

Building Trust

LEADING CEOs SPEAK OUT:
HOW THEY CREATE IT,
STRENGTHEN IT, AND SUSTAIN IT.



Louis J. Giuliano

CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
ITT INDUSTRIES, INC.

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They want products and services on which they can rely.
They want them delivered on time. They want us to provide good value.”*

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SERVE CUSTOMERS BETTER, GROW FASTER

At ITT Industries, we spend a great deal of time focusing on creating value. Value has many dimensions—to customers, to investors and to employees. But the real value of ITT Industries is embodied in our people. In a recent annual report, we tried to capture that value by showing the faces of more than 150 of the men and women who serve our customers and our shareholders around the world each day. In addition to their own achievements, they represented the creativity and commitment of 36,000 co-workers who, together, make ITT Industries so strong.

In the annual report, we prominently featured a few of their stories—stories of creativity, heroism, imagination, and dogged determination to find a better way to serve their customers and to pursue a higher purpose. For example, we told the story of how a few of our people, and some of our equipment, played a pivotal role in saving the lives of nine miners in Quecreek, Pennsylvania. The story of the rescue of these miners has been told many times, but what isn't as well known is that at a critical point in the rescue attempt, one of our vertical turbine pumps was used to reduce the water level in the mine shaft in which the nine men were trapped. It took heroic efforts on the part of several ITT Industries employees to manufacture that custom pump in record time and get it moved from Texas to Pennsylvania in time to help rescue the miners. Our stories aren't always this dramatic, but they share some common themes—a desire to make a difference, a passion for engineering, and an understanding that the products and services we provide serve critical needs for our customers.

A FOCUS ON LEADERSHIP

Our stated vision is to become a premier multi-industry company, premier in every sense of the word, creating value for all of our stakeholders—employees, customers, shareholders and communities. We are making progress towards this goal by focusing on key strategies. It begins with our commitment to developing leadership talent throughout the organization. We are continuously improving the quality and efficiency of our products and services, as perceived by our customers. By focusing on leadership and operational excellence, we can provide the steady growth in value creation our shareholders rightfully expect.

In my view, the starting point for the deployment of our strategies is leadership development. The leadership skills of all of our people are the driving force behind our strong financial and operating results, and the reason our customers and investors have such confidence in our company. We recognize that we have effective leaders at every level in the organization — not just at headquarters or in the executive ranks. I believe that one of the most critical responsibilities of all of us who lead ITT Industries is to create a caring environment for our employees. Our company prides itself on the engineering talent we have throughout the organization. While engineers may be quite comfortable with the precision of math and physics, they aren't always so comfortable with what is needed to create an environment in which each employee can reach his or her maximum potential. We all have to work at it. I have learned in my career that when employees know they are respected, when their contributions are recognized, they are capable of incredible accomplishments.

I'm energized by seeing employees who are excited about what they are doing. It's contagious. What most employees want more than anything is to feel that their contributions to the organization are making a difference. It's our job to create the environment in which they can.

SEEING THE WORLD THROUGH OUR CUSTOMERS' EYES

Our customers have quite reasonable expectations. They want products and services on which they can rely. They want them delivered on time. They want us to provide good value. They want to know that they can depend on us, both at the time of the sale and long afterward. They want us to conduct our business dealings with integrity. They simply want us to look at the world through their eyes.

To meet their expectations, we also have to take a pretty hard look at ourselves. We have to continuously challenge the status quo, finding new ways to get better.

The linchpin of our continuous improvement efforts is what we call Value-Based Six Sigma (VBSS), now an integral part of the ITT Industries' culture. We are striving to make VBSS a way of thinking and managing. As I like to remind our employees, VBSS is one of our most effective growth strategies. By reducing our time to market, by enhancing the quality of our products and services, and by delivering these products on time, we will serve our customers better and grow faster as a result.

Internally, our growth is fueled by a steady stream of new, differentiated products and services. Over the years ITT engineers have played a critical role in the development of technical innovations that today are commonplace, among them television, fiber optics, global positioning satellites, submersible pumps and night vision.

In 2002, we launched a new effort aimed at making sure our solutions solve real customer problems. With Value-Based Product Development, we are training our business development, marketing and engineering teams to better capture the voice of the customer so that we can develop products that meet both the customer's spoken and unspoken needs. This initiative can have a major impact on our future growth by enhancing our ability to listen to our customers and respond to their needs with well-designed solutions.

Looking at the world through our customers' eyes has helped us develop new products that meet critical needs, such as our revolutionary N-pump, a wastewater treatment pump that dramatically reduces clogging, thus addressing the costly problem of down time. We have

also developed energy-efficient water treatment approaches that address the most costly aspect of water treatment: energy consumption. As the major supplier of Night Vision to the armed forces, we are currently working on the next generation of these devices, featuring innovative features such as panoramic displays. Our marine products group has developed a new global shipboard compass that automatically re-calibrates settings based on the geographic location of the vessel.

Our employees enjoy these challenges. It's gratifying to solve problems and find new ways to add value. Our competitive advantage depends on our willingness to embrace change and continually improve. Again, it is not easy, but it is rewarding.

FINANCIAL PERFORMANCE IS ONLY PART OF THE STORY

It is increasingly clear that investors are seeking companies in which to place not only their dollars, but their trust. In the past few years, the confidence of the investing public has been undermined by a seemingly endless stream of accounting scandals, insider trading and a disturbing lack of oversight by those responsible for corporate governance. The Principles articulated by Arthur W. Page resonate more clearly now than ever. Each deals with an element important to corporate success. At ITT Industries, our commitment to ethical behavior is captured on the cover page of our Code of Conduct: "Do the right thing—always." This phrase provides a foundation for the values with which we do business.

Our Code of Conduct (*see Appendix*) has served as the focal point for our statement of business principles for many years. It is published in multiple languages, updated on a regular basis and distributed to our employees around the world to provide a clear and unequivocal affirmation of our commitment to the highest ethical standards.

When I speak to groups of ITT Industries employees, I try to make it clear that we are willing to make the tough choices necessary to preserve the spirit and intent of our Code of Conduct. It's as simple as this: If we have to walk away from business to avoid violating our Code of Conduct, then that is what we must do. In the long run, we will overcome any short-term effects of losing a contract by avoiding the inevitable liabilities of operating in the gray areas.

It takes continuous communication with our employees to maintain the viability and relevance of any statement of business ethics and principles. It also requires that we take a close look at what we are rewarding and recognizing in the organization. A Code of Conduct document, no matter how well written, can't overcome reward systems that look the other way, or that are unbalanced or inconsistent with the company's values and ideals.

SERVING A HIGHER PURPOSE

It is gratifying to know that many of our products serve critical purposes that truly affect the lives of those who use them. Our water technology equipment helps deliver fresh water to a thirsty world, and then cleans that water so that we can use it again. Our Night Vision products help protect military and law enforcement personnel, and these devices often make the life-saving difference in successful search and rescue missions. We make highly-engineered valves and other devices used in producing vaccines and other bio-pharmaceutical products.

As the world's largest producer of pumps and water technology, we feel a special responsibility to share our knowledge and expertise in meaningful ways in the communities in which we live and work. For example, for several years we have been the global sponsor of the

Stockholm Junior Water Prize. This award is presented annually by the Crown Princess of Sweden, Victoria, to a high school student, or team of students, for achievement in the field of water resource management. Students from 28 countries competed for the prize in 2003, and hundreds more competed at the national level for the privilege of representing their countries in Stockholm. In addition to global sponsorship, ITT Industries serves as the local sponsor in four countries, including China.

This competition has helped raise the awareness of the world's water crisis among high school students, the leaders of tomorrow. Despite the many global advances we have made, it is still a reality that more than 1.2 billion people, one-fourth of the developing world, do not have access to reliable sources of clean water. Though hard to believe, it is a sad fact that more than 2 million children die each year because of preventable water-borne disease.

We continue to look for new ways to help. For example, in Malawi, an ITT Industries pump brings fresh water to the Malawi Children's Village, home to children orphaned by the AIDS epidemic. In addition to meeting immediate needs for water, this pump has also enabled the village to become an important source of seeds for local farmers. A relatively simple pump has brought hope to an area ravaged by poverty, hunger and disease.

We have also donated ITT Industries Night Vision devices to a number of local law enforcement agencies and search-and-rescue teams to assist in their local community efforts. We are constantly looking for additional ways to share our technology, our expertise and our people in solving similar problems around the world.

EMBRACING THE FUTURE

My confidence in ITT Industries' future is based on my personal belief that we have the right people for the road ahead. Our company is filled with leaders, innovators, problem-solvers and solution-providers. They are committed to solving our customers' problems and creating a work environment in which each of our employees can make a meaningful and appreciated contribution. I am grateful to our employees for their ongoing commitment. They take pride in knowing that the jobs they are doing truly matter to our customers and to the world at large. I take pride in serving with them in this mission.

Louis J. Giuliano

CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
ITT INDUSTRIES, INC.

Louis J. Giuliano was named chairman, president and chief executive officer of ITT Industries, Inc. in March, 2001. In this role, he is responsible for setting the strategic and operating direction for this Fortune 500 Company. Immediately prior to being named to his current position, Giuliano was president and chief operating officer of the corporation, responsible for the ongoing operations at the company. He has played a key role in improving the company's operating performance, leading to stronger margins and higher cash flow. Most recently he has led the company's Value-Based Six Sigma introduction, a program designed to streamline processes and increase operating effectiveness throughout the company.

Prior to being named president and chief operating officer of ITT Industries in 1998, Giuliano was president and chief executive of ITT Industries' Defense and Electronics businesses and senior vice president of ITT Industries. During that time, the businesses entered new, rapidly growing markets, and achieved consistent sales and income growth.

Giuliano joined ITT in July 1988 as vice president of ITT Corporation and vice president -Defense Operations at ITT Defense after a 19-year career at Allied-Signal, where he served in a number of roles, ultimately becoming president of the Avionics Systems Group, responsible for seven operating units nationwide.

Giuliano is a graduate of Syracuse University with a bachelor of arts degree in chemistry, and a master of business administration in marketing. In February 2003 he was elected to the board of directors of Engelhard Corporation. He also serves as honorary chairman of the Westchester County Red Cross Armed Forces Emergency Services.

ITT INDUSTRIES, INC.

ITT Industries, Inc. is a global engineering and manufacturing company with leading positions in the markets it serves. It is the world's premier supplier of pumps, systems and services to move and control water and other fluids. The company is a major supplier of sophisticated military defense systems, and provides advanced technical and operational services to a broad range of government agencies. ITT Industries also produces connectors, switches, keypads and cabling used in telecommunications, computing, aerospace and industrial applications, as well as network services. Further, ITT Industries makes industrial components for a number of other markets, including transportation, construction and aerospace.

Since becoming an independent company in 1995, ITT Industries has taken steps to strengthen its key businesses with significant potential for profitability and growth through a series of acquisitions (Goulds Pumps, Kaman Sciences, Stanford Telecom and C&K Components, among others) and divestitures.

ITT Industries is dedicated to being a good neighbor and corporate citizen and supports many worthy causes. The company has endorsed the principles of the Coalition for Environmentally Responsible Economies (CERES). ITT Industries is also a founding co-chair of the Engineering Alliance, which began in 1999 for the purpose of improving public awareness, understanding, and recognition of the engineering profession, including encouraging the study of engineering in U.S. colleges and universities.

Headquartered in White Plains, New York, the company generated \$5.6 billion in 2003 sales.

For more information, visit: www.itt.com.

Stock Symbol: ITT