	4.8	2.2	4.7	
2003					
Sales and revenues.....	\$2,249.9	\$1,790.9	\$ 992.3	\$585.7	\$
Operating income (loss).....	271.4	187.1	134.7	14.7	(
Interest income.....					
Interest expense.....					
Miscellaneous expense (income).....					

Income from continuing operations
before income tax expense.....

Long-lived assets.....	365.8	149.9	227.1	143.1	
Investments in unconsolidated companies.....	7.4	11.4	9.0	--	
Total assets.....	2,049.0	833.1	715.9	763.2	1,5
Gross plant additions.....	55.1	29.7	38.5	29.3	
Depreciation.....	62.9	28.8	43.3	30.5	
Amortization.....	6.2	--	3.4	5.5	
2002					
Sales and revenues.....	\$1,956.3	\$1,513.9	\$ 935.5	\$563.2	\$
Operating income (loss).....	251.5	154.0	122.4	72.3	(
Interest income.....					
Interest expense.....					
Miscellaneous (income) expense.....					

Income from continuing operations
before income tax expense.....

Long-lived assets.....	342.3	153.4	209.6	129.8	
Investments in unconsolidated companies.....	7.3	53.9	9.3	--	
Total assets.....	1,867.5	850.1	661.3	676.0	1,3
Gross plant additions.....	45.8	36.7	39.7	29.8	
Depreciation.....	57.6	26.8	39.5	26.3	
Amortization.....	5.3	--	4.6	5.6	

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	NET SALES AND REVENUES*			LONG
	2004	2003	2002	2004
GEOGRAPHICAL INFORMATION				
United States.....	\$3,865.0	\$3,104.9	\$2,866.9	\$486.4

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Western Europe.....	1,734.3	1,506.9	1,208.3	415.5
Asia Pacific.....	472.5	374.6	355.2	52.9
Other.....	692.3	624.4	532.3	26.1
	-----	-----	-----	-----
Total Segments.....	\$6,764.1	\$5,610.8	\$4,962.7	\$980.9
	=====	=====	=====	=====

* 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:

	2004	2003	2002
	-----	-----	-----
Sales and Revenues by			
Product Category			
Pumps & Complementary			
Products.....	\$2,593.9	\$2,249.9	\$1,956.3
Defense Products.....	1,309.2	997.2	885.9
Defense Services.....	1,103.9	792.2	627.8
Connectors &			
Switches.....	689.0	583.0	560.2
Fluid Handling.....	436.7	447.3	470.3
Flow Control.....	194.5	158.6	156.1
Brakes.....	265.6	206.1	153.6
Marine Products.....	75.6	86.9	76.7
Shock Absorbers.....	95.7	89.6	75.8
	-----	-----	-----
Total.....	\$6,764.1	\$5,610.8	\$4,962.7
	=====	=====	=====

Defense Electronics & Services had sales and revenues from the United States government of \$2,098.2, \$1,454.7 and \$1,105.3 for 2004, 2003 and 2002, 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 and pumping system businesses, including brands such as Flygt(R), Goulds(R), Bell & Gossett(R), A-C Pump(R), Marlow(R), Flowtronex(R), Lowara(R), Vogel(R), and Richter(R) making the Company the world's largest pump producer. Businesses within this segment also supply mixers, heat exchangers, engineered valves and related products as well as systems for municipal, industrial, residential, agricultural and commercial applications with brand names such as McDonnell & Miller(R), Hoffman Specialty(TM) and ITT Standard(R) in addition to those mentioned above. Additionally, the Fluid Technology segment produces wastewater aeration and diffuser systems under the brands Sanitaire(R) and ABJ(R), ultraviolet and ozone water disinfection systems under the WEDECO(R) brand and membrane filtration and bioreactor systems under the Aquious(TM) brand for the water and wastewater treatment markets. This segment comprises approximately 38% of the Company's sales and revenues and approximately 40% of its segment operating income for 2004.

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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 46% 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 87%, 81% and 73% of 2004, 2003 and 2002 Defense Electronics & Services sales and revenues, respectively, were to the U.S. government. The Defense Electronics & Services segment comprises about 36% of the Company's sales and revenues and 35% of its segment operating income in 2004.

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), system components for the whirlpool baths, hot

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

tub and spa markets under the HydroAir(R) brand, fluid handling materials such as HydroLogic(TM) brand tubing systems and Posi-Lock(R) and HydroLock(R) brand connectors for various automotive and industrial markets, specialty shock absorbers under the brand KONI(R) and brake components for the transportation industry. The Motion & Flow Control segment comprises approximately 16% of the Company's sales and revenues and approximately 20% of its segment operating income for 2004.

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. This segment comprises about 10% of the Company's sales and revenues and 4% of its segment operating income for 2004.

CORPORATE AND OTHER:

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

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ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 24
QUARTERLY RESULTS FOR 2004 AND 2003 (UNAUDITED)

THREE MONTHS ENDED

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	MAR. 31	JUNE 30	SEPT. 30	DE
	-----	-----	-----	-----
	(IN MILLIONS, EXCEPT PER SHARE)			
2004				
Sales and revenues.....	\$1,511.1	\$1,646.8	\$1,663.2	\$1
Costs of sales and revenues.....	1,003.4	1,074.6	1,097.3	1
Income from continuing operations.....	89.0	113.6	110.3	
Net income.....	88.9	112.0	109.8	
Income from continuing operations per share				
-- Basic.....	\$ 0.96	\$ 1.23	\$ 1.20	\$
-- Diluted.....	\$ 0.94	\$ 1.20	\$ 1.17	\$
Net income per share				
-- Basic.....	\$ 0.96	\$ 1.21	\$ 1.19	\$
-- Diluted(a).....	\$ 0.94	\$ 1.18	\$ 1.16	\$
Common stock information				
Price range:				
High.....	\$ 78.52	\$ 85.98	\$ 84.61	\$
Low.....	\$ 71.03	\$ 75.64	\$ 75.17	\$
Close.....	\$ 76.33	\$ 83.00	\$ 79.99	\$
Dividends per share.....	\$ 0.17	\$ 0.17	\$ 0.17	\$
	-----	-----	-----	-----
2003				
Sales and revenues.....	\$1,291.5	\$1,434.0	\$1,371.8	\$1
Costs of sales and revenues.....	843.2	946.4	901.2	
Income from continuing operations.....	87.0	92.9	103.5	
Net income.....	86.7	99.9	109.2	
Income from continuing operations per share				
-- Basic(a).....	\$ 0.95	\$ 1.01	\$ 1.12	\$
-- Diluted(a).....	\$ 0.93	\$ 0.99	\$ 1.10	\$
Net income per share				
-- Basic(a).....	\$ 0.94	\$ 1.08	\$ 1.18	\$
-- Diluted.....	\$ 0.92	\$ 1.06	\$ 1.16	\$
Common stock information				
Price range:				
High.....	\$ 62.09	\$ 67.20	\$ 69.59	\$
Low.....	\$ 50.11	\$ 53.17	\$ 59.00	\$
Close.....	\$ 53.41	\$ 65.46	\$ 59.84	\$
Dividends per share.....	\$ 0.16	\$ 0.16	\$ 0.16	\$
	-----	-----	-----	-----

(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 2004 and 2003. 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, 2005 through February 28, 2005, the high and low reported market prices of the Company's common stock were \$89.95 and \$80.48, respectively. The Company declared dividends of \$0.18 per common share in the first quarter of 2005. There were 25,511 holders of record of the Company's common stock on February 28, 2005.

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

	BALANCE AT JANUARY 1 -----	CHARGED TO COSTS AND EXPENSES -----	TRANSLATION ADJUSTMENT -----	WRITE-OFF/ PAYMENTS/ OTHER -----	BALANCE DECEMBER -----
YEAR ENDED DECEMBER 31, 2004					
Trade Receivables -- Allowance for doubtful accounts.....	\$22.9	\$10.4	\$1.1	\$ (6.4)	\$28.
Restructuring.....	20.1	36.0	--	(33.4)	22.
YEAR ENDED DECEMBER 31, 2003					
Trade Receivables -- Allowance for doubtful accounts.....	\$22.3	\$ 6.6	\$2.6	\$ (8.6)	\$22.
Restructuring.....	16.3	32.5	--	(28.7)	20.
YEAR ENDED DECEMBER 31, 2002					
Trade Receivables -- Allowance for doubtful accounts.....	\$21.3	\$ 5.8	\$1.4	\$ (6.2)	\$22.
Restructuring.....	51.9	9.6	--	(45.2)	16.

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SIGNATURE

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT NO. 1 TO THE REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

ITT INDUSTRIES, INC.

By /s/ ROBERT J. PAGANO, JR.

ROBERT J. PAGANO, JR.
VICE PRESIDENT AND CORPORATE
CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)

March 15, 2005

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EXHIBIT NUMBER	DESCRIPTION	LOCATION
23.1	Consent of Deloitte & Touche LLP.....	Filed herewith.
31.1	Certification pursuant to Rule 13a-14a/ 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.....	Filed herewith.
31.2	Certification pursuant to Rule 13a-14a/ 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.....	Filed herewith.
32.1	Certification Pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.....	This Exhibit is intended to be furnished in accordance with Regulation S-K item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference.
32.2	Certification Pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.....	This Exhibit is intended to be furnished in accordance with Regulation S-K item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference.

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