

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

FORM 10-K
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, 2005
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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE.

Indicate by check mark if the registrant is a well-known seasoned issuer,
as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes
No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

[X] Large accelerated filer [] Accelerated filer [] Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on June 30, 2005 was approximately \$9.0 billion.

As of February 28, 2006, there were outstanding 184,707,010 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 9, 2006, are incorporated by reference in Part III of this Form 10-K.

TABLE OF CONTENTS

ITEM	PAGE
PART 1	
Business 2 I	
1A Risk	
Factors 11	
1B	
Unresolved	
Staff	
Comments 12	
2 Properties	
12 3 Legal	
Proceedings	
12 4	
Submission	
of Matters	
to a Vote of	
Security	
Holders 14 *	
Executive	
Officers of	
the	
Registrant	
14 PART 5	
Market for	
Registrant's	
Common	
Equity and	
Related II	
Stockholder	
Matters 15 6	
Selected	
Financial	
Data 16 7	
Management's	
Discussion	
and Analysis	
of Financial	
Condition	
and Results	
of	
Operations	
16 7A	
Quantitative	
and	
Qualitative	
Disclosures	
About Market	
Risk 32 8	
Financial	
Statements	
and	
Supplementary	
Data 33 9	
Changes in	
and	
Disagreements	
with	
Accountants	
on	
Accounting	
and	
Financial	
Disclosure	
33 9A	
Controls and	
Procedures	
33 9B Report	
of	
Independent	
Registered	
Public	
Accounting	
Firm 34 PART	
10 Directors	
and	
Executive	

Officers of
the
Registrant
36 III 11
Executive
Compensation
36 12
Security
Ownership of
Certain
Beneficial
Owners and
Management
36 13
Certain
Relationships
and Related
Transactions
36 14
Principal
Accounting
Fees and
Services 36
PART 15
Exhibits,
Financial
Statement
Schedules,
and Reports
on Form IV
8-K 36

Signatures
II-1
Exhibit
Index II-2

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

Flow
Control 24
20 20
Electronic
Components
(43) 5 3
Other (18)
(14) (15)

100% 100%
100%
=====

BUSINESS AND PRODUCTS

FLUID TECHNOLOGY

Fluid Technology is a leading global provider of fluid systems and solutions for the Residential & Commercial Water, Building Trades, Wastewater Handling, Treatment, and Industrial & BioPharm markets. Sales and revenues were approximately \$2.84 billion, \$2.59 billion, and \$2.25 billion for 2005, 2004 and 2003, respectively.

Fluid Technology is engaged in the design, development, production, sale, and after-sale support of a broad range of pumps, mixers, controls and treatment systems for municipal, industrial, residential, agricultural, and commercial applications.

Major production and assembly facilities are located in Argentina, Australia, Austria, Brazil, Canada, China, England, Germany, Italy, Malaysia, Mexico, the Philippines, South Korea, Sweden, Poland and the United States.

Principal customers are in North America, Europe, the Middle East, Africa, Latin and South America, and the Asia/Pacific region. No single customer accounted for more than 1.8% of 2005 sales for Fluid Technology. Sales are made directly to customers or through independent distributors and representatives.

As one of the world's leading producers of fluid handling equipment and related products for treating and recycling wastewater, ITT Industries actively promotes more efficient use and re-use of water and endeavors to raise the level of awareness of the need to preserve and protect the earth's water resources.

Residential & Commercial Water

ITT Industries' broad range of pumps, systems and accessories for residential, municipal and commercial applications including water, wells, pressure boosters, and agriculture packages and systems are branded Goulds Pumps, Red Jacket Water Products, Marlow Pumps, Lowara, and Vogel.

Flowtronex is the product brand for package systems for turf irrigation and water booster systems for municipal systems, golf courses and irrigation systems.

Building Trades

Leading product brands such as Bell & Gossett(R), McDonnell & Miller(R), and Hoffman Specialty(R), provide a broad variety of products for environmental control in buildings and for building service and utility applications including liquid-based heating and air conditioning systems, liquid level control, and steam trap products for boiler and steam systems. ITT Industries services the

European and Middle East building trade markets with pressure boosting pumps under the Lowara and Vogel names and A-C Fire Pump is a global UL/FM Fire pump package provider.

Wastewater Handling

The Flygt Group is the originator and largest manufacturer of submersible pumps and mixers which form the heart of many of the world's sewage and wastewater treatment facilities. Combining Flygt's submersible pumps and mixers with Sanitaire and ABJ products (discussed below) provides a solution to customers' needs for complete system wastewater treatment. Dry mount pumps from A-C Pump provide an alternative technical solution to submersible pumps. Flygt is a market leader and respected brand for commercial and municipal submersible wastewater pumps. ITT Industries' strong position in the dewatering market is generated by Flygt, Robot and Grindex and, in the residential effluent and sewage pumps systems area, Goulds Pumps and Lowara are market leaders.

Treatment

Through the Sanitaire(R), and ABJ(R) brands, ITT Industries is a leader in biological treatment systems for municipal and industrial wastewater treatment. The broad range of products includes ceramic and membrane fine bubble diffusers, and stainless steel coarse bubble diffusers. Aquious provides advanced membrane filtration engineered systems, reverse osmosis systems and portable filtration technology. Flygt's submersible mixers and Sanitaire's diffused aeration systems play a crucial role in the biological treatment phase ensuring that incoming flows reach optimal nitrification and prevent sedimentation in the aeration tank. ABJ is a unique Sequence Batch Reactor (SBR) allowing a continuous inflow. Through the addition of Aquious in 2004, ITT Industries offers advanced membrane filtration for both municipal and industrial applications. WEDECO is a leading provider of ultraviolet disinfection and ozone oxidation systems.

Industrial & BioPharm

ITT Industries, under the Goulds Pumps brand name, offers standard as well as application specific pumps for the industrial marketplace. Examples of typical applications include general industrial, mining, chemical, pulp and paper, power, oil refining and gas processing. Fabri-Valve knife gate valves are designed to handle demanding applications found in pulp and paper plants including pulping, recovery and bleaching.

ITT Industries offers a wide array of valve and turnkey systems that are at the heart of extremely demanding manufacturing processes, especially of biological and pharmaceutical compounds. The design, engineering, fabrication, and installation of high purity process modules, skid systems and stainless steel vessels for the biopharm and hygienic industries are marketed under the Pure-Flo brand.

Global Service and Customer Care

Fluid Technology has a global network of service centers for aftermarket customer care. Our aftermarket capabilities include the repair and service of all brands of pumps and rotating equipment, engineering upgrades, contract maintenance, and service.

System Solutions

ITT Industries strives to provide its global customer base with the systems and solutions they need to meet their ever increasing demands on cost control and efficiencies. Through the overarching strategic Value Based Six Sigma program, ITT Industries now has in place company wide systems for rapid product development.

Our strategy to expand downstream to better service our customers has moved us from a product producer to a solution provider. This strategy has guided us in our acquisitions. For example, today ITT Industries can extend its core offering of submersible pumps and mixers with systems to control plant operation, technologies that analyze the waste stream, and products and systems to treat water through biological, treatment, filtration, oxidation and disinfection processes.

In the industrial markets, our pump systems are now supplied with intelligent control systems and predictive conditioning monitoring. Customers engaging our "total systems approach" generally find dramatically lower energy consumption, maintenance and overall life cycle costs.

The following table illustrates the percentage of sales and revenues for

the listed categories for the periods specified:

Year Ended
December
31, -----

2005 2004
2003 - ---

--
Residential
&
Commercial
Water 19%
19% 21%
Building
Trades 12
12 13
Wastewater
Handling
31 31 31
Treatment
17 16 11
Industrial
& BioPharm
21 22 24 -

100% 100%
100%
=====
=====
=====

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

Order backlog for Fluid Technology was \$556.2 million in 2005, compared with \$575.5 million in 2004, and \$374.6 million in 2003.

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

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

Fluid Technology companies have approximately 11,800 employees and have 46 major facilities in 16 countries.

DEFENSE ELECTRONICS & SERVICES

Defense Electronics & Services, with sales and revenues of approximately \$3.22 billion, \$2.41 billion, and \$1.79 billion for 2005, 2004 and 2003, respectively, develops, manufactures, and supports high technology electronic systems and components for worldwide defense and commercial markets, and provides communications systems and engineering and applied research. Operations are in North America, Europe, and the Middle East.

Defense Electronics & Services consists of the two major areas of (i) Systems and Services and (ii) Defense Electronics. Systems and Services consists of our systems and Advanced Engineering and Sciences businesses. Defense Electronics consists of our Aerospace and Communications, Space Systems, Night Vision, Avionics and Radar businesses.

Systems and Services

The Systems Division provides a broad range of systems integration, communications, engineering and technical support solutions ranging from strategic command and control and tactical warning and attack assessment, to test, training and range evaluation. The Systems Division also provides total systems support solutions for combat equipment, tactical information systems and facilities management.

The Advanced Engineering & Sciences Division provides a wide range of research, technologies and engineering support services to government, industrial and commercial customers. In addition, the division provides products and services for information collection, information processing and control, information security and telecommunications.

Defense Electronics

The ITT Aerospace/Communications Division ("A/CD") develops wireless networking systems for tactical communications. A/CD is the creator of the core technology used in the world's two largest tactical digitization programs: the U.S. Tactical Internet and the U.K. Bowman program. This technology has created a family of interconnected products including the Single Channel Ground and Airborne Radio System (SINCGARS). A/CD is at the leading edge of networking with its routers and algorithms. These devices permit self-organizing and self-healing connections all across the battlespace. A/CD is also developing the newest ground to air radios for the Federal Aviation Administration.

The Space Systems Division ("SSD") provides innovative solutions to customers in the Department of Defense, intelligence, space science, and commercial aerospace communities to help them visualize and understand critical events anywhere on earth, in the air, or in space. SSD's offering includes intelligence, surveillance and reconnaissance systems, image information solutions, sophisticated meteorological imagers and sounders, GPS navigation payload systems and components, commercial remote sensing and space science systems.

The Night Vision Division supplies the most advanced night vision equipment available to U.S. and allied military forces. The equipment includes night vision goggles for fixed and rotary-wing aviators; night vision goggles, monoculars and weapon sights for ground forces, and image intensifier tubes required for all of these systems. Night Vision is developing the Enhanced Night Vision Goggle (ENVG) which optically combines image intensification and infrared technology allowing for improved mobility and situational awareness. The division is also supplying high-performance night vision devices to federal, state and local law enforcement officers in support of homeland security.

The Avionics Division produces information and electronic warfare technologies for a broad range of military aircraft to help protect aircraft from radar-guided weapons. The Avionics Division is developing for the United States Army and Special Operations Forces the next-generation fully integrated

airborne electronic warfare system for rotary wing aircraft called the Suite of Integrated Radio Frequency Countermeasures ("SIRFC"). In addition, the Avionics Division has developed a SIRFC based system for fixed wing aircraft such as the F-16, and is also the supplier for the United States Integrated Defensive Countermeasures ("IDECM") system for fixed wing aircraft such as the F/A-18 E/F fighter fleet. The Avionics Division is a co-developer of the integrated communications, navigation and identification system for the U.S. Air Force F-22 Raptor.

The ITT Gilfillan Division produces military and civilian air traffic control systems and air defense radars. Gilfillan's latest generation of air traffic control radar systems includes fixed and mobile terminal airport surveillance radars and precision approach radars for landing

assistance in extreme physical environments. Gilfillan also produces and installs air surveillance and weapons control for both ship and land-based applications.

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

Year Ended	2005	2004	2003
December 31, -----			

2005 2004			
2003 - ---			

SYSTEMS AND SERVICES			
Systems	33%	35%	32%
Advanced Engineering & Services	9	11	13
DEFENSE ELECTRONICS			
A/CD	17	15	
15 SSD	20		
14	10		
Night Vision	10		
11	11		
Avionics	8		
9	12		
Gilfillan	3	5	7
---	-----		

100%	100%		
100%			
=====			
=====			
=====			

Defense Electronics & Services sells its products to a wide variety of governmental and non-governmental entities located throughout the world. Approximately 94% of 2005 sales and revenues of Defense Electronics & Services were to governmental and international entities; approximately 83% of 2005 total sales & revenues were to the United States Government (principally in defense programs).

A substantial portion of the work of Defense Electronics & Services is performed in the United States under prime contracts and subcontracts, some of which by statute are subject to profit limitations and all of which are subject to termination by the United States Government. Apart from the United States Government, international customers and commercial customers accounted for approximately 11% and 6%, respectively, of 2005 sales and revenues for Defense Electronics & Services.

Sales and revenues to non-governmental entities as a percentage of total sales and revenues for Defense Electronics & Services were 6% in 2005, 1% in 2004 and 5% in 2003. Certain products sold by Defense Electronics & Services have particular commercial application, including night vision devices. In addition, Defense Electronics & Services, in partnership with California Commercial Spaceport, Inc. in a venture known as Spaceport Systems International, provides full service payload processing and launch capability for small to medium satellite systems in low polar earth orbits.

Funded order backlog for Defense Electronics & Services was \$3.48 billion in 2005 compared with \$3.46 billion in 2004 and \$3.19 billion in 2003.

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

Defense Electronics & Services companies have approximately 15,300 employees and are present in 208 facilities in 21 countries.

MOTION & FLOW CONTROL

The results for the Motion & Flow Control segment have been restated to exclude the results of the Automotive Tubing business. The results of the Automotive Tubing Operations are reflected in Discontinued Operations for 2005 and all comparative periods.

Motion & Flow Control, with sales and revenues of approximately \$670.0 million, \$633.8 million and \$545.0 million for 2005, 2004 and 2003, respectively, comprises a group of units operating in the motion control and flow control market segments. Operations are located principally in North America and Europe, with sales in Latin America and Asia supported through joint ventures or distribution arrangements. Motion & Flow Control consists of the Motion Control, Marine & Leisure and Flow Control groups.

Motion Control:

ITT Industries Friction Products designs and manufactures friction pads and backplates for braking applications on vehicles. From three facilities in Italy and one in the United States, Friction Products services most European "OEM" (Original Equipment Manufacturers) auto makers and also operates a substantial facility for research and testing of new materials. Approximately 53% of Friction Products' 2005 business is in aftermarket activity.

Koni designs and markets adjustable shock absorbers under the brand name KONI(R) for high performance vehicles, trucks, buses, railway equipment and specialty applications such as bridges. Customers are principally in Europe, North America, and Asia.

Marine & Leisure:

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

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

Flow Control:

ITT Aerospace Controls is a worldwide supplier of valves, actuators and switches for the commercial, military, regional, business and general aviation markets. Products are principally sold to OEMs and the aftermarket in North and South America, Europe and Asia. Aerospace Controls also sells switches and regulators into the oil and gas, fluid power, power generation, and chemical markets.

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

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

Year Ended December 31,			

- 2005 2004 2003 - ----			

----- Motion			
Control	57%	57%	54%
Marine & Leisure	32	33	
35 Flow Control	11	10	
11	-----		
----	100%	100%	100%
=====			

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

Motion & Flow Control companies have approximately 2,800 employees and have 20 facilities located in 8 countries.

ELECTRONIC COMPONENTS

Electronic Components, with sales and revenues of approximately \$708.9 million, \$696.9 million, and \$585.7 million for 2005, 2004 and 2003, respectively, designs and manufactures connectors, interconnects, cable assemblies, switches, keypads, multi-function grips, panel switch assemblies, dome arrays, input/output (I/O) card kits and smart card systems.

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

In the communications area, Electronic Components designs products and provides services specifically for today's telecommunications infrastructure and networking industries. These products and services include connectors, interconnects, cable assemblies, keypads, switches, panel switch assemblies, I/O card kits, and smart card systems. They are used in wireless networks, carrier networks, enterprise networks, datacommunications, and subscriber equipment applications.

In the industrial area, Electronic Components' products are incorporated in various industrial equipment and process control products, including DL zero insertion force connectors, cable assemblies, electromechanical switches, and device control interfaces. They are used in industrial controls, production equipment, instrumentation and medical equipment.

In the transportation area, Electronic Components' products are incorporated in heavy-vehicles and equipment, mass transit, agriculture construction equipment and automotive applications. The products include high reliability connectors, multi-function control assemblies, and switches used in powertrain, instrument controls, and chassis applications.

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

In the commercial aircraft area, Electronic Components supplies highly reliable light, space-saving products for technically advanced aircraft. The products include rack and panel, circular, and fiber optic connectors. Their

applications range from avionics (flight control, communications and navigation) to passenger in-flight entertainment systems.

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

In the consumer area, Electronic Components primarily supplies keypads for remote control devices, switches for appliances and audio circular connectors.

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

Year Ended			
December 31, ----			

--- 2005 2004			
2003 - -----			

-- Communications	28%	29%	27%
Industrial	21	24	
25 Transportation			
23 18 18			
Military/Aerospace	15	14	13
Commercial			
Aircraft	5	5	5
Computer	4	5	5
Consumer	4	5	7
--			

- 100% 100% 100%			
=====			
=====			
=====			

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

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

Electronic Components companies have approximately 8,200 employees and have 26 facilities located in 10 countries.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and see Note 23, "Business Segment Information," in the Notes to Consolidated Financial Statements for further details with respect to business segments.

ACQUISITIONS, DIVESTITURES, RESTRUCTURING, AND RELATED MATTERS

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

After completing a strategic review of the Electronic Components segment, in the fourth quarter of 2005, the Company has decided to dispose of the Switches component, which accounted for approximately 50% of the Electronics Components segment revenue. The Company is in the process of preparing this business for sale.

On February 7, 2006, the Company completed the sale of its automotive brake & fuel tubing and components business to Cooper-Standard Automotive, a privately-held company, for \$205 million in cash, subject to certain post-closing adjustments.

During 2005, the Fluid Technology Segment acquired Ellis K. Phelps and Co. ("Phelps"), the largest U.S. distributor of products sold under ITT's Flygt brand for the wastewater pumping and treatment market.

On January 19, 2004 we announced the acquisition of over 81.4% of the outstanding shares of WEDECO, which manufactures ultraviolet disinfection and ozone oxidation systems, and of Shanghai Hengtong Purified Water Development Co. Ltd. and Shanghai Hengtong Water Treatment Engineering Co. Ltd., a producer of reverse-osmosis, membrane and other water treatment systems for the power, pharmaceutical, chemical and manufacturing markets in China. In 2005, Fluid Technology purchased additional shares of WEDECO. As a result of subsequent purchases, we now own all of the outstanding shares of WEDECO.

On August 6, 2004, we acquired Allen Osborne Associates, Inc. a manufacturer of high precision GPS systems receivers for our Defense Electronics & Services business segment.

On August 13, 2004, we acquired Eastman Kodak Company's Remote Sensing Systems business, which provides large scale optical and electro-optical high-resolution satellite imaging. The acquisition is included in the Company's Defense Electronics & Services business segment.

On December 20, 2004, we acquired Cleghorn Waring & Co. (Pumps) Limited, a supplier of marine and industrial pumps in the United Kingdom for our Motion & Flow Control segment.

On December 21, 2004 we disposed of our equity interest in Mesh Networks, Inc. to Motorola, Inc.

During 2003, we acquired the business and assets of Uniserve Wellpoint Srl., which produces a range of high quality diesel and electric powered, vacuum primed centrifugal pumps and spear or well point dewatering systems for our Fluid Technology segment.

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

In 2003, we sold substantially all of our interest in DigitalGlobe, Inc., a developmental stage company providing high resolution satellite images to the commercial markets.

See Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements regarding restructuring matters. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Status of Restructuring Activities."

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risks and Uncertainties -- Status of Automotive Discontinued Operations" and Note 5, "Discontinued Operations," in the Notes to Consolidated Financial Statements for information regarding the resolution of

certain disputes relating to the sales of automotive businesses during 1998 and further information regarding discontinued operations.

GEOGRAPHIC MARKETS

In 2005, approximately 48% of the sales and revenues of Fluid Technology was derived from North America, approximately 34% was derived from Europe, and the Asia/ Pacific region accounted for approximately 9%. The geographic sales mix differs among products and among divisions of Fluid Technology. Our management anticipates growth opportunities in Eastern Europe, Central Asia, Africa/ Middle East, Latin America, and the Asia/Pacific region. In China, Fluid Technology has manufacturing and distribution facilities to produce and sell both submersible pumps for the sewage handling and mining markets and vertical turbine pumps including a foundry operation. The Company also has joint venture sales and manufacturing and other operations in Eastern Europe, Latin America, Africa/Middle East, and other locations in the Asia/Pacific region.

The geographic sales base of Defense Electronics & Services is predominantly the United States, which accounted for approximately 89% of 2005 sales and revenues. Management of Defense Electronics & Services has been in the process of increasing its international defense business and anticipates growth opportunities in the Asia/Pacific region, Europe, and the Middle East.

The geographic sales base of Motion & Flow Control is predominantly in North America and Europe. In 2005, approximately 31% of sales and revenues of Motion & Flow Control were to customers in North America, approximately 63% of sales were to customers in Europe and 4% were in Asia.

The geographic sales base of Electronic Components in Europe accounted for 34% of 2005 sales and revenues, North America accounted for 40% of 2005 sales and revenues, and the Asia/Pacific region accounted for 24% of 2005 sales and revenues. Electronic Components has manufacturing facilities within North America, Central America, Europe, and the Asia/Pacific region.

See Note 23, "Business Segment Information," in the Notes to Consolidated Financial Statements for further geographical information concerning sales and revenues and long-lived assets.

COMPETITION

Substantially all of our operations are in highly competitive businesses. The nature of the competition varies across all business segments. A number of large companies engaged in the manufacture and sale of similar lines of products and the provision of similar services are included in the competition, as are many small enterprises with only a few products or services. Technological innovation, price, quality, reliability, and service are primary factors in the markets served by the various segments of our businesses. The Company's many products and services go to market collectively linked by the ITT Industries brand, the engineered blocks symbol, and the tagline "Engineered for life." The brand has been enhanced and strengthened over the years through a coordinated effort that includes advertising, public relations activities, trade exhibits, and point of sale material.

The Fluid Technology segment is affected by strong competition, changing economic conditions, industry overcapacity that leads to intense pricing pressures, and public bidding in some markets. Management of Fluid Technology responds to competitive pressures by utilizing strong distribution networks, strong brand names, broad product lines focused on market niches, a global customer base, a continuous stream of new products developed from a strong technology base, a focus on quality and customer service, and through continuous cost improvement programs and life cycle cost initiatives.

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

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

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

EXPOSURE TO CURRENCY FLUCTUATIONS

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

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Market Risk Exposures" and Note 18, "Financial Instruments," in the Notes to Consolidated Financial Statements.

CYCLICALITY

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

GOVERNMENTAL REGULATION AND RELATED MATTERS

A number of our businesses are subject to governmental regulation by law or through contractual arrangements. Our Defense Electronics & Services businesses perform work under contracts with the United States Department of Defense or other agencies of the United States government and similar agencies in certain other countries. These contracts are subject to security and facility clearances under applicable governmental regulations, including regulations requiring background investigations for high-level

security clearances for our executive officers. Most of such contracts are subject to termination by the respective governmental parties on various grounds, although such terminations have rarely occurred in the past.

A portion of our business is classified by the government and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements. The business risks associated with classified programs, as a general matter, do not differ materially from those of our other government programs and products.

ENVIRONMENTAL MATTERS

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

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risks and Uncertainties -- Environmental Matters" and "Legal Proceedings".

RAW MATERIALS

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

RESEARCH, DEVELOPMENT, AND ENGINEERING

Our businesses require substantial commitment of resources for research, development, and engineering activities to maintain significant positions in the markets we serve. Such activities are conducted in laboratory and engineering facilities at several of our major manufacturing locations. Research, development, and engineering activities are important in all of our business segments. During 2005, 2004 and 2003, the Company spent \$177.6, \$145.1 and \$115.2, respectively, on research and development. The Company also spent \$472.7, \$473.2 and \$430.4, respectively, on research, development and engineering pursuant to customer contracts.

INTELLECTUAL PROPERTY

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

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

At the time of the Distribution (see -- "Company History and Certain Relationships"), we obtained from ITT Destinations certain exclusive rights and

licenses to use the "ITT" name, mark, and logo. In 1999, we acquired all right, title, and interest in and to the "ITT" name, mark, and logo and an assignment of certain agreements granting The Hartford and ITT Educational Services, Inc. (ESI) limited rights to use the "ITT" name, mark, and logo in their businesses. These agreements are perpetual, and the licenses are subject to maintenance of certain quality standards by both The Hartford and ESI.

EMPLOYEES

As of December 31, 2005, ITT Industries and its subsidiaries employed approximately 40,900 people. Of this number, approximately 20,000 are employees in the United States, of whom approximately 20% are represented by labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

COMPANY HISTORY AND CERTAIN RELATIONSHIPS

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

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

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

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

AVAILABLE INFORMATION, INTERNET ADDRESS AND INTERNET ACCESS TO CURRENT AND PERIODIC REPORTS

ITT Industries' website address is www.itt.com. ITT Industries makes available free of charge on or through www.itt.com/ir our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). Information contained on the Company's website is not incorporated by reference unless specifically stated herein. As noted, we file the above reports electronically with the SEC, and they are available on the SEC's web site (<http://www.sec.gov>). In addition, all reports filed by the Company with the SEC may be read and copied at the SEC's Public Reference Room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-looking Statements" for information regarding forward-looking statements and cautionary statements relating thereto.

ITEM 1A.

RISK FACTORS

The Company is subject to various risks and uncertainties relating to or arising out of the nature of our businesses, financial conditions and results of operations, including those discussed below, which may affect the value of our securities. We believe the risks discussed below are currently the most significant, although additional risks not presently known to us or that we currently deem less significant may also impact our business, financial condition and results of operations, perhaps materially.

Factors that could cause results to differ materially from those anticipated by the Company include:

- - General global economic conditions, particularly in the local economies of the countries or regions in which we sell our products, including declines in consumer spending which could have a negative impact on the results of all of our businesses.
- - We manufacture and sell products used in cyclical businesses including in the construction, defense, mining and minerals, transportation, automotive and aerospace industries. Downturns in these industries could adversely affect our businesses.
- - Many of our government contracts are subject to profit limitations, which limit our upside potential on a per contract basis, and all are subject to termination by our customers. Termination of key government contracts or a significant number of government contracts would have a negative impact on our businesses.
- - Competition pressures in all our businesses include product capability, technological innovation, cycle time, price pressures, quality and the reliability of services we offer. In our Fluid Technology business competition includes public bidding on many contracts. Our revenues and profitability could be negatively impacted as a result of competition.
- - Weather conditions including drought, natural disasters, and excessive rains may negatively affect our Fluid Technology and Motion & Flow Control businesses.
- - Industry overcapacity in the Fluid Technology market could have an adverse impact on the results of our Fluid Technology business.
- - Decrease in demand for replacement parts and services would adversely affect our Fluid Technology business.
- - Our Fluid Technology business depends upon the ability of municipal markets to fund products and services and a significant decline in funding available to these markets would have an adverse effect on the results of the Fluid Technology business.
- - Economic downturns in automotive, aerospace and marine and leisure markets could negatively affect our Motion & Flow Control businesses.
- - Because 83% of our Defense Electronics & Services sales are to the U.S. government, changes in the portion of the U.S. Defense budget devoted to products and services of the types of products provided by the Company would adversely impact our business.
- - Many Defense Electronics & Services contracts are subject to security and facility clearances, as well as export licences, which, if withdrawn or restricted, would adversely affect our business.
- - Our business could be adversely affected if we are not able to integrate acquisitions that we make or negotiate favorable terms for our divestitures.
- - Employment and pension matters, including changes in laws relating to pension reform, could increase our costs of operations.
- - Interest and foreign currency exchange rate fluctuations may adversely affect our results. We engage in hedging strategies but it is not possible to hedge against all eventualities.
- - The commodities, supplies and raw materials that we use in our operations may not be available or may only be available at increased prices which would have a negative affect on our results of operations.
- - Governmental investigations could increase our costs of regulatory compliance and could have a negative effect on our brand name and on our ability to win

new business.

- - Our liability for actual or alleged environmental contamination, claims and concerns may exceed our reserves which would negatively impact our results of operations.
- - Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result.
- - Personal injury claims against us may exceed our reserves which would negatively impact our results of operations.
- - Unanticipated changes in our tax rate or exposure to additional tax liabilities could negatively affect our profitability.
- - Oil and geopolitical risks including global terrorism could adversely affect all our businesses.

These risk factors are discussed in more detail under the captions "BUSINESS -- Competition; -- Exposure to Currency Fluctuations; -- Cyclicity; -- Governmental Regulations and Related Matters; -- Environmental Mat-

ters; -- Raw Materials; and -- Intellectual Property" and "LEGAL PROCEEDINGS".

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

The Company is responsible, in whole or in part, or is alleged to be responsible for environmental investigation and remediation at approximately 58 sites in various countries. Of those sites, it has received notice that it is considered a Potentially Responsible Party ("PRP") at a limited number of sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under CERCLA or its state equivalent. Other situations generally involve either actions brought by private parties relating to sites formerly owned or operated by subsidiaries of the Company seeking to recoup incurred costs or shift environmental liability to the Company pursuant to contractual language, or situations discovered by the Company through its internal environmental assessment program.

In Glendale, California the Company has been involved in an environmental proceeding 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 ITT Industries and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it has incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including ITT Industries and Lockheed Martin, reached a settlement, 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 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, the Company has completed the investigation of the site and is in the process of evaluating various remedies in coordination with state and federal environmental authorities.

The Company has been 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 it was acquired by ITT. The Company and other PRPs are investigating and remediating discharges of industrial waste which occurred in the 1930s.

In a suit filed in 1991 by ITT Corporation in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al. against its insurers, the Company is seeking recovery of costs it incurred in connection with its environmental liabilities including the three listed above. Discovery, procedural matters, changes in California law,

and various appeals have prolonged this case. Currently, the matter is before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims of the Company. The dismissed claims were claims where the costs incurred were solely due to administrative (versus

judicial) actions. A hearing is expected in 2006. 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.

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 2005, ITT and Goulds resolved in excess of 16,000 claims through settlement or dismissal. The average amount of settlement per plaintiff has been nominal and substantially 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 and Nationwide Indemnity 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 and Goulds are negotiating 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, Irwin Bast 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. In late 2005, the Court dismissed the Bund zur Unterstutzung Radargeschadigter from the case and also dismissed all claims relating to medical monitoring. Numerous other motions are currently pending before the Court. A hearing on class certification is expected in 2006. 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 resolved this matter whereby the Company will receive 82.5% of the cost of defense of this matter from these insurers. The Company is pursuing other insurers for the remaining costs. 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 provides an indemnity to U.S. Silica for silica personal injury suits against its former subsidiary Pennsylvania Glass Sand filed prior to September 12, 2005. ITT sold the stock of Pennsylvania Glass Sand to U.S. Silica in 1985. The Company's indemnity had been paid in part by its historic product liability carrier, however, in September 2005, the carrier communicated to ITT that it would no longer pay a share of the costs. On October 4, 2005, ITT filed a suit against its insurer, ITT v. Pacific Employers Insurance Co., CA No. 05CV 5223, seeking its defense costs and indemnity from the carrier for Pennsylvania Glass Sand product liabilities. All silica related costs, net of insurance recoveries, are shared pursuant to the Distribution Agreement. See "Company History and Certain Relationships" within Part I, Item 1 of this Annual Report on Form 10-K 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.

Our Defense Electronics & Services company is subject to the export control regulations of the U.S. Department of State and the Department of Commerce. Currently, the U.S. Attorney for the Western District of Virginia is investigating ITT Night Vision's compliance with International Traffic in Arms Regula-

tions. The Company is cooperating with the investigation and recently, with the Government's consent, it began its own investigation of Night Vision's compliance with the federal laws utilizing outside counsel. Data and information derived from the investigation is shared with the U.S. Attorney. The Company will continue to assist the Government in its investigation, however at this time, it is not possible to predict the outcome of the investigation or what action, if any, the Government may take at the conclusion of the investigation.

Reference is made to "BUSINESS -- Company History and Certain Relationships" for information concerning the allocation of certain liabilities among the parties to the Distribution Agreement.

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Date of Age
at Year of
Initial
Election to
February 1,
Election as
an Present
Name 2006
Position
Officer
Officership

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

Scott A.
Crum 49
Senior Vice
President
and
Director,
Human 2002
10/29/02
Resources
Henry J.
Driesse 62
Senior Vice
President,
ITT
Industries;
2000 12/4/01
President,
Fluid
Technology

Donald E.
Foley 54
Senior Vice
President,
Treasurer
and 1996
2/11/03
Director of
Taxes Steven
F. Gaffney
46 Vice
President,
ITT
Industries;
President
2005 10/4/05

Defense
Electronics
& Services
Nicholas P.
Hill 51
Senior Vice
President,
ITT
Industries;
2004 10/3/05
President,
Motion &
Flow Control
Steven R.
Loranger 53
Chairman,
President
and Chief
Executive
2004 6/28/04
Officer and
Director
Vincent A.
Maffeo 55
Senior Vice
President
and General
Counsel 1995
12/19/95
Thomas R.
Martin 52
Senior Vice
President
and Director
of 1996
3/9/99
Corporate
Relations
George E.
Minnich 56
Senior Vice
President
and Chief
Financial
2005 7/1/05
Officer
Robert J.
Pagano, Jr.
43 Vice
President
and
Corporate
Controller
2004
10/05/04
Brenda L.
Reichelderfer
47 Senior
Vice
President,
Chief
Technology
2002 12/3/02
Officer and
Director of
Engineering

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

Throughout the past five years, all of the above-named officers have held executive positions with ITT Industries bearing at least substantially the same responsibilities as those borne in their present offices, except that (i) Mr. Crum, prior to his election as Senior Vice President (2002), was Corporate Vice President, Motorola Corporation Broadband Communications Sector (2000) and Senior Vice President for Administration and Employee Resources at General Instrument Corporation (1997); (ii) Mr. Driesse was elected Senior Vice President (2001). He was appointed President, Fluid Technology in 2005. Prior to his election as Senior Vice President, Mr. Driesse was Vice President and President of Defense (2000), and, prior to that, was President of ITT Avionics

(1991); (iii) Mr. Foley, prior to his election as Senior Vice President (2003), was Vice President, Treasurer and, Director of Taxes. Mr. Foley was elected Vice President and Treasurer in 1996, and was named to the position of Director of Taxes in 2001; (iv) Mr. Gaffney was elected Vice President, ITT Industries and President, ITT Defense Electronics & Services in 2005. Prior to this position, he was President and General Manager of ITT Industries System Division (2003), Vice President, ITT Industries, Value Based Six Sigma (2002) and Vice President and Director of Programs, ITT Industries' Avionics Division (1998). Prior to his positions with ITT Industries, Mr. Gaffney held progressively responsible positions at Litton and Allied Signal; (v) Mr. Hill, prior to his election as Senior Vice President, ITT Industries

(2005) and President, Motion & Flow Control (2004) was President, ITT Jabsco Worldwide (2003) and Vice President and General Manager, ITT Industries Cannon (1999); (vi) Mr. Minnich, prior to his election as Senior Vice President and Chief Financial Officer (2005) was Vice President and Chief Financial Officer of Otis Elevator Company, from 2001, and prior to that was Vice President and Chief Financial Officer of Carrier Corporation from 1996-2001. Both Otis Elevator Company and Carrier Corporation are divisions of United Technologies Corporation, (vii) Mr. Loranger, prior to his election as Chairman, President, Chief Executive Officer and Director (2004), was Executive Vice President and Chief Operating Officer of Textron, Inc. (2002) and held executive positions at Honeywell International, Inc. and its predecessor from 1981 to 2002; (viii) Mr. Pagano, prior to his election as Vice President and Corporate Controller (2004) was President, ITT Industries' Fluid Technology Industrial Products Group (2002) and Vice President -- Finance and Controller, ITT Fluid Technology (1998); (ix) Ms. Reichelderfer, was elected Senior Vice President, (2002) and appointed Chief Technology Officer and Director of Engineering in 2005. Prior to that she was President, Electronic Components (2003), and President, Motion & Flow Control (2002). Prior to these positions she was Vice President, Flow Control and has held other executive positions with ITT Industries.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND ISSUER
PURCHASES OF EQUITY SECURITIES

COMMON STOCK -- MARKET PRICES AND DIVIDENDS

2005	
2004 ---	

---- (In	
Dollars)	
High Low	
High Low	
- - - - -	

-- Three	
Months	
Ended	
March 31	
\$45.88	
\$40.24	
\$39.26	
\$35.52	
June 30	
49.68	
42.27	
42.99	
37.82	
September	
30 57.73	
48.57	
42.31	
37.59	
December	
31 58.05	
47.13	
43.36	
38.70	

The above table reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security is traded (under the trading symbol "ITT"). During the period from January 1, 2006 through February 28, 2006, the high and low reported market prices of our common stock were \$55.00 and \$49.85, respectively. On February 21, 2006, the Company split its stock on a two-for-one basis. Reported market prices reflect the split price.

ISSUER PURCHASES OF EQUITY SECURITIES

Total
Average
Number
Price of
Paid Shares
Per Period
Purchased(1)
Share(2) -

10/1/05-
10/31/05
242,200
\$55.23
11/1/05-
11/30/05
372,124
\$51.93
12/1/05-
12/31/05
164,200
\$53.32

- (1) All share repurchases were made in open-market transactions. None of these transactions were made pursuant to a publicly announced repurchase plan.
- (2) Average price paid per share is calculated on a settlement basis and excludes commission.

We declared dividends of \$0.085 per share of common stock in each of the four quarters of 2004. We declared dividends of \$0.09 per share of common stock in each of the four quarters of 2005. In the first quarter of 2006, we declared a dividend of \$0.11 per share for shareholders of record on March 10, 2006.

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

There were 25,985 holders of record of our common stock on February 28, 2006.

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

The Company's strategy for cash flow utilization is to pay dividends first and then repurchase Company common stock to cover option exercises made pursuant to the Company's stock option programs. The remaining cash is then available for strategic acquisitions and discretionary repurchases of the Company's common stock and repayment of debt.

ITEM 6.

SELECTED FINANCIAL DATA

(IN
MILLIONS,
EXCEPT PER
SHARE
AMOUNTS)

2005 2004
2003 2002
2001 - -----

RESULTS AND
POSITION

Sales and
revenues \$
7,427.3 \$
6,327.4 \$
5,163.5 \$
4,492.4 \$
4,202.1
Operating
income(a)
500.1 609.6
499.0 496.5
356.8 Income
from
continuing
operations(a)
314.4 420.1
370.3 350.6
184.1 Net
income 359.5
432.3 403.9
379.9 276.7
Additions to
plant,
property and
equipment
179.2 145.4
136.3 130.7
154.1
Depreciation
and
amortization
196.6 175.1
162.3 145.2
192.7 Total
assets
7,063.4
7,282.6
5,946.1
5,396.3
4,512.6
Long-term
debt 516.3
542.8 460.9
492.2 456.4
Total debt
1,267.7
1,272.0
602.4 791.8
973.4 Cash
dividends
declared per
common share
0.36 0.34
0.32 0.30
0.30

EARNINGS PER
SHARE(C)

Income from continuing operations
Basic \$ 1.70
\$ 2.28
2.01 \$ 1.93
\$ 1.04
Diluted \$
1.67 \$ 2.23
\$ 1.97
1.87 \$ 1.02
Net income
Basic \$ 1.95
\$ 2.34
2.19 \$ 2.09
\$ 1.57
Diluted \$
1.91 \$ 2.29
\$ 2.15
2.03 \$ 1.53

PRO FORMA RESULTS

Reported net income(b) \$
359.5 \$
432.3 \$
403.9 \$
379.9 \$
276.7 Add back goodwill amortization net of tax -
- - - - -
35.9 -----

Adjusted net income \$
359.5 \$
432.3 \$
403.9 \$
379.9 \$
312.6

=====

=====

=====

=====

=====

Adjusted basic earnings per share \$ 1.95
\$ 2.34
2.19 \$ 2.09
\$ 1.77
Adjusted diluted earnings per share \$ 1.91
\$ 2.29
2.15 \$ 2.03
\$ 1.72

(a) The Company recorded a \$(214.4) pretax and \$(205.6) after-tax charge for the impairment of goodwill in 2005. Operating income and income from continuing operations in 2005, 2004, 2003, 2002 and 2001 includes (expense) income of \$(74.1), \$(33.8), \$(27.6), \$6.3 and \$(96.3) pretax, respectively, or \$(53.7), \$(23.3), \$(19.1), \$4.2 and \$(62.6), after-tax, respectively, for restructuring and asset impairment charges. See Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information on these topics.

(b) The Company adopted Statement of Financial Accounting Standards No. 142 and discontinued the amortization of goodwill as of January 1, 2002 (see Note 1, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements for additional information). Reported net income for 2001 includes goodwill amortization expense.

(c) Restated for two-for-one stock split effective February 21, 2006.

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

BUSINESS OVERVIEW

The business overview provides information on the Company's four principal operating segments: Fluid Technology, Defense Electronics & Services, Motion & Flow Control and Electronic Components, including their markets served, goods and services provided, relevant factors that could impact results, business challenges and areas of focus and selected financial data. This section also provides a forecast of the Company's 2006 consolidated results.

FLUID TECHNOLOGY

Fluid Technology is a leading global provider of fluid systems and solutions. Markets served and goods and services provided include: Residential & Commercial Water (pumps and accessories for residential, municipal and commercial applications), Building Trades (products for environmental control in buildings and for building services, Wastewater Handling (submersible pumps and mixers for sewage and wastewater treatment facilities), Treatment (biological\ozone\UV treatment systems for municipal and industrial wastewater treatment), and Industrial & BioPharm (pumps\valves for the industrial, mining, chemical, pulp and

paper/solutions for process modules, skid systems and stainless steel vessels.)

Factors that could impact Fluid Technology's financial results include: broad economic conditions in markets served, weather conditions, the ability of municipalities to fund projects, raw material prices and continued demand for replacement parts and servicing. Primary areas of business focus include: new product development, geographic expansion into new markets, facility rationalization and global sourcing of direct material purchases. The Company forecasts revenues for the Fluid Technology segment to be between \$2.96 billion and \$3.00 billion with an operating income margin rate of 13.0% to 13.1%.

DEFENSE ELECTRONIC & SERVICES

Defense Electronics & Services develops, manufactures, and supports high technology electronic systems and components for worldwide defense and commercial markets as well as provides communications systems, engineering and applied research. Defense Electronics & Services consists of two major areas; Systems and Services (Systems, Advanced Engineering and Sciences businesses) and Defense Electronics (Aerospace and Communications, Night Vision, Avionics, Radar and Space Systems businesses.)

Factors that could impact Defense Electronics & Services financial results include: the level of defense funding by domestic and foreign governments, the Company's ability to receive contract awards and the ability to develop and market products and services for customers outside of traditional markets. Primary areas of business focus include: new or improved product offerings, new contract wins, successful program execution and capacity expansion. The Company forecasts revenues for the Defense Electronics & Services segment to be between \$3.48 billion and \$3.54 billion with an operating income margin rate of 10.9% to 11.0%.

MOTION & FLOW CONTROL

Motion & Flow Control is comprised of a group of units operating in the motion control and flow control market segments. Markets served and goods and services provided for the Motion Control businesses include: the design and manufacture of friction pads for braking applications, the production of pumps and related products for the leisure marine and recreational vehicle markets, pumps and components for beverage applications and the design and manufacturing of jets, pumps and other components for whirlpool baths and hot tub spas. Markets served and goods and services provided for the Flow Control businesses include: valves, actuators and switches for the commercial, military, regional, business and general aviation markets; switches and regulators for the oil and gas, power generation and chemical markets; pressure regulators and diaphragm seals for industrial applications and natural gas vehicles.

The Motion & Flow Control business financial results are driven by the cyclical nature of the transportation industry, production levels of major auto producers, demand for marine and leisure products, weather conditions and raw material prices. Primary areas of business focus include: expansion into adjacent markets, new product development, manufacturing footprint optimization and lean fulfillment. The Company forecasts revenues for the Motion & Flow Control segment to be between \$675 million and \$695 million with an operating income margin rate of 20.3% to 20.5%.

ELECTRONIC COMPONENTS

Electronic Components provides products and services for the areas of communications, industrial, transportation, military/aerospace, commercial aircraft, computer, and consumer uses. Business activities in the communications area include: connectors, interconnects, cable assemblies, keypads, switches, panel switch assemblies and smart card systems. In addition, products manufactured for the industrial markets include: industrial controls, production equipment, instrumentation, medical applications, ultrasound, and other diagnostic equipment. Products manufactured for the transportation market include: high reliability connectors, multi-function control assemblies, and switches used in power train, instrument controls and chassis applications. Military/aerospace products include: circular, rack and panel, micro miniature, fiber optic, and "special" connectors used in military electronics, missiles, and space applications. Commercial aircraft products include: rack and panel, circular, and fiber optic connectors. In the computer and consumer area, products include: connectors and switches for computers and computer peripherals, and keypads for remote control devices, switches for appliances and audio circular connectors.

The Electronic Components business financial results are driven by economic conditions in its major markets, success of new product development, product life in the mobile phone markets and changes in technology. Primary areas of

business focus include: global sourcing of direct material purchases, manufacturing footprint rationalization and new product development. The Company forecasts revenues for the Electronic Components segment to be between \$710 million and \$730 million with an operating income margin rate of 6.4% to 6.5%.

CONSOLIDATED FINANCIAL RESULTS

The Company forecasts 2006 total consolidated sales and revenues to be between \$7.8 billion and \$8.0 billion with a segment operating income margin rate of 12.1% to 12.2%.

SALES AND REVENUES
2005 2004
2003 - ---

-- (IN MILLIONS OF DOLLARS)
Sales and revenues...
\$7,427.3
\$6,327.4
\$5,163.5 -

The Company's revenues grew 17.4% in the year ended December 31, 2005 to \$7.43 billion. Higher volume in all business segments contributed 12.0% of the growth. Revenue from acquisitions, including a 2004 Defense, Electronics and Services acquisition and foreign currency translations contributed the remaining 5.4% of the growth.

During 2004, the Company's sales and revenues increased 22.5% to \$6.33 billion. Approximately 12.9% of the growth was generated by the Company's existing businesses and reflects increased volume in all four segments. Contributions from acquisitions primarily by the Fluid Technology and Defense Electronics & Services segments accounted for growth of approximately 6.3% and foreign currency represented the remaining growth.

COSTS OF SALES AND REVENUES 2005 2004
2003 - -----

--- ----- (IN MILLIONS OF DOLLARS)
Costs of sales and revenues.....
\$5,389.9 \$4,575.5
\$3,733.1
Percentage of Sales.....
72.6% 72.3% 72.3%

The Company's costs of sales and revenues ("CGS") increased \$814.4 million or 17.8% in 2005 due to higher volume in all segments and contributions from a 2004 acquisition in the Defense Electronics & Services segment. CGS as a percentage of sales increased 30 basis points in 2005 reflecting increased contributions from the Defense Electronics & Services segment and manufacturing inefficiencies in the Electronic Components segment.

In 2004, CGS increased \$842.4 million, or 22.6% due to higher volume in all business segments and contributions from acquisitions in the Defense Electronics & Services and Fluid Technology segments. CGS as a percentage of sales was flat in 2004 compared to 2003.

SELLING, GENERAL AND ADMINISTRATIVE 2005 2004 2003 - -

----- (IN MILLIONS OF DOLLARS)
Selling, General and Administrative.....
\$1,071.2 \$963.4
\$788.6 Percentage of

Sales.....
 14.4% 15.2% 15.3%

Selling, general and administrative expenses ("SG&A") increased \$107.8 million, or 11.2% in 2005. The increase in SG&A expenses was primarily due to increased marketing expense in most segments, including expenses from a 2004 acquisition made by the Defense Electronics & Services segment, higher general and administrative expenses and the impact of foreign currency translation. Higher general and administrative costs reflect additional employee benefit costs, and the cost of process improvement initiatives.

SG&A expenses increased \$174.8 million, or 22.2% during 2004. The increase in SG&A expenses was primarily due to the impact of foreign currency translation, increased marketing expense in all segments, including expenses from five acquisitions, and higher general and administrative expenses. Higher general and administrative costs reflect additional employee benefit costs, the cost of process improvement initiatives, administrative expenses related to the 2004 acquisitions and increased other administrative expenses.

RESEARCH &
 DEVELOPMENT
 2005 2004
 2003 - ----

 ----- (IN
 MILLIONS OF
 DOLLARS)
 Internally
 funded.....
 \$177.6
 \$145.1
 \$115.2
 Percentage
 of
 Sales....
 2.4% 2.3%
 2.2% -----

 --

Research and Development expenses ("R&D") increased \$32.5 million, or 22.4% during 2005. The increase is attributable to increased spending in most segments. The increase in internally funded R&D reflects the Company's commitment to the development of new products and technology.

During 2004, Research and Development expenses increased \$29.9 million, or 26.0%. The increase is attributable to increased spending in all segments.

During the fourth quarter of 2005, the Company conducted a strategic review of the Electronic Components segment because certain businesses within the segment were experiencing lower than expected financial results. As a result of the study, the Company determined that certain long-lived assets and a portion of goodwill were impaired and recorded a \$222.7 million charge. As a result of the strategic review, described above, the Company has decided to dispose of the Switches component of the Electronic Components segment. The Company is in the process of preparing this business for sale. Additionally, during 2005, the Company recorded a \$72.0 million restructuring charge to reduce operating costs. During 2004, the Company recorded a \$34.9 million restructuring charge to streamline its operating structure. During 2003, the Company recorded a \$30.8 million restructuring charge to reduce operating costs and streamline its operating structure. See the section entitled "Restructuring and Asset Impairment Charges" and Note 4, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Financial Statements for additional information.

Operating income for the year ended December 31, 2005 was \$500.1 million, a decrease of \$109.5 million, or 18.0%, compared to \$609.6 million for 2004. The decrease is primarily due to the asset impairment and restructuring charges partially offset by improved operating profit at each of the segments. Segment operating margin for the year ended December 31, 2005 was 8.0%, or 290 basis points below the comparable prior year period. The variance in

segment operating margin is primarily due to increased restructuring and asset impairment charges. Operating income for 2004 was \$609.6 million, an increase of \$110.6 million, or 22.2%, compared to \$499.0 million for 2003. The increase is primarily due to improved sales and revenues at each of the segments offset by increased SG&A and R&D expenses. Segment operating margin for 2004 was 10.9%, which was relatively flat with the segment operating margin for the comparable 2003 period.

Interest expense during the year ended December 31, 2005 was \$75.0 million, an increase of \$24.6 million, or 48.8% from the comparable prior year period. This increase reflects higher interest rates and higher average debt balances (reflecting 2004 acquisitions). Additionally, the Company recognized \$42.7 million of interest income during the year ended December 31, 2005 compared to \$22.5 million during 2004. The increase of \$20.2 million, or 89.8%, primarily reflects the recognition of interest income during 2005 associated with tax settlements related to the closure of the IRS tax audit for the years 1998 through 2000. Interest expense was \$50.4 million in 2004 compared to \$43.2 million in 2003. Interest income was \$22.5 million for 2004 compared to \$53.3 million in the comparable prior year period. The variance in interest expense is primarily attributable to higher average debt balances, reflecting the impact of 2004 acquisitions. The reduction in interest income in 2004, compared to 2003, is primarily due to interest income of \$32.3 million, related to two 2003 tax settlements.

During 2004, the Company sold its interest in Mesh Networks, a technology company in the wireless telecommunications market, for \$31.2 million and recorded a gain on the transaction of \$19.8 million.

During the year ended December 31, 2005, income tax expense was \$133.7 million, or 18.8% less than the applicable prior year period. The variance primarily reflects the recognition of tax settlements relating to prior year tax filings. Lower taxable income during the year ended December 31, 2005 compared to 2004 also contributed to the variance. Income tax expense was \$164.7 million in 2004, an increase of \$34.4 million from the prior year period. The increase is primarily attributable to higher pretax income and an increase in the Company's effective tax rate. The increase in the effective tax rate from 26.2% in 2003 to 28.0% in 2004 is predominantly due to the occurrence and magnitude of one-time items in each of those years. In 2003, these one-time items included tax benefits realized from the filing of amended returns, foreign sales corporation redeterminations, the effects of the closing of the 1996 and 1997 IRS audit cycle and the settlement of IRS refund claims for the years 1986-1995. The one-time items occurring in 2004 included the filing of foreign sales corporation redeterminations, favorable foreign tax credit utilizations and the settlement of a claim. The tax benefits produced by the one-time items realized in 2003 exceeded those generated in 2004.

Income from continuing operations was \$314.4 million, or \$1.67 per diluted share for the year ended December 31, 2005 compared to \$420.1 million, or \$2.23 per diluted share for 2004. The decrease reflects the results discussed above. Income from continuing operations was \$420.1 million, or \$2.23 per diluted share in 2004, compared to \$370.3 million or \$1.97 per diluted share for 2003. The increase reflects the results discussed above.

During the year ended December 31, 2005, the Company recorded a cumulative effect of a change in accounting principle of \$6.5 million, net of a tax benefit of \$2.2 million. This is in accordance with FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations -- an Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 requires the liability recognition for conditional obligations associated with the retirement of a tangible long-lived asset.

During the year ended December 31, 2005, the Company recognized \$51.6 million of income from discontinued operations compared to income of \$12.2 million in the comparable prior year. The 2005 income primarily relates to the discontinued operations of the Company's automotive brake and fuel tubing and components businesses and a tax settlement offset by losses and asset write-downs associated with the Company's Network Systems & Services business and costs related to other discontinued operations. During 2004, the Company recognized \$12.2 million of income from discontinued operations. The 2004 income primarily relates to the discontinued operations of the Company's automotive brake and fuel tubing and components businesses offset by a 2004 loss from the discontinued operations of the Company's Network Systems & Services business. During 2003, the Company recognized \$33.6 million of income from discontinued operations. The 2003 income primarily related to the discontinued operations of the Company's automotive brake and fuel tubing and components businesses, as well as the collection of a disputed receivable related to the Company's disposed automotive businesses. Upon collection, the Company reversed the related valuation allowances, which had been previously established for the

assets, resulting in income of \$8.0 million.

SEGMENT REVIEW

REVENUE
 OPERATING
 INCOME
 OPERATING
 MARGIN ---

2005 2004
 2003 2005
 2004 2003
 2005 2004
 2003 (IN
 MILLIONS
 OF
 DOLLARS) -

Fluid
 Technology
 \$ 2,837.1
 \$2,594.1
 \$2,249.9 \$
 324.5
 \$285.9
 \$271.4
 11.4%
 11.0%
 12.1%

Defense
 Electronics
 & Services
 3,224.2
 2,414.0
 1,790.9
 363.7
 254.1
 187.1
 11.3%
 10.5%
 10.4%

Motion &
 Flow
 Control
 670.0
 633.8
 545.0
 119.7
 122.5
 100.5
 17.9%
 19.3%
 18.4%

Electronic
 Components
 708.9
 696.9
 585.7
 (216.7)
 29.5 14.7
 (30.6)%
 4.2% 2.5%

The Fluid Technology segment had revenues of \$2.84 billion, an increase of 9.4% from 2004. Revenue growth of 8.2% represented contributions from existing businesses, of which the water/wastewater treatment and industrial and biopharm businesses were the largest contributors. Revenues from acquisitions and foreign currency translation provided the remaining growth. During 2004 revenues increased \$344.2 million or 15.3% compared to 2003. Revenues from acquisitions contributed growth of 6.2% and foreign currency translation provided growth of 4.7%. The remaining revenue growth of 4.4% represented contributions from existing businesses including the water/wastewater, industrial products and fluid handling businesses.

Operating income increased \$38.6 million or 13.5% in 2005 compared to 2004. Higher volume and operational efficiencies represents 17.9% of growth. Foreign currency translation and acquisitions account for 0.6% of growth. Incremental restructuring costs (5.0%) partially offset the improvements. In 2004 operating income increased \$14.5 million, or 5.3% compared to 2003. Foreign currency translation represents 5.8% of growth and higher volume and operational efficiencies account for 2.8% of growth. Operating losses from 2004 acquisitions (1.7%) and incremental restructuring costs (1.6%) partially offset the improvements.

DEFENSE, ELECTRONICS & SERVICES

The Defense Electronics & Services segment increased revenues 33.6% in 2005 to \$3.22 billion. Higher volume in the tactical communications, night vision, and systems and services businesses represented 21.0% of the growth. A third quarter 2004 acquisition also contributed to the increase in revenues, accounting for 12.6% of the revenue growth. During 2004 revenues increased 34.8% to \$2.41 billion. Increased volume in all existing businesses represented 24.5% of the growth and the acquisition of the Remote Sensing Systems business ("RSS") accounted for 10.3% of revenue growth.

In 2005, operating income increased \$109.6 million or 43.1% compared to 2004. Higher volume, favorable mix reflecting increased contributions from the defense products businesses and positive experience on existing long term contracts represent 37.8% of growth. Additionally, 2004 acquisitions contributed 5.3% of growth. In 2004 operating income increased \$67.0 million, or 35.8%. Higher volume represents 29.3% of growth and 2004 acquisitions contributed 6.5% of growth.

MOTION & FLOW CONTROL

Motion & Flow Control revenues increased 5.7% to \$670.0 million. Increased volume in existing businesses, including the friction material, aerospace controls, marine and leisure businesses accounted for 4.6% of revenue growth. Revenue from a 2004 acquisition and foreign currency translation drive the remaining 1.1% of growth. In 2004 revenues were \$633.8 million, or 16.3% higher than 2003. Higher volume in existing businesses, including the friction products, aerospace controls and spa and whirlpool businesses contributed 8.6% of revenue growth. Foreign currency translation and acquisition revenue accounted for the remaining revenue growth of 7.7%.

Operating income decreased \$2.8 million or 2.3% in 2005 compared to 2004. Higher restructuring costs in 2005 decreased operating income by 5.6%. Higher volume resulted in 2.7% operating income growth and foreign currency translation accounted for the remaining growth of 0.6%. Operating income increased \$22.0 million, or 21.9% in 2004 compared to 2003. Higher volume resulted in income growth of 12.0%. A 2004 acquisition and foreign currency translation contributed 0.9% and 9.0% of income growth, respectively.

ELECTRONIC COMPONENTS

The Electronic Components segment's revenue increased 1.7% to \$708.9 million in 2005 primarily due to higher volume in commercial businesses, partially offset by lower volume in the industrial businesses. During 2004 revenue increased 19.0% to \$696.9 million. Higher volume in existing businesses contributed 14.6% of revenue growth and foreign currency translation accounted for 4.4% of growth.

Operating income decreased \$246.2 million in 2005 compared to 2004. The decrease reflects a \$222.7 million asset impairment charge in the Company's Switch business and incremental restructuring charges of \$12.9 million. Manufacturing inefficiencies also contributed to the decline in operating income. In 2004 operating income increased \$14.8 million compared to 2003. Higher

volume, product pruning and foreign currency translation contributed to the increase in income.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

2005 RESTRUCTURING ACTIVITIES

During 2005, the Company recognized a \$72.0 million restructuring charge. New actions represent \$70.7 million of the charge. Costs associated with actions announced during previous year plans represent \$1.3 million of the charge. The actions by segment are as follows:

- The Fluid Technology segment recorded \$29.7 million of severance costs for the termination of 474 employees, including 242 factory workers, 208 office workers and 24 management employees. Lease cancellation and other costs were \$0.9 million and \$0.8 million respectively. Additionally, assets write-offs totaling \$1.4 million were also recorded. The charges reflect a reduction in structural costs, including the closure of four facilities.
- The Electronic Components segment recorded \$25.8 million for the reduction of 1,246 employees, including 926 factory workers, 286 office workers and 34 management employees. Other costs totaling \$1.9 million, primarily representing contract termination costs, lease costs, and other were also recognized during the year. Asset write-offs associated with the restructuring actions totaled \$0.1 million. These actions reflect the continued reorganization of the segment, including the closure of three facilities.
- The Motion & Flow Control segment recognized \$8.9 million for the termination of 274 employees, including 163 factory workers, 97 office workers and 14 management employees. Other costs totaling \$0.6 million and lease costs of \$0.2 million were also recognized during the year. The headcount reductions relate to workforce reductions, the consolidation of functions, the transfer of functions from France to Holland, and the outsourcing of selected functions to Eastern Europe.
- Corporate headquarters recorded \$0.4 million for the termination of one management employee.

During 2005, the Company made \$33.8 million of payments attributable to 2005 restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented on an interim basis, if required, with commercial paper borrowings.

The projected future cash savings from the restructuring actions announced during 2005 are approximately \$64 million during 2006 and \$267 million between 2007 and 2010. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses".

2005 ASSET IMPAIRMENT CHARGES

During the fourth quarter of 2005, the Company conducted a strategic review of the Electronic Components segment because certain businesses within the segment were experiencing lower than expected financial results. As a result, the Company recorded an impairment charge amounting to \$8.3 million to write down certain long-lived assets to fair value. The applicable assets were written down to their fair values based upon management's comparison of projected future discounted cash flows generated by each asset to the applicable asset's carrying value. This impairment was unrelated to the Company's restructuring activities.

The long-lived asset impairment coupled with updated financial forecasts generated in the fourth quarter represented an indicator that goodwill may also be impaired. Accordingly, the Company assessed goodwill allocated to the Switches component of the Electronic Components segment and recorded an impairment charge of \$214.4 million in the fourth quarter of 2005. (Total asset impairment charges recorded in the Electronics Components segment in the fourth quarter of 2005 were \$222.7 million.) The estimated fair value of Switches was computed principally based upon the present value of future cash flows (Discounted Cash Flow Method), historical results and comparative market data. This impairment was also unrelated to the Company's restructuring activities.

As a result of the strategic review, described above, the Company has decided to dispose of the Switches component of the Electronic Components segment. The Company is in the process of preparing this business for sale.

2004 RESTRUCTURING ACTIVITIES

During 2004, the Company recognized \$34.9 million of restructuring charges. Of this amount, \$34.8 million related to new actions announced during 2004, primarily the planned severance of 1,235 employees and lease cancellation costs. Additionally, \$0.1 million of expenditures were incurred relating to actions announced prior to 2004.

The actions announced during 2004 by segment are as follows:

- The Fluid Technology segment recorded \$17.7 million for the planned termination of 211 employees, including 52 factory workers, 155 office workers and four management employees. Additionally, \$0.7 million of lease costs, \$0.6 million of asset write-offs and

\$0.7 million of other costs were also recognized during 2004. These charges include the impact of two facility closures (one in Sweden and one in Florida).

- The Electronic Components segment recorded a \$4.5 million charge for the recognition of lease cancellation costs and a \$4.5 million charge for the planned termination of 972 employees, including 883 factory workers, 84 office workers and five management employees. The segment also recorded \$1.1 million and \$0.8 million for the disposal of machinery and equipment, and other costs, respectively.
- The Motion & Flow Control segment recorded \$2.2 million for the planned termination of 49 employees, including 7 factory workers, 37 office workers and five management employees. Other costs totaling \$0.2 million were also recognized during 2004.
- Corporate headquarters recorded \$1.8 million for the planned termination of one office worker and two management employees.

During 2005, the Company made \$14.7 million of payments attributable to 2004 restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented on an interim basis, if required, with commercial paper borrowings.

The projected future cash savings from the restructuring actions announced during 2004 are approximately \$28 million during 2006 and \$81 million between 2007 and 2009. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses".

2003 RESTRUCTURING ACTIVITIES

During 2003, the Company recognized \$30.8 million of restructuring charges primarily related to the planned severance of 730 employees.

The actions announced during 2003 by segment are as follows:

- The Fluid Technology segment recorded \$12.9 million for the planned termination of 161 employees, including 52 factory workers, 104 office workers and five management employees. Additionally, \$0.5 million of lease costs, and \$0.4 million of other costs, including a \$0.2 million charge associated with the disposal of machinery and equipment, were also recognized during 2003.
- - The Electronic Components segment recorded \$11.7 million for the planned termination of 479 employees, including 263 factory workers, 199 office workers and 17 management employees. The segment also recorded other costs of \$0.5 million, primarily representing idle facility costs, and \$0.5 million of asset disposal costs.
- - The Motion & Flow Control segment recorded \$1.2 million for the planned termination of 51 employees, including 31 factory workers, 13 office workers and seven management employees. Lease termination costs totaling \$0.7 million, asset disposal costs of \$0.1 million, respectively, were also recognized during 2003.
- - The Defense Electronics & Services segment recorded \$1.0 million for the planned termination of 35 employees, including seven factory workers, 19 office workers and nine management employees.
- - Corporate headquarters recorded \$1.3 million for the planned termination of one office worker and three management employees.

During 2005, the Company made \$1.5 million of payments attributable to 2003 restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented on an interim basis, if required, with commercial paper borrowings.

The projected future cash savings from the restructuring actions announced during 2003 are approximately \$33 million during 2006 and \$65 million between 2007 and 2008. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses".

2003 ASSET IMPAIRMENT CHARGES

During 2003, the Company recorded a \$1.4 million asset impairment charge primarily for the write-off of 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.

ITT AUTOMOTIVE -- DISCONTINUED OPERATIONS

In September of 1998, the Company completed the sales of its automotive Electrical Systems business to Valeo SA for approximately \$1,700 million and its Brake and Chassis unit to Continental AG of Germany for approximately \$1,930 million. These dispositions were treated as discontinued operations. In connection with the sale of these businesses, the Company established accruals for taxes of \$972.7 million, representation and warranty and contract purchase price adjustments of \$148.8 million, direct costs and other accruals of \$102.0 million and environmental obligations of \$16.1 million.

-- Total \$
1,801.3 \$
606.0 \$ 398.8
\$ 133.7 \$
662.8
=====
=====
=====
=====
=====

- (1) See Note 16, "Debt," in the Notes to Consolidated Financial Statements, for discussion of the use and availability of debt and revolving credit agreements.
- (2) Refer to Note 15, "Leases and Rentals," in the Notes to Consolidated Financial Statements, for further discussion of lease and rental agreements.
- (3) The unconditional purchase commitments are principally take or pay obligations related to the purchase of certain raw materials and subcontract work.
- (4) Other long-term liabilities primarily consists of estimated environmental payments. The Company estimates, based on historical experience, that it will spend between \$8.0 million and \$11.0 million per year on environmental investigation and remediation of its approximately 58 sites. The Company is contractually required to spend a portion of these monies based on existing agreements with various governmental agencies and other entities. At December 31, 2005, the Company has calculated a best estimate to remediate ground water and soil of \$93.0 million and has recorded an accrual that approximates the estimate.

SOURCES AND USES OF CASH:

OPERATING

The Company generated \$745.8 million of cash from operating activities during 2005. Net income generated from continuing operations plus special charges (restructuring and asset impairment) and non-cash charges (depreciation and amortization) contributed approximately \$799.5 million of cash flow. The deferral of tax payments of \$89.8 million, the liquidation of interest rate swaps of \$69.5 million and increases in accounts payable and accrued expenses of \$124.1 million, were also positive contributors of cash. Increases in accounts receivable and inventory of \$192.0 million and \$18.0 million, respectively, reflecting increased sales volume, partially offset the cash generated from operations. Cash from operating activities during 2005 also reflects a \$100.0 million pre-funding of pension obligations of the U.S. Salaried Pension Plan.

The Company projects cash from operating activities to be between \$670.0 million and \$700.0 million for 2006.

INVESTING

ADDITIONS TO PLANT, PROPERTY AND EQUIPMENT:

Capital expenditures during 2005 were \$179.2 million, an increase of \$33.8 million from 2004. The increase primarily reflects increased investments by the

Defense Electronic & Services and Motion & Flow Control segments.

ACQUISITIONS:

2005 ACQUISITIONS

During 2005, the Company made one acquisition for \$29.7 million, which is included in the Fluid Technology segment.

The Company also paid a purchase price adjustment totaling \$28.5 million related to the 2004 acquisition of Remote Sensing Systems business ("RSS") and purchased additional shares of WEDECO, a company acquired in 2004 for \$10.8 million.

2004 ACQUISITIONS

On August 13, 2004, the Company purchased RSS for \$736.9 million 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 Company also spent \$273.1 million on acquisitions of four entities, including WEDECO, all of which are included in the Fluid Technology segment.

2003 ACQUISITIONS

During 2003, the Company spent \$46.2 million primarily for the acquisition of two entities, one in the Electronic Components segment and one in the Fluid Technology segment.

SALE OF INVESTMENTS:

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

During 2003, the Company sold substantially all its investment in a defense related business (DigitalGlobe Inc.) for \$43.5 million.

SALE OF PLANT, PROPERTY AND EQUIPMENT:

During 2005, the Company generated \$26.9 million of cash proceeds from the sale of plant, property and equipment primarily by the Electronic Components and Fluid Technology segments. This is primarily due to the sale of four properties at Electronic Components for \$17.1 million. The remaining \$9.8 million of cash proceeds represents plant, property and equipment sales across most segments.

During 2004, the Company generated \$7.2 million from the sale of plant, property and equipment primarily by the Electronic Components and Fluid Technology segments.

During 2003, the Company generated \$16.9 million of cash proceeds from the sale of plant, property and equipment. This is primarily due to the sale of land for \$7.3 million at Defense Electronics & Services and the sale of a building at Electronic Components for \$2.8 million. The remaining \$6.8 million of cash proceeds from the sale of assets represents plant, property and equipment sales across all businesses.

DIVESTITURES:

In the fourth quarter of 2005, the Company announced that it had signed a definitive agreement to sell its automotive brake & fuel tubing and components business to Cooper-Standard Automotive, a privately held company, for \$205 million in cash, subject to certain post-closing adjustments. The business, which is a component of the Company's Motion & Flow Control segment, manufactures steel and plastic tubing for fuel and brake lines, quick-connects, and serves the transportation industry.

On February 7, 2006, the Company completed the sale of this business to Cooper-Standard Automotive. The Company is in the process of finalizing certain calculations and expects after-tax gains on this transaction to be approximately \$25.0 million.

After completing a strategic review of the Electronic Components segment,

in the fourth quarter of 2005, the Company has decided to dispose of the Switches component of the Electronic Components segment, which accounts for approximately 50% of the segments revenue. The Company is in the process of preparing this business for sale.

FINANCING

December 31,

----- (in
millions)

2005 2004 - -

Cash & Cash equivalents \$	
451.0	\$ 262.9
Total Debt	
1,267.7	
1,272.0 Net	
Debt	816.7
1,009.1 Total	
Shareholders'	
Equity	
2,723.4	
2,343.0 Total	
Capitalization	
(debt plus	
equity)	
3,991.1	
3,615.0 Net	
Capitalization	
(debt plus	
equity less	
cash)	3,540.1
3,352.1 Debt	
to total	
capitalization	
31.8%	35.2%
Net debt to	
net	
capitalization	
23.1%	30.1%

SHARE REPURCHASES AND OTHER MATTERS:

In 2005, 2004, and 2003, the Company repurchased 6.6 million shares for \$334.4 million, 4.0 million shares for \$159.6 million, and 2.0 million shares for \$69.7 million, respectively, to offset the dilutive effect of exercised stock options.

On February 21, 2006, the Company effected a two-for-one stock split of its common stock. The financial statements, notes and other references to share and per share data have been restated to reflect the stock split for all periods presented.

DEBT AND CREDIT FACILITIES:

Debt at December 31, 2005 was \$1,267.7 million, compared with \$1,272.0 million at December 31, 2004. Cash and cash equivalents were \$451.0 million at December 31, 2005, compared to \$262.9 million at December 31, 2004.

In December 2004, the Company recorded a \$120.0 million obligation associated with a ten year agreement with a major financial institution-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 Company maintained two separate revolving credit agreements providing aggregate commitments of \$1.4 billion which expired in the fourth quarter of 2005. In November 2005, these two agreements were replaced by a five-year revolving credit agreement in the aggregate principal amount of \$1.25 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 3.5 times. At December 31, 2005, the Company's coverage ratio was well in excess of the minimum requirements. The commitment fee on the revolving credit agreements is 0.08% of the total commitment. The revolving credit agreements serve as backup for the commercial paper program. Borrowing through commercial paper and under the revolving credit agreements may not exceed \$1.25 billion in the aggregate outstanding at any time. At December 31, 2005 commercial paper borrowings were \$728.8 million.

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES & INDEMNITIES:

In September of 1998, the Company completed the sale of its automotive Electrical Systems business to Valeo SA for approximately \$1,700 million. 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 million. However, because of the lapse of time, or the fact that the parties have resolved certain issues, at December 31, 2005 the Company has an accrual of \$7.8 million which is its best estimate of the potential exposure.

In September of 1998, the Company completed the sale of its Brake and Chassis unit to Continental AG for approximately \$1,930 million. 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 million. However, because of the lapse of time, or the fact that the parties have resolved certain issues, at December 31, 2005 the Company has an accrual of \$14.0 million 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 ten years.

The Company provided a performance bond guarantee in the amount of \$10.0 million related to its real estate development activities in 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 million. At December 31, 2005, the Company has an accrual related to the expansion of a bridge in the amount of \$10.0 million.

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 million, 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, 2005, 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, 2005, that may be affected by various conditions and external 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.

CRITICAL ACCOUNTING POLICIES

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

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

ENVIRONMENTAL:

Accruals for environmental matters are recorded on a site by site basis when it is probable that a liability has been incurred and the amount can be reasonably estimated. The Company calculates the liability by utilizing a cost estimating and weighting matrix that separates costs into recurring and non-recurring categories. The Company then uses internal and external experts to assign confidence levels based on the site's development stage, type of contaminant found, applicable laws, existing technologies and the identification of other potentially responsible parties. This methodology produces a range of estimates, including a best estimate. At December 31, 2005, the Company's best estimate for environmental liabilities is \$93.0 million, which approximates the accrual related to the remediation of ground water and soil. The low range estimate for environmental liabilities is \$67.4 million and the high range estimate is \$149.2 million. On an annual basis the Company spends between \$8.0 million and \$11.0 million 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.

The Company is currently involved in the environmental investigation and remediation of 58 sites, including certain instances where it is considered to be a potentially responsible party by the United States Environmental Protection Agency ("EPA") or similar state agency.

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

In the event that future remediation expenditures are in excess of the amounts accrued, management does not anticipate that they will have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

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

EMPLOYEE BENEFIT PLANS:

The Company sponsors numerous employee pension and welfare benefit plans. The determination of projected benefit obligations and the recognition of expenses related to pension and other postretirement obligations are dependent on assumptions used in calculating these amounts. These assumptions include: discount rates, expected rates of return on plan assets, rate of future compensation increases, mortality, termination, health care

inflation trend rates (some of which are disclosed in Note 19, "Employee Benefit Plans," within the Notes to Consolidated Financial Statements), and other factors.

Key Assumptions

The Company determines its expected return on plan assets assumption by evaluating both historical returns and estimates of future returns. Specifically, the Company analyzes the Plan's actual historical annual return on assets over the past 10, 15, 20 and 25 years; makes estimates of future returns using a Capital Asset Pricing Model; and evaluates historical broad market returns over the past 75 years based on the Company's strategic asset allocation, which is detailed in Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements.

Based on the approach described above, the Company estimates the long-term annual rate of return on assets for domestic pension plans at 9.0%. For reference, the Company's actual geometric average annual return on plan assets for domestic pension plans stood at 11.4%, 12.3%, 12.0% and 12.0%, for the past 10, 15, 20, and 25 year periods, respectively. The Company's weighted average expected return on plan assets for all pension plans, including foreign affiliate plans, at December 31, 2005, is 8.89%.

The Company utilizes the assistance of its plan actuaries in determining the discount rate assumption. As a service to its clients, the plan actuaries have developed and published an interest rate yield curve comprised of AAA/AA bonds with maturities between zero and thirty years. The plan actuaries then discount the annual benefit cash flows of the Company's pension plan using this yield curve and develop a single-point discount rate matching the plan's characteristics.

As a result of this process, at December 31, 2005, the Company lowered the discount rate on its domestic pension plans, which represent about 90% of the Company's total pension obligations, from 6.00% to 5.75%. The Company's weighted average discount rate for all pension plans, including foreign affiliate plans, at December 31, 2005, is 5.64%. Also, at December 31, 2005, the Company lowered the discount rate on its postretirement welfare plans from 5.75% to 5.50%.

At December 31, 2005, the Company maintained its expected rate of future compensation increases for its domestic plan participants at 4.5%, based on recent historical experience and expectations for future economic conditions.

Assumption	2005	2004

-- Long-Term Rate of Return on Assets used to determine net periodic benefit cost	8.89%	8.86%
Discount Rate used to determine net periodic benefit cost	5.94%	6.18%
Discount Rate used to determine benefit obligation at December 31	5.64%	5.94%
Rate of future		

made over time through the pricing of the Company's products and services on U.S. Government contracts, and therefore, are recognized in the Defense Electronics & Services segment's net sales.

Funding requirements under IRS rules are a major consideration in making contributions to our pension plan. With respect to its qualified pension plans, the Company intends to contribute annually not less than the minimum required by applicable law and regulations. The Company contributed \$100.0 million in 2005, and an additional \$100.0 million in the first quarter of 2006 to the U.S. Master Trust for the U.S. Salaried Pension Plan. Furthermore, we currently estimate that we will not make significant additional contributions to the Company's U.S. Salaried Pension Plan during the remainder of 2006.

Assuming that current IRS contribution rules continue to apply in the future, and barring major disruptions in the equity and bond markets, the Company estimates that it will not be required to make mandatory contributions in the 2006 to 2007 timeframe.

Funded Status:

Funded status is derived by subtracting the value of the projected benefit obligations at December 31, 2005 from the end of year fair value of plan assets. The Company's U.S. Salaried Pension Plan represents approximately 80% of the Company's total pension obligation, and therefore the funded status of the U.S. Salaried Pension Plan has a considerable impact on the overall funded status of the Company's pension plans.

As more fully described in Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements, the funded status for the Company's U.S. Salaried Plan improved by \$121.4 million to \$(221.5) million at the end of 2005. Funded status for the Company's total pension obligations, including foreign and affiliate plans, improved by \$117.5 million to \$(623.3) million at the end of 2005.

Funded status at the end of 2006 will depend primarily on the actual return on assets during the year and the discount rate at the end of the year. The Company estimates that every 25 basis point change in the discount rate impacts the funded status of the U.S. Salaried Pension Plan, which represents about 80% of the Company's pension obligations, by approximately \$132 million. Similarly, every five percentage point change in the actual 2006 rate of return on assets impacts the same plan by approximately \$197 million.

Minimum Pension Liability:

SFAS No. 87 "Employers' Accounting for Pensions," ("SFAS No. 87"), requires that a minimum pension liability be recorded if a plan's market value of assets falls below the plan's accumulated benefit obligation.

At December 31, 2005, the Company's minimum pension liability recorded in shareholders' equity is \$(120.4) million. In 2005, the Company recorded an after-tax increase to its shareholders' equity of \$400.0 million due to the plan's improved funded status.

Future recognition or reversal of additional minimum pension liabilities will depend primarily on the rate of return on assets and the prevailing discount rate.

Pension Expense:

The Company recorded \$82.5 million of net periodic pension cost (\$83.0 million after considering the effects of curtailment losses and settlements) into its Consolidated Income Statement in 2005, compared with net periodic pension cost of \$59.9 million (\$63.2 million including curtailments) in 2004. As more fully described in Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements, the primary drivers behind the increase in the net periodic pension cost were the effect of the change in the discount rate and the increased amortization of past losses in 2005.

In 2006, the Company expects to incur approximately \$95.1 million of net periodic pension cost that will be recorded into its Consolidated Income Statement. The increase in net periodic pension cost is primarily due to the effect of the change in discount rate, and the higher amortization of past losses.

REVENUE RECOGNITION:

The Company recognizes revenue as services are rendered and when title transfers for products, subject to any special terms and conditions of specific

contracts. For the majority of the Company's sales, title transfers when products are shipped. Under certain circumstances, title passes when products are delivered. In the Defense Electronics & Services segment, certain contracts require the delivery, installation, testing, certification and customer acceptance before revenue can be recorded. Further, some sales are recognized when the customer picks up the product.

The Defense Electronics & Services segment typically recognizes revenue and anticipated profits under long-term, fixed-price contracts based on units of delivery or the completion of scheduled performance milestones. Estimated contract costs and resulting margins are recorded in proportion to recorded sales. During the performance of such contracts, estimated final contract prices and costs (design, manufacturing, and engineering and development costs) are periodically reviewed and revisions are made when necessary. The effect of these revisions to estimates is included in earnings in the period

in which revisions are made. There were no material revisions to estimates in the covered periods.

Accruals for estimated expenses related to warranties are made at the time products are sold or services are rendered. These accruals are established using historical information on the nature, frequency and average cost of warranty claims and estimates of future costs. Management believes the warranty accruals are adequate; however, actual warranty expenses could differ from estimated amounts. The accrual for product warranties at December 31, 2005 and 2004 was \$45.6 million and \$38.7 million, respectively. See Note 22, "Guarantees, Indemnities and Warranties," in the Notes to Consolidated Financial Statements for additional details.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 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 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 on January 1, 2006. The Company estimates that adoption of this statement will lead to the recognition of employee compensation equivalent to \$0.09 per share in 2006.

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 as of January 1, 2006. Adoption of SFAS No. 151 will not have a material effect on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces Accounting Principles Board ("APB") Opinion No. 20 "Accounting Changes," and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance that it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period specific effects or the cumulative effect of the change. SFAS No. 154 does not change the transition provisions of any existing pronouncement. SFAS No. 154 is effective for the Company for all accounting changes and corrections of errors made beginning January 1, 2006.

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 were actuarially equivalent based on the proposed regulations released in August 2004. The Company has now determined that a majority of its healthcare plans pass the test of actuarial equivalence and during the fourth quarter of 2005 made application to Centers for Medicare & Medicaid Services ("CMS") for the subsidy provided under the Medicare Modernization Act. Other than the effect of the subsidy, there was no expectation that retiree participation would be affected in the short-term given the nature of the Company's healthcare plans. See Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements for discussion of postretirement benefits.

In March 2005, the FASB issued Financial Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations". FIN 47 requires that

the entity recognize a liability for the fair value of a conditional asset retirement obligation at the point in time when that liability can be reasonably estimated. The majority of conditional asset retirement obligations incurred by the Company relates to asbestos-containing materials that exist in certain owned facilities. The adoption of FIN 47 resulted in the recording of a cumulative effect of a change in accounting principle of \$6.5 million, net of tax and a conditional asset-retirement obligation liability of \$11.2 million. Utilizing current period assumptions, the Company would have had liabilities for conditional asset-retirement obligations of

\$9.3 million and \$10.6 million at January 1, 2004 and December 31, 2004, respectively.

RISKS AND UNCERTAINTIES

ENVIRONMENTAL MATTERS:

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

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

2006 OUTLOOK:

Overall, the Company's revenues are expected to increase to \$7.82 billion to \$7.97 billion. Revenue growth in the Defense Electronics & Services segment is expected to improve to \$3.48 billion to \$3.54 billion driven by higher service volume, reflecting a broader range of offerings/capabilities. The Fluid Technology segment expects to grow revenues to \$2.96 billion to \$3.00 billion due to continued growth in the water/wastewater business. Revenues of \$675 million to \$695 million are expected in Motion & Flow Control reflecting growth in the aerospace controls and marine and leisure businesses, as well as expansion in the friction products business. The Electronic Components segment expects revenues of \$710 million to \$730 million.

Operating income is projected to increase between 65% and 70% in 2006 due to the revenue growth discussed above and improved operating margin as described below. Segment operating margin is projected to increase between approximately 410 and 420 basis points over 2005. The variance primarily reflects the recognition of a \$222.7 million asset impairment charge in 2005, the impact of process improvement initiatives and the pruning of lower margin products.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including within this Management's Discussion and Analysis of Financial Condition and Results of Operations (most particularly, material presented under "Executive Summary," "Liquidity and Capital Resources," "Critical Accounting Policies," "Risks and Uncertainties" and "2006 Outlook"), that are not historical facts, constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, in general, predict, forecast, indicate or imply future results, performance or achievements and generally use words so indicative. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Company and its businesses to be materially different from that expressed or implied by such forward-looking statements. Such factors may be described or referred to from time to time in filings made by the Company with the Securities and Exchange Commission. Included in those factors are the following: general economic and business conditions; foreign currency exchange rates; political, social and economic conditions and local regulations in the countries in which the Company conducts its businesses; government regulations and compliance therewith; demographic changes; sales and revenues mix; pricing levels; changes in sales and revenues to, or the identity of, significant customers; changes in technology; industry capacity and

production rates; ability of outside third parties to comply with their commitments; competition; capacity constraints; availability of raw materials and adequate labor; availability of appropriate professional expertise; availability of liquidity sufficient to meet the Company's needs; the ability to adapt to changes resulting from acquisitions and divestitures and to effect cost reduction programs; and various other factors referenced in this Management's Discussion and Analysis and under the caption "Risk Factors". In some areas the availability of energy sources may affect our production processes or customer demand for our products or

services. In addition to these factors, our business segments may be affected by the more specific factors referred to below.

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

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK EXPOSURES

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

On October 28, 2005, the Company terminated five interest rate swap contracts with an aggregate notional value of \$333.3 million. These contracts effectively converted fixed-rate debt to variable rate debt. The Company realized approximately \$77.8 million of proceeds from the transaction. Of the proceeds received, \$69.5 million represented the fair value of the contracts and \$8.3 million of accrued interest earned on the swap prior to the termination date. The fair value is being amortized over the remaining life of the notes as a reduction to interest expense. As of December 31, 2004, the swaps had a notional value of \$335.8 million and a carrying value of \$84.9 million, including \$3.3 million of accrued interest.

At December 31, 2005 and 2004, the Company's short-term and long-term debt obligations totaled \$1,267.7 million and \$1,272.0 million, respectively. In addition, the Company's cash balances at December 31, 2005 and 2004 were \$451.0 million and \$262.9 million, respectively. Based on these positions, and the Company's overall exposure to interest rates, changes of 44 and 24 basis points (equivalent to 10% of the Company's weighted average short-term interest rates, including the rates associated with the Company's interest rate swaps, at December 31, 2004) on the Company's cash and marketable securities and on its floating rate debt obligations and related interest rate derivatives would have a \$1.3 million and \$1.9 million effect on the Company's pretax earnings for the years ended December 31, 2005 and 2004, respectively. Increases of 59 and 48 basis points in long-term interest rates (equivalent to 10% of the Company's weighted average long-term interest rates at December 31, 2005 and 2004, respectively) would have a \$24.1 million and \$3.4 million reduction in the fair value of the Company's fixed rate debt as of December 31, 2005 and 2004, respectively.

The multinational operations of the Company are exposed to foreign currency exchange rate risk. The Company utilizes foreign currency denominated forward contracts to hedge against adverse changes in foreign exchange rates. Such contracts generally have durations of less than one year. The Company has utilized foreign currency denominated derivative instruments to selectively hedge certain transactions in foreign countries. During 2005 and 2004, the Company's largest exposures to foreign exchange rates existed primarily with the Euro, Swedish Krona, and British Pound against the U.S. Dollar. At December 31, 2005, the Company had six foreign currency derivative contracts outstanding for a total notional amount of \$120.5 million. A 10% depreciation of the Euro against all other currencies related to the Company's foreign currency derivatives, held as of December 31, 2005, would cause a net reduction of \$4.3 million of the fair value of such instruments. At December 31, 2004, the Company had eight foreign currency derivative contracts outstanding for a total notional amount of \$93.3 million. A 10% depreciation of the Euro against all other currencies related to the Company's foreign currency derivatives, held as of December 31, 2004, would cause a net reduction of \$0.5 million of the fair value of such instruments. The Company uses derivative instruments to hedge exposures and, as such, the quantification of the Company's market risk for foreign exchange financial instruments does not account for the offsetting impact of the Company's underlying investment and transactional positions.

See Note 18, "Financial Instruments," in the Notes to Consolidated Financial Statements for additional information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedule herein.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to the Form 10-K are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934 ("Act"), as amended. This section includes information concerning controls and controls evaluation referred to in the certifications. Part IV of this Form 10-K contains the report of Deloitte & Touche LLP ("Deloitte & Touche"), our independent registered public accounting firm, regarding the audit of the Company's internal control over financial reporting and of management's assessment of internal control over financial reporting set forth below. This section should be read in conjunction with the certifications and the Deloitte & Touche report.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company, with the participation of various levels of management, including the CEO and CFO, conducted an evaluation of effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005. On the basis of this review, management, including the CEO and the CFO, concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed in our reports filed under the Act is assembled, recorded, processed, summarized and reported within the time periods specified in the SEC's forms and reports, and to ensure that information required to be disclosed in the reports submitted under the Act is accumulated and communicated to our management, including our CEO and CFO, in a manner that allows timely decisions regarding required disclosure.

In 2002, the Company established a Disclosure Committee with responsibility for considering and evaluating the materiality of information and reviewing disclosure obligations on a timely basis. The Disclosure Committee meets regularly, reports to the General Counsel and the CFO and assists the CEO and the CFO in designing, establishing, reviewing and evaluating the Company's disclosure controls and procedures.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, completely, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America; (iii) provide reasonable assurance that Company receipts and expenditures are made only in accordance with the authorization of management and the directors of the Company, (iv) and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control -- Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of

its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2005, the Company maintained effective internal control over financial reporting.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, has been audited by Deloitte & Touche, our independent registered public accounting firm, as stated in their report which is included herein.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

The Company's management, including the CEO and the CFO, does not expect that our disclosure controls and procedures, because of inherent limitations, will prevent or detect all error and all fraud. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2005, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control -- Integrated Framework issued 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, 2005, 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, 2005, 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 9, 2006 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Stamford, Connecticut
March 9, 2006

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 with respect to directors is incorporated herein by reference to the portions of the definitive proxy statement for the Company's 2006 annual meeting of shareholders to be filed pursuant to Regulation 14A of the Exchange Act set forth under the captions "Election of Directors", "Information About the Board of Directors" and "Report of the Audit Committee".

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

ITT Industries has adopted corporate governance principles and charters for each of its standing committees. The principles address director qualification standards, responsibilities, access to management and independent advisors, compensation, orientation and continuing education, management succession principles and board and committee self-evaluation. The corporate governance principles and charters are available on the company's website at <http://www.itt.com/profile/govandcharters.asp>. A copy of the corporate governance principles and charters are also available to any shareholder who requests them from the Company's secretary.

ITT Industries has also adopted a written code of ethics, the "Code of Corporate Conduct," which is applicable to all ITT directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer, and Principal Accounting Officer and Controller and other executive officers identified pursuant to this Item 10 (collectively, the "Selected Officers"). In accordance with the SEC's rules and regulations, a copy of the code was filed as an exhibit to the 2002 Form 10-K and has been posted on our website and a copy of the code is also available to any shareholder who requests it. ITT Industries intends to disclose any changes in or waivers from its code of ethics applicable to any Selected Officer or director on its website at <http://www.itt.com>.

Pursuant to New York Stock Exchange ("NYSE") Listing Company Manual Section 303A.12(a), the Company submitted a Section 12(a) CEO Certification to the NYSE in 2005. The Company also filed with the SEC, as exhibits to the Company's current Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act for its Chief Executive Officer and Chief Financial Officer.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the portions of the definitive proxy statement referred to above in Item 10 set forth under the caption "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated herein by reference to the portions of the definitive proxy statement referred to above in Item 10 set forth under the captions "Beneficial Ownership of ITT Industries Common Stock" and "Equity Compensation Plan Information".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Item 14 is incorporated herein by reference to the portions of the definitive proxy statement referred to above in Item 10 set forth under the caption "Independent Auditor Fees".

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(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 pages II-2, II-3 and II-4 for a list of

the exhibits filed or incorporated herein as a part of this report.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PAGE ----
Report of
Independent
Registered
Public
Accounting
Firm F-2
Consolidated
Income
Statements
for the
years ended
December 31,
2005, 2004
and 2003 F-3
Consolidated
Statements
of
Comprehensive
Income for
the years
ended
December 31,
2005, 2004
and 2003 F-4
Consolidated
Balance
Sheets as of
December 31,
2005 and
2004 F-5
Consolidated
Statements
of Cash
Flows for
the years
ended
December 31,
2005, 2004
and 2003 F-6
Consolidated
Statements
of Changes
in
Shareholders'
Equity for
the years
ended
December 31,
2005, 2004
and 2003 F-7
Notes to
Consolidated
Financial
Statements
F-8 Business
Segment
Information
F-33
Geographical
Information
F-33 Sales
and Revenues
by Product
Category F-
34 Quarterly
Results for
2005 and
2004 F-35

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, 2005 and 2004, 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, 2005. 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 ITT Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, 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, 2005, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2006 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 9, 2006

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

Year Ended
December 31,

(IN MILLIONS,
EXCEPT PER
SHARE

AMOUNTS) 2005
2004 2003 - -

Sales and
revenues \$
7,427.3 \$
6,327.4 \$
5,163.5 -----

---- Costs of
sales and
revenues
5,389.9
4,575.5
3,733.1
Selling,
general and
administrative
expenses
1,071.2 963.4
788.6

Research and
development
expenses
177.6 145.1
115.2

Goodwill
impairment
214.4 - - -

Restructuring
and asset
impairment
charges, net
74.1 33.8
27.6 -----

- Total costs
and expenses
6,927.2
5,717.8
4,664.5 -----

Operating
income 500.1
609.6 499.0
Interest
income 42.7
22.5 53.3
Interest
expense 75.0
50.4 43.2
Gain on sale
of
investments -
- 20.8 - -

Miscellaneous
 expense
 (income) 19.7
 17.7 8.5 ----

 ----- Income
 from
 continuing
 operations
 before income
 tax expense
 448.1 584.8
 500.6 Income
 tax expense
 133.7 164.7
 130.3 -----

-- Income
 from
 continuing
 operations
 314.4 420.1
 370.3
 Cumulative
 effect of
 change in
 accounting
 principle,
 net of tax
 benefit of
 \$2.2 (6.5) --
 --

Discontinued
 operations:
 Income from
 discontinued
 operations,
 including tax
 benefit
 (expense) of
 \$37.6, \$(4.9)
 and \$(8.7)
 51.6 12.2
 33.6 -----

- Net income
 \$ 359.5 \$
 432.3 \$ 403.9

=====
 =====

EARNINGS PER
 SHARE(1)

Income from
 continuing
 operations:
 Basic \$ 1.70
 \$ 2.28 \$ 2.01
 Diluted \$
 1.67 \$ 2.23 \$
 1.97

Cumulative
 effect of
 change in
 accounting
 principle:
 Basic \$
 (0.03) \$ -- \$
 -- Diluted \$
 (0.03) \$ -- \$
 --

Discontinued
 operations:
 Basic \$ 0.28
 \$ 0.06 \$ 0.18
 Diluted \$
 0.27 \$ 0.06 \$
 0.18 Net

income: Basic
\$ 1.95 \$ 2.34
\$ 2.19
Diluted \$
1.91 \$ 2.29 \$
2.15 AVERAGE
COMMON SHARES
-- BASIC
184.6 184.6
184.2 AVERAGE
COMMON SHARES
-- DILUTED
188.5 188.8
188.2 -----

--- -----
--

(1) Restated for two-for-one stock split effective February 21, 2006.

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED
DECEMBER 31,
2005 -----

PRETAX
(EXPENSE)
TAX AFTER-
TAX (IN
MILLIONS)
INCOME
(EXPENSE)
AMOUNT - ---

--- NET
INCOME \$
359.5 OTHER
COMPREHENSIVE
INCOME
(LOSS):
FOREIGN
CURRENCY
TRANSLATION
ADJUSTMENTS
\$ (188.9) \$
-- (188.9)
UNREALIZED
GAIN ON
INVESTMENT
SECURITIES
AND CASH
FLOW HEDGES
0.1 -- 0.1
MINIMUM
PENSION
LIABILITY
617.4
(217.4)
400.0 -----

----- OTHER
COMPREHENSIVE
INCOME
(LOSS) \$
428.6 \$
(217.4)
211.2 -----

COMPREHENSIVE
INCOME \$
570.7
=====

Year Ended
December 31,
2004 -----

Pretax Tax
After-Tax
(In

Millions)
 Income
 (Expense)
 Amount - ---

 --- Net
 income \$
 432.3 Other
 comprehensive
 income
 (loss):
 Foreign
 currency
 translation
 adjustments
 \$ 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 -----

 Pretax Tax
 After-Tax
 (In
 Millions)
 Income
 (Expense)
 Amount - ---

 --- Net
 income \$
 403.9 Other
 comprehensive
 income
 (loss):
 Foreign
 currency
 translation
 adjustments
 \$ 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
 =====

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,

(IN MILLIONS,
EXCEPT SHARE
AND PER SHARE
AMOUNTS) 2005
2004 - -----

---- ASSETS

Current

Assets: Cash
and cash
equivalents \$
451.0 \$ 262.9
Receivables,
net 1,273.7
1,110.9
Inventories,
net 666.9
685.7 Current
assets of
discontinued
operations
236.6 262.0
Deferred
income taxes
73.7 107.1
Other current
assets 70.1
59.7 -----

-- Total
current
assets
2,772.0

2,488.3 -----

----- Plant,
property and
equipment,
net 841.0
872.0

Deferred
income taxes
87.5 209.6
Goodwill, net
2,253.9

2,492.0 Other
intangible
assets, net
214.8 236.8
Other assets
894.2 983.9 -

Total non-
current
assets
4,291.4

4,794.3 -----

----- TOTAL

ASSETS \$
7,063.4 \$
7,282.6

=====

=====

LIABILITIES

AND
 SHAREHOLDERS'
 EQUITY
 Current
 Liabilities:
 Accounts
 payable \$
 799.6 \$ 688.1
 Accrued
 expenses
 748.4 698.9
 Accrued taxes
 187.1 283.1
 Notes payable
 and current
 maturities of
 long-term
 debt 751.4
 729.2 Current
 liabilities
 of
 discontinued
 operations
 65.4 69.7
 Other current
 liabilities
 8.5 2.0 -----

 ----- Total
 current
 liabilities
 2,560.4
 2,471.0 -----

 ----- Pension
 benefits
 432.6 1,063.2
 Postretirement
 benefits
 other than
 pensions
 305.5 298.8
 Long-term
 debt 516.3
 542.8 Other
 liabilities
 525.2 563.8 -

 Total non-
 current
 liabilities
 1,779.6
 2,468.6 -----

 ----- TOTAL
 LIABILITIES
 4,340.0
 4,939.6
 Shareholders'
 Equity:(1)
 Common stock:
 Authorized --
 250,000,000
 shares, \$1
 par value per
 share
 outstanding -
 - 184,637,920
 shares and
 184,578,226
 shares 184.6
 184.6
 Retained
 earnings
 2,666.0
 2,496.8
 Accumulated
 other
 comprehensive
 (loss)

income:	
Unrealized	
loss on	
investment	
securities	
and cash flow	
hedges (0.5)	
(0.6) Minimum	
pension	
liability	
(120.4)	
(520.4)	
Cumulative	
translation	
adjustments	
(6.3) 182.6 -	

Total	
accumulated	
other	
comprehensive	
loss (127.2)	
(338.4) -----	

----- Total	
shareholders'	
equity	
2,723.4	
2,343.0 -----	

----- TOTAL	
LIABILITIES	
AND	
SHAREHOLDERS'	
EQUITY \$	
7,063.4 \$	
7,282.6	
=====	
=====	

(1) Restated for two-for-one stock split effective February 21, 2006.

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended
December 31,

--- (IN
MILLIONS)
2005 2004
2003 - -----

- OPERATING
ACTIVITIES
Net income \$
359.5 \$
432.3 \$
403.9

Cumulative
effect of
change in
accounting
principle
6.5 -- --

Income from
discontinued
operations
(51.6)
(12.2)
(33.6) -----

Income from
continuing
operations
314.4 420.1
370.3

Adjustments
to income
from
continuing
operations:
Depreciation
and
amortization
196.6 175.1
162.3

Restructuring
and asset
impairments
288.5 33.8
27.6

Payments for
restructuring
(50.4)
(29.3)
(21.6)

Change in
receivables,
inventories,
payables,
and accrued
expenses
(85.9)

(89.4) 6.5
Change in
accrued and
deferred

taxes 89.8
 101.9 168.0
 Change in
 other
 current and
 non-current
 assets
 (16.3)
 (54.9)
 (201.8)
 Change in
 other non-
 current
 liabilities
 7.5 (56.1)
 24.5 Other,
 net 1.6
 (14.5) 2.2 -

Net Cash --
 operating
 activities
 745.8 486.7
 538.0 -----

INVESTING
 ACTIVITIES

Additions to
 plant,
 property and
 equipment
 (179.2)
 (145.4)
 (136.3)
 Acquisitions,
 net of cash
 acquired
 (69.0)
 (1,010.0)
 (46.2)
 Proceeds
 from sale of
 assets and
 businesses
 26.9 7.2
 16.9 Sale of
 investments
 -- 24.9 43.5
 Other, net
 (2.2) 0.2
 (2.0) -----

----- Net
 Cash --
 investing
 activities
 (223.5)
 (1,123.1)
 (124.1) -----

FINANCING
 ACTIVITIES

Short-term
 debt, net
 26.6 554.2
 (144.1)
 Long-term
 debt repaid
 (18.4)
 (68.7)
 (42.7) Long-
 term debt
 issued 0.4
 120.3 0.3

Repurchase
 of common
 stock
 (334.4)
 (159.6)
 (69.7)
 Proceeds
 from
 issuance of
 common stock
 151.9 76.8
 45.3
 Dividends
 paid (65.6)
 (61.8)
 (58.0)
 Other, net
 (0.3) (0.2)

 -- Net Cash
 -- financing
 activities
 (239.8)
 461.0
 (268.9) -----

EXCHANGE
 RATE EFFECTS
 ON CASH AND
 CASH
 EQUIVALENTS
 (25.1) 17.6
 35.4 NET
 CASH --

DISCONTINUED
 OPERATIONS
 OPERATING
 ACTIVITIES
 (64.1) 26.2
 48.6 NET
 CASH --

DISCONTINUED
 OPERATIONS
 INVESTING
 ACTIVITIES
 (5.2) (19.7)
 (17.0) -----

----- Net
 change in
 cash and
 cash
 equivalents
 188.1
 (151.3)
 212.0 Cash
 and cash
 equivalents
 -- beginning
 of year
 262.9 414.2
 202.2 -----

----- CASH
 AND CASH
 EQUIVALENTS
 -- END OF
 YEAR \$ 451.0
 \$ 262.9 \$
 414.2

=====
 =====
 =====
 SUPPLEMENTAL
 DISCLOSURES

OF CASH FLOW
 INFORMATION
 Cash paid
 during the
 year for:
 Interest \$
 73.8 \$ 45.2
 \$ 43.9
 Income taxes
 (net of
 refunds
 received) \$
 43.9 \$ 70.1
 \$ (26.6) ---

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Shares
Outstanding
Dollars Year
Ended
December 31,

----- (IN
MILLIONS,
EXCEPT PER
SHARE
AMOUNTS)
2005 2004
2003 2005
2004 2003 -

--- COMMON
STOCK(1)
Beginning
balance
184.6 184.6
183.6 \$
184.6 \$
184.6 \$
183.6 Stock
incentive
plans 6.6
4.0 3.0 6.6
4.0 3.0
Repurchases
(6.6) (4.0)
(2.0) (6.6)
(4.0) (2.0)

Ending
balance
184.6 184.6
184.6 \$
184.6 \$
184.6 \$
184.6

=====
=====
=====

RETAINED
EARNINGS(1)
Beginning
balance \$
2,496.8 \$
2,184.8 \$
1,847.3 Net
income 359.5
432.3 403.9

Cash
 dividend
 declared on
 common stock
 -- \$0.36,
 \$0.34 and
 \$0.32 (66.5)
 (62.8)
 (59.0)
 Issuances
 (repurchases)
 (123.8)
 (57.5) (7.4)

 Ending
 balance \$
 2,666.0 \$
 2,496.8 \$
 2,184.8 ----

ACCUMULATED
 OTHER
 COMPREHENSIVE
 LOSS Minimum

Pension
 Liability:
 Beginning
 balance \$
 (520.4) \$
 (602.2) \$
 (784.7)
 Recognition
 of minimum
 pension
 liability
 400.0 81.8
 182.5 -----

 ----- Ending
 balance \$
 (120.4) \$
 (520.4) \$
 (602.2) ----

Unrealized
 Loss on
 Investment
 Securities
 and Cash

Flow Hedges:
 Beginning
 balance \$
 (0.6) \$
 (0.6) \$
 (1.7)

Unrealized
 gain (loss)
 0.1 -- 1.1 -

 Ending
 balance \$
 (0.5) \$
 (0.6) \$
 (0.6) -----

Cumulative
 Translation
 Adjustments:
 Beginning
 balance \$

182.6	\$	81.1
	\$	(107.2)
Translation of foreign currency financial statements		
		(188.9)
101.5		188.3

Ending		
balance \$		
		(6.3)
182.6	\$	81.1

Total		
accumulated		
other		
comprehensive		
loss \$		
		(127.2)
		(338.4)
		(521.7)

TOTAL		
SHAREHOLDERS'		
EQUITY \$		
2,723.4	\$	
2,343.0	\$	
1,847.7		
=====		
=====		
=====		

(1) Restated for two-for-one stock split effective February 21, 2006.

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT SHARE AND 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. RD&E costs not specifically covered by contracts are charged to expense as incurred. RD&E costs incurred under contracts with customers are charged directly to the related contracts and are reported as a component of cost of sales and revenues.

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 10.5% and 11.1% of total 2005 and 2004 inventories, respectively. There would not have been a material difference in the value of inventories if the FIFO method had been used by the Company to value all inventories.

LONG-LIVED ASSET IMPAIRMENT LOSSES:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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. See Note 13, "Goodwill and Other Intangible Assets," for a description of the Company's goodwill and other intangible assets.

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 expenses and were \$1.9, \$(0.6) and \$4.0 in 2005, 2004, and 2003, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS:

The Company uses a variety of derivative financial instruments, including interest rate swaps and foreign currency forward contracts and/or swaps, as a means of hedging exposure to interest rate and foreign currency risks. Changes in the spot rate of instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustments component of shareholders' equity. The Company and its subsidiaries are end-users and do not utilize these instruments for speculative purposes. The Company has rigorous standards regarding the financial stability and credit standing of its major counterparties.

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

Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net payments are recognized as an adjustment to interest. When the swaps are terminated, unrealized gains or losses are 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 are 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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Accruals for environmental liabilities are generally included in other liabilities in the Consolidated Balance Sheets at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties. Recoveries from insurance companies or other third parties are included in other assets when it is probable that a claim will be realized.

STOCK-BASED EMPLOYEE COMPENSATION:

At December 31, 2005, 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:

2005	2004
2003 - ----	

-- Net	
income As	
reported	
\$359.5	
\$432.3	
\$403.9	
Deduct:	
Total	
stock-based	
employee	
compensation	
expense	
determined	
under the	
fair value	
based	
method for	
awards not	
reflected	
in net	
income --	
net of tax	
(27.4)	
(22.1)	
(6.0) -----	

---- Pro	
forma net	
income	
\$332.1	
\$410.2	
\$397.9	
Basic	
earnings	
per share	
As reported	
\$ 1.95 \$	
2.34 \$ 2.19	
Pro forma	
1.80 2.22	
2.16	
Diluted	
earnings	
per share	
As reported	
\$ 1.91 \$	

2.29 \$ 2.15
Pro forma
1.76 2.17
2.11 -----

--

The fair value of each option grant was estimated on the date of grant using the binomial lattice pricing model in 2005, and the Black-Scholes option-pricing model in 2004 and 2003. The following weighted-average assumptions for grants in 2005, 2004 and 2003 were: dividend yield of 0.78%, 1.39% and 1.57%, respectively; expected volatility of 23.09%, 25.77% and 28.72%, respectively; expected life of 4.6 years, 6.0 years, and 6.0 years, respectively; and risk-free interest rates of 4.02%, 3.71% and 3.37%, 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, 2005, 2004 and 2003 were \$3.2, \$1.6, and \$0.7, respectively.

EARNINGS PER SHARE:

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

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.

On February 21, 2006, the Company effected a two-for-one stock split of its common stock. The financial statements, notes and other references to share and per share data have been restated to reflect the stock split for all periods presented.

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 SFAS 123R require the recognition of employee services received in exchange for awards of equity instruments based on the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 123R is effective for the Company beginning January 1, 2006.

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 as of January 1, 2006. Adoption of SFAS No. 151 will not have a material effect on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces Accounting Principles Board ("APB") Opinion No. 20 "Accounting Changes," and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance that it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period specific effects or the cumulative effect of the change. SFAS No. 154 does not change the transition provisions of any existing pronouncement. SFAS No. 154 is effective for the Company for all accounting changes and corrections of errors made beginning January 1, 2006.

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, "Employers' Disclosures about Pensions and Other Postretirement Benefits." 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. The Company has now determined that a majority of its healthcare plans pass the test of actuarial equivalence and during the fourth quarter of 2005 made application to Centers for Medicare & Medicaid Services ("CMS") for the subsidy provided under the Medicare Modernization Act. Other than the effect of the subsidy, there was no expectation that retiree participation would be affected in the short-term given the nature of the Company's healthcare plans. See Note 19, "Employee Benefit Plans," for discussion of postretirement benefits.

In March 2005, the FASB issued Financial Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations". FIN 47 requires that the entity recognize a liability for the fair value of a conditional asset retirement obligation at the point in time when that liability can be reasonably estimated. The majority of conditional asset retirement obligations incurred by the Company relate to asbestos containing materials that exist in certain owned facilities. The adoption of FIN 47 resulted in the recording of a cumulative effect of a change in accounting principle of \$6.5, net of tax and a conditional asset retirement obligation liability of \$11.2. Utilizing current period assumptions, the Company would have had liabilities for conditional asset retirement obligations of \$9.3 and \$10.6 at January 1, 2004 and December 31, 2004, respectively.

NOTE 3

ACQUISITIONS

2005 ACQUISITIONS

During 2005, the Company spent \$69.0 for acquisitions. Of this amount, \$29.7 was paid for Phelps, the largest U.S. distributor of products sold under ITT's Flygt brand for the wastewater pumping and treatment market. The Company has preliminarily assigned values to the assets and liabilities of Phelps, however, the allocation is subject to further refinement.

The Company also paid a purchase price adjustment totaling \$28.5 related to the 2004 acquisition of Remote Sensing Systems business ("RSS") and purchased additional shares of WEDECO AG Water Technology ("WEDECO"), a company acquired in 2004 for \$10.8.

In addition, the Company finalized purchase price allocations related to other acquisitions, which resulted in an increase of goodwill of \$11.1.

F-11

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2004 ACQUISITIONS

On August 13, 2004, the Company purchased 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.

As of December 31, 2005, the excess of the purchase price of RSS over the fair value of net assets acquired of \$640.1 was recorded as goodwill as of December 31, 2005 and \$626.0 is deductible for tax purposes. The entire goodwill balance is reflected in the Defense Electronics & Services segment.

Intangible assets of \$124.9 were recorded as part of the acquisition. This balance 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 10 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, 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., 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.

As of December 31, 2005, the excess of the purchase price over the fair value of net assets acquired in these transactions of \$235.6 was recorded as goodwill, of which \$229.3, \$3.4 and \$2.9 are reflected in the Fluid Technology, Defense Electronics & Services and Motion & Flow Control segments, respectively.

Intangible assets relating to the acquisitions of WEDECO and AOA, totaled \$54.9. This amount includes \$26.2 of proprietary technology and other identifiable intangible assets (amortized over 15 years), \$17.8 of customer relationships (amortized over 10 years), and \$10.9 of indefinite-lived tradenames.

During 2004, the Company also finalized purchase price allocations related to the 2003 acquisitions, which resulted in an increase in goodwill of \$1.5.

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. 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 Statements 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.

As of December 31, 2005, the excess of the purchase price over the fair value of net assets acquired in these transactions of \$31.0 was recorded as goodwill, of which \$24.0, \$5.9 and \$1.1 are reflected in the Electronic Components, Fluid Technology, and Motion & Flow Control segments, respectively.

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

NOTE 4

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

2005 RESTRUCTURING ACTIVITIES

During 2005, the Company recognized a \$72.0 restructuring charge. New actions represent \$70.7 of the charge. Costs associated with previous year plans represent \$1.3 of the charge.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The actions announced during 2005 by segment are as follows:

- - The Fluid Technology segment recorded \$29.7 of severance costs for the termination of 474 employees, including 242 factory workers, 208 office workers and 24 management employees. Lease cancellation and other costs were \$0.9 and \$0.8, respectively. Additionally, asset write-offs totaling \$1.4 were also recorded. The charges reflect a reduction in structural costs, including the closure of four facilities.
- - The Electronic Components segment recorded \$25.8 for the reduction of 1,246 employees, including 926 factory workers, 286 office workers and 34 management employees. Other costs totaling \$1.9, primarily representing contract termination costs, lease costs, and other were also recognized during the year. Asset write-offs associated with the restructuring actions totaled \$0.1. These actions reflect the continued reorganization of the segment, including the closure of three facilities.
- - The Motion & Flow Control segment recognized \$8.9 for the termination of 274 employees, including 163 factory workers, 97 office workers and 14 management employees. Other costs totaling \$0.6 and lease costs of \$0.2 were also recognized during the year. The headcount reductions relate to workforce reductions, the consolidation of functions, the transfer of functions from France to Holland, and the outsourcing of selected functions to Eastern Europe.
- - Corporate headquarters recorded \$0.4 for the termination of one management employee.

2005 OTHER ASSET IMPAIRMENTS

During the fourth quarter of 2005, the Company determined that certain businesses within the Electronic Components segment were experiencing lower than expected financial results and as a result certain long-lived assets of those businesses may be impaired. After revising the earnings forecast for these businesses to reflect current business conditions, the Company recorded an impairment charge of \$8.3 million relating to the long-lived assets. These events and circumstances also caused the Company to record an impairment charge for goodwill relating to the same business unit. See Note 13, "Goodwill and Other Intangible Assets," for further discussion of the goodwill impairment charge.

2004 RESTRUCTURING ACTIVITIES

During 2004, the Company recognized \$34.9 of restructuring charges. Of this amount, \$34.8 related to new actions announced during 2004, primarily the planned severance of 1,235 employees and lease cancellation costs. Additionally, \$0.1 of expenditures were incurred relating to actions announced prior to 2004.

The actions announced during 2004 by segment are as follows:

- - The Fluid Technology segment recorded \$17.7 for the planned termination of 211 employees, including 52 factory workers, 155 office workers and four management employees. Additionally, \$0.7 of lease costs, \$0.6 of asset write-offs and \$0.7 of other costs were also recognized during 2004. These charges include the impact of two facility closures (one in Sweden and one in Florida).
- - The Electronic Components segment recorded a \$4.5 charge for the recognition of lease cancellation costs and a \$4.5 charge for the planned termination of 972 employees, including 883 factory workers, 84 office workers and five management employees. The segment also recorded \$1.1 and \$0.8 for the disposal of machinery and equipment, and other costs, respectively.
- - The Motion & Flow Control segment recorded \$2.2 for the planned termination of 49 employees, including seven factory workers, 37 office workers and five management employees. Other costs totaling \$0.2 were also recognized during 2004.
- - Corporate headquarters recorded \$1.8 for the planned termination of one office worker and two management employees.

2003 RESTRUCTURING ACTIVITIES

During 2003, the Company recognized \$30.8 of restructuring charges primarily related to the planned severance of 730 employees.

The actions announced during 2003 by segment are as follows:

- - The Fluid Technology segment recorded \$12.9 for the planned termination of 161 employees, including 52 factory workers, 104 office workers and five management employees. Additionally, \$0.5 of lease costs, and \$0.4 of other costs, including a \$0.2 charge associated with the disposal of machinery and equipment, were also recognized during 2003.
- - The Electronic Components segment recorded \$11.7 for the planned termination of 479 employees, including 263 factory workers, 199 office workers and 17 management employees. The segment also recorded other costs of \$0.5, primarily representing idle facility costs, and \$0.5 of asset disposal costs.

F-13

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- - The Motion & Flow Control segment recorded \$1.2 for the planned termination of 51 employees, including 31 factory workers, 13 office workers and seven management employees. Lease termination costs totaling \$0.7, asset disposal costs of \$0.1, respectively, were also recognized during 2003.
- - The Defense Electronics & Services segment recorded \$1.0 for the planned termination of 35 employees, including seven factory workers, 19 office workers and nine management employees.
- - Corporate headquarters recorded \$1.3 for the planned termination of one office worker and three management employees.

2003 OTHER ASSET IMPAIRMENTS

During 2003, the Company recorded a \$1.4 asset impairment charge primarily for the write-off of 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.

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

Defense		
Motion		
Fluid		
Electronics		
& Flow		
Electronic		
Corporate		
Technology		
& Services		
Control		
Components		
and Other		
Total - ---		

--- Balance		
January 1,		
2003 \$ 6.5		
\$ -- \$ 1.4		
\$ 4.4 \$ 0.9		
\$ 13.2		
Payments		
and other		
related to		
prior		
charges		
(5.3) --		
(1.4) (2.1)		
(0.8) (9.6)		
Reversals		
of prior		
charges --		
-- (0.1)		
(0.9) --		
(1.0) 2003		
charges		
13.6 1.0		
1.9 12.2		
1.3 30.0		
Reversal of		
2003		
charges --		

-- -- (3.4)
-- (3.4)
Payments
and other
related to
the 2003
charges
(3.5) (0.2)
(0.7) (6.7)
(0.6)
(11.7) ----

Balance
December
31, 2003 \$
11.3 \$ 0.8
\$ 1.1 \$ 3.5
\$ 0.8 \$
17.5 -----

Additional
charges for
prior year
plans -- --
-- 0.1 --
0.1

Payments
and other
related to
prior
charges
(9.9) (0.7)
(0.7) (2.2)
(0.6)
(14.1)

Reversals
of prior
charges
(0.4) -- --
(0.5) --
(0.9) 2004
charges
19.1 -- 2.4
9.8 1.8
33.1

Reversal of
2004
charges --
-- (0.1) --
(0.1) (0.2)

Payments
and other
related to
the 2004
charges
(9.0) --
(0.7) (4.5)
(0.8)
(15.0) ----

Balance
December
31, 2004 \$
11.1 \$ 0.1
\$ 2.0 \$ 6.2
\$ 1.1 \$


```

-- $(0.8) $
-- Accrued
  Expenses
20.6 (1.7) -
- (1.2) 17.7
Environmental
14.5 (0.1) -
- (0.2) 14.2
  Income Tax
154.2 -- --
-- 154.2 ---
-----
-----
-----
-----
-----
Total $190.1
$(1.8) $ --
  $(2.2)
  $186.1
=====
=====
=====
=====
=====

```

In 2003, the Company reassessed its obligations related to the disposal of the automotive businesses and determined that it would spend \$2.2 less on the disposition, related to favorable spending on professional fees and adjustments to its environmental exposures. Based on this assessment, \$2.2 was reversed into the 2003 Consolidated Income Statement under income from discontinued operations.


```

-----
-----
-----
-----
----- OTHER
DEFERRED
LIABILITIES
$ -- $ -- $
-- $ -- $ --
ACCRUED
EXPENSES
20.4 -- -- -
- 20.4
ENVIRONMENTAL
14.1 (0.1) -
- -- 14.0
INCOME TAX
154.2
(100.6) --
(53.6) -- --
-----
-----
-----
- TOTAL
$188.7
$(100.7) $ -
- $(53.6)
$34.4
=====
=====
=====
=====
=====

```

FHS -- DISCONTINUED OPERATIONS

In the fourth quarter of 2005, the Company announced that it had signed a definitive agreement to sell its automotive brake & fuel tubing and components business to Cooper-Standard Automotive, a privately held company, for \$205 in cash, subject to certain post-closing adjustments. The business, which is a component of the Company's Motion & Flow Control segment, manufactures steel and plastic tubing for fuel and brake lines, quick-connects, and serves the transportation industry.

On February 7, 2006, the Company completed the sale of this business to Cooper-Standard Automotive subject to certain post-closing adjustments. The Company expects the after-tax gain on this transaction to approximate \$25.0.

Revenues associated with this discontinued operation were \$417.4, \$436.7 and \$447.3 for 2005, 2004 and 2003, respectively. Pretax income associated with this discontinued operation were \$28.0, \$25.3, and \$34.8 for 2005, 2004 and 2003, respectively.

The following table presents balance sheet information for businesses held for sale including FHS and NS&S:

```

2005 2004 -
-----
-----
-----
-----
-----
-----
-----
Receivables,
net $ 68.9
$ 67.9
Inventories,
net 23.2
26.1
Prepaid
expenses
and other
current
assets 11.7
10.7
Property,
plant and
equipment,
net 106.2
109.4

```

Goodwill		
and		
intangible		
assets, net	15.9	22.1
Other		
assets	10.7	
	25.8	-----

Total		
assets	\$236.6	
	\$262.0	
	=====	
	=====	
Accounts		
payable	\$ 30.3	\$ 33.5
Accrued		
expenses	17.1	19.1
Other		
liabilities	18.0	17.1
	-----	-----
- Total		
liabilities	\$ 65.4	\$
	69.7	=====
	=====	

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, ----		

2005		
2004		
2003 - -		

-		
Product		
sales	\$5,936.8	
	\$5,108.3	
	\$4,285.1	
Service		
revenues	1,490.5	
	1,219.1	
	878.4	--

Total		
sales	\$7,427.3	
and	\$6,327.4	
revenues	\$5,163.5	

```

=====
=====
=====
Costs of
product
sales
$4,140.3
$3,503.5
$2,957.9
Costs of
service
revenues
1,249.6
1,072.0
775.2 --
-----
-----
- -----
---
Total
costs of
sales
and
revenues
$5,389.9
$4,575.5
$3,733.1
=====
=====
=====

```


87.9 -----

 \$186.9 \$
 99.4 \$
 30.9 -----

 Deferred
 U.S.
 federal
 \$(50.9) \$
 61.7
 \$118.2
 State and
 local
 (0.2)
 (1.3)
 (2.7)
 Foreign
 (2.1) 4.9
 (16.1) ---

 \$(53.2) \$
 65.3 \$
 99.4 -----

 Total
 income tax
 expense
 \$133.7
 \$164.7
 \$130.3
 =====
 =====
 =====

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, -----

 ----- 2005
 2004 2003 -

 ----- Tax
 provision
 at U.S.
 statutory
 rate 35.0%
 35.0% 35.0%
 Foreign tax
 rate
 differential
 (3.6) (2.5)
 (2.7)
 Effect of
 repatriation
 of foreign
 earnings
 (0.1) (0.5)
 (4.2)
 Research
 credit
 (0.8) (0.5)
 (0.6) Tax
 examinations
 (12.5)
 (1.7) 2.5
 Export
 sales (1.7)

(1.9) (3.4)
Goodwill
impairment
15.4 -- --
Other (1.9)
0.1 (0.4) -

- - - - -
Effective
income tax
expense
rate 29.8%
28.0% 26.2%
=====
=====
=====

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.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred tax assets (liabilities) include the following:

December 31,	

----- 2005	
2004 -----	

DEFERRED	
DEFERRED	
DEFERRED	
DEFERRED	
ASSETS	
LIABILITIES	
ASSETS	
LIABILITIES -	

-- Employee	
benefits \$ --	
\$ (48.7)	
\$180.0 \$ --	
Accelerated	
depreciation	
-- (73.1) --	
(64.9)	
Accruals	
246.5 --	
152.1 --	
Uniform	
capitalization	
3.0 -- 5.7 --	
Partnership	
investment --	
(57.9) --	
(59.5) Loss	
carryforwards	
42.7 -- 35.0	
-- Foreign	
tax credit	
3.8 -- 52.1 -	
- State	
credit	
carryforwards	
1.7 -- 4.4 --	
Intangibles -	
- (73.2) --	
(67.5) Other	
19.2 -- 22.4	
-- -----	

Subtotal	
316.9 (252.9)	
451.7 (191.9)	
Valuation	
allowance	
(17.1) --	
(43.9) -- ---	

\$299.8	
\$(252.9)	
\$407.8	
\$(191.9)	
=====	

=====
=====
=====

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

December	
31, -----	

2005	2004
- -----	

- Current	
assets \$	
73.7	
\$107.1	
Non-	
current	
assets	
87.5	209.6
Other	
current	
liabilities	
(8.5)	
(2.0)	
Other	
liabilities	
(105.8)	
(98.8)	---
---	-----
\$ 46.9	
\$215.9	
=====	
=====	

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of certain subsidiaries amounting to approximately \$807.9, because these amounts are permanently reinvested. While the amount of federal income taxes, if such earnings are distributed in the future, cannot be determined, such taxes may be reduced by tax credits and other deductions.

As of December 31, 2005, the Company had approximately \$3.8 of foreign tax credit carryforwards which will begin to expire on December 31, 2010. The Company had approximately \$6.3 of general business credit carryforwards which will expire as follows: \$3.0 on December 31, 2022, \$2.9 on December 31, 2023 and \$0.4 on December 31, 2024. The Company had net operating losses from some U.S. subsidiaries in the amount of \$27.4 which will begin to expire on December 31, 2020. The Company had state net operating losses of \$597.2 which will begin to expire on December 31, 2006. The Company also had net operating losses from some foreign subsidiaries in the amount of \$43.4, which will begin to expire on December 31, 2008.

As of December 31, 2005, a valuation allowance of approximately \$17.1 exists for deferred income tax benefits related to certain U.S. subsidiary state net operating loss carryforwards that may not be realized. During 2005, the valuation allowance decreased by \$26.8.

The decrease in the valuation allowance was primarily attributable to the resolution of the IRS examination for the period ended December 31, 2000 as the Company was able to utilize foreign tax credits and separate U.S. subsidiary net operating loss carryforwards for which a valuation allowance had previously been established. This decrease was reduced as a result of the establishment of a valuation allowance on certain state net operating loss carryovers.

Shareholders' equity at December 31, 2005 and 2004 reflects tax benefits related to the stock options exercised in 2005 and 2004 of approximately \$56.9 and \$26.4, respectively.

Other comprehensive income reflects deferred tax expense for the year ended December 31, 2005 in the amount of \$217.4 as a result of the reduction of the Company's minimum pension liability.

The IRS is currently examining the federal consolidated tax returns of the Company for the years ended December 31, 2001 through December 31, 2003. The

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

IRS has completed its examination of all years through 2000. As of December 31, 2005, the Company believes the accrual for income taxes payable is sufficient to cover potential liabilities arising from these examinations.

In the third quarter of 2005, the Company finalized an IRS tax settlement that covered the periods from 1998 to 2000 and included the sale of the Electrical Systems business and the Brake and Chassis unit. See Note 5, "Discontinued Operations", for a description of the IRS tax settlement.

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.

NOTE 8

EARNINGS PER SHARE

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

For the
Years Ended
December
31, -----

----- 2005
2004 2003 -

Basic
Earnings
Per Share
Income from
continuing
operations
available
to common
shareholders
\$314.4
\$420.1
\$370.3
Average
common
shares
outstanding
184.6 184.6
184.2 -----

Basic
earnings
per share \$
1.70 \$ 2.28
\$ 2.01
=====

Diluted
Earnings
Per Share
Income from
continuing
operations
available
to common
shareholders
\$314.4
\$420.1
\$370.3
Average
common

shares	
outstanding	
184.6	184.6
184.2	Add:
Impact of	
stock	
options and	
restricted	
stock	
3.9	(1)
4.2	(2)
4.0	(3) -----

Average	
common	
shares	
outstanding	
on a	
diluted	
basis	188.5
188.8	188.2

Diluted	
earnings	
per share	\$
1.67	\$ 2.23
\$	1.97
=====	
=====	
=====	

- (1) Options to purchase 208,000 shares of common stock at an average price of \$52.86 per share were outstanding at December 31, 2005 but were not included in the computation of diluted EPS, because the options' exercise prices were greater than the annual average market price of the common shares. These options expire in 2012.
- (2) Options to purchase 255,000 shares of common stock at an average price of \$41.51 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.
- (3) Options to purchase 157,880 shares of common stock at an average price of \$32.69 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.

NOTE 9

RECEIVABLES, NET

Receivables consist of the following:

December	
31, -----	

- 2005	
2004 - -	

Trade \$	
1,163.1	
\$	
1,063.4	
Other	
148.8	
81.3	
Less --	
allowance	

for
 doubtful
 accounts
 and cash
 discounts
 (38.2)
 (33.8) -

 - \$
 1,273.7
 \$
 1,110.9
 =====
 =====

NOTE 10

INVENTORIES, NET

Inventories consist of the following:

December
 31, ----

 - 2005
 2004 - -

 Finished
 goods \$
 159.5 \$
 181.3
 Work in
 process
 269.5
 284.3
 Raw
 materials
 320.6
 319.1
 Less --
 progress
 payments
 (82.7)
 (99.0) -

 - \$
 666.9 \$
 685.7
 =====
 =====

NOTE 11

OTHER CURRENT ASSETS

At December 31, 2005 and 2004, other current assets consist primarily of advance payments on contracts and prepaid expenses.

NOTE 12

PLANT, PROPERTY AND EQUIPMENT, NET

Plant, property and equipment consist of the following:

December
 31, -----

 --- 2005
 2004 - ----

```

-----
-----
-----
-----
--- Land
and
improvements
$ 58.4 $
62.0
Buildings
and
improvements
495.3 478.1
Machinery
and
equipment
1,422.3
1,532.7
Furniture,
fixtures
and office
equipment
228.5 235.7
Construction
work in
progress
70.4 60.7
Other 63.5
57.9 -----
--- -----
-- 2,338.4
2,427.1
Less --
accumulated
depreciation
and
amortization
(1,497.4)
(1,555.1) -
-----
----- $
841.0 $
872.0
=====
=====

```

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13

GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 by operating segment are as follows:

Defense
 Motion &
 Fluid
 Electronics
 & Flow
 Electronic
 Corporate
 Technology
 Services
 Control
 Components
 and Other
 Total - ----

- Balance as
 of January
 1, 2004 \$
 809.4 \$
 303.7 \$
 161.1 \$
 329.4 \$ 5.0
 \$ 1,608.6
 Goodwill
 acquired
 during the
 period 240.1
 601.1 3.4 --
 -- 844.6
 Other,
 including
 foreign
 currency
 translation
 31.4 -- 0.7
 6.7 -- 38.8

 - -----

Balance as
 of December
 31, 2004
 1,080.9
 904.8 165.2
 336.1 5.0
 2,492.0
 Goodwill
 acquired
 during the
 period 17.7
 -- -- -- --
 17.7
 Impairment
 charge -- --
 -- (214.4) -
 - (214.4)
 Other,
 including

foreign
currency
translation
(53.0) 42.5
(1.4) (29.5)
-- (41.4) --

Balance as
of December
31, 2005 \$
1,045.6 \$
947.3 \$
163.8 \$ 92.2
\$ 5.0 \$
2,253.9
=====

Goodwill of \$15.9 and \$22.1 as of December 31, 2005 and 2004, respectively, are excluded from the table above. The amounts are attributable to the Company's automotive brake and fuel tubing and components business and are reflected in current assets of discontinued operations in the Consolidated Balance Sheets.

2005 ACTIVITY

During the fourth quarter of 2005, the Company determined that certain businesses within the Electronic Components segment were experiencing lower than expected financial results and may be impaired. After revising the earnings forecast for these businesses to reflect current business conditions, the Company recorded a \$214.4 impairment charge reported within the Electronic Components segment. The estimated fair value of the reporting unit was computed principally upon the present value of future cash flows (Discounted Cash Flow Method), historical results and comparative market data. This impairment was unrelated to the Company's restructuring activities.

During 2005, the Company recorded purchase price adjustments of \$(22.0) and \$13.0 to goodwill related to acquisitions included in the Electronic Components and Defense Electronics & Services segments, respectively. The adjustments represent refinements of preliminary data used in the original purchase price allocations.

During 2005, the Company completed the acquisition of Phelps. As of December 31, 2005, intangible assets related to the acquisition of Phelps include \$17.7 goodwill and \$1.9 of customer relationships and other intangibles added to the Fluid Technology segment.

2004 ACTIVITY

During the first quarter of 2004, the Company completed the acquisition of WEDECO. As of December 31, 2005, intangible assets related to the acquisition of WEDECO include \$227.5 of goodwill, \$10.9 of intangibles for tradenames, \$20.5 of proprietary technology, \$17.8 of customer relationships and \$4.4 of patents and other. During the third quarter of 2004, the Company completed the acquisition of RSS. As of December 31, 2005, intangible assets related to the acquisition of RSS include \$640.1 of goodwill, \$120.0 of intangible assets related to customer relationships and \$4.9 of other intangible assets.

Information regarding the Company's other intangible assets follows:

December 31,

--- 2005
2004 - -----

Finite-lived
intangibles
-- Customer

relationships		
	\$138.8	
	\$138.8	
Proprietary technology	20.5	21.4
Patents and other	46.2	
	44.1	
Accumulated amortization	(40.3)	
	(18.8)	
Indefinite-lived intangibles		
-- Brands and trademarks	28.7	29.7
Pension related	20.9	
	21.6	-----
----- Net intangibles	\$214.8	
	\$236.8	
	=====	
	=====	

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.

The Company recorded sales to unconsolidated affiliates during 2005, 2004 and 2003 totaling \$9.7, \$11.8 and \$8.9, respectively. 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 rights interests of less than 20%.

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 \$86.8, \$81.1 and \$64.5 for 2005, 2004 and 2003, respectively. Future minimum operating lease payments under long-term operating leases as of December 31, 2005 are shown below.

2006	\$ 92.7
2007	77.2
2008	63.0
2009	49.5
2010	40.1
2011 and thereafter	209.0

Total minimum lease payments	\$531.5
	=====

NOTE 16

DEBT

Debt consists of the following:

December	
31, -----	

2005 2004	
- - - - -	

--	
Commercial	
paper	
\$728.8	
\$696.3	
Short-term	
loans 13.5	
19.8	
Current	
maturities	
of long-	
term debt	
9.1 13.1 -	

-- Notes	
payable	
and	
current	
maturities	
of long-	
term debt	
\$751.4	
\$729.2	
=====	
=====	

Interest
Long-term
debt
Maturity

Rate 2005
 2004 - ---

 -- 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%
 107.4
 119.7
 11/15/2025
 7.400%
 250.0
 250.0
 8/25/2048
 (1) 18.1
 18.1 Other
 2006 -
 2014 (2)
 15.1 23.3
 Interest
 rate swaps
 68.7 81.6

Subtotal
 notes and
 debentures
 541.6
 575.0 Less

--
 unamortized
 discount
 (16.2)
 (19.1) ---

Long-term
 debt 525.4
 555.9 Less
 -- current
 maturities
 (9.1)
 (13.1) ---

Net long-
 term debt
 \$516.3
 \$542.8
 =====
 =====

(1) The interest rate for the note/debenture was 4.35% and 2.27% at December 31, 2005 and 2004, respectively.

(2) The weighted average interest rate was 5.30% and 4.72% at December 31, 2005 and 2004, respectively.

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

2006
 2007
 2008
 2009
 2010
 - - - -

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The weighted average interest rate for short-term borrowings was 4.37% and 2.31% at December 31, 2005 and 2004, 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, 2005, the fair value of long-term debt was \$506.5, compared to the fair value of \$555.7 at December 31, 2004. The year-over-year decrease in fair value primarily reflects the impact of a decrease in long-term debt levels and an increase in long-term interest rates.

In November 2005, the Company entered into a five-year revolving credit agreement in the aggregate principal amount of \$1.25 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 this agreement requires that the Company maintain an interest coverage ratio, as defined, of 3.5 times. At December 31, 2005, the Company's coverage ratio was well in excess of the minimum requirements. The commitment fee on the revolving credit agreements is 0.08% of the total commitment. The revolving credit agreement serves as backup for the commercial paper program. Borrowing through commercial paper and under the revolving credit agreements may not exceed \$1.25 billion in the aggregate outstanding at any time. At December 31, 2005 commercial paper borrowings were \$728.8.

As of December 31, 2005, the Company had a \$107.4 obligation associated with a ten year agreement involving the sale and the subsequent lease 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 \$63.8 as of December 31, 2005.

NOTE 17

CASH FLOW INFORMATION

The change in receivables, inventories, payables and accrued expenses listed on the Consolidated Statements of Cash Flows for the year ended December 31, 2005, 2004 and 2003, respectively, consist of the following:

Year Ended		
DECEMBER		
31, 2005	2004	2003
Change in accounts receivable	\$ (192.0)	\$ (28.2)
Change in inventories	(76.0)	26.7
Change in accounts payable and accrued expenses	124.1	43.1
Change in receivables, inventories, payables and accrued expenses	\$	\$

(85.9)
\$(89.4) \$
6.5
=====
=====
=====

NOTE 18

FINANCIAL INSTRUMENTS

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

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

FINANCING STRATEGIES AND INTEREST RATE RISK MANAGEMENT:

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

During the fourth quarter of 2005, the Company terminated interest rate swaps that were entered into to manage the interest rate exposure associated with certain long-term debt and effectively converted \$333.3 of the long-term debt from fixed to variable rate borrowings. The fair value of these instruments at the time of termination was \$69.5, which will be accreted into income over the remaining terms of the underlying debt, which mature at various dates through 2025. At December 31, 2004, these interest rate swaps had notional values totaling \$335.8. The carrying value of the swaps at December 31, 2004 was \$84.9, including \$3.3 of accrued interest. The variable interest rates are based on three-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

month LIBOR rates plus a spread, which reflects the Company's debt rating, and the coupon of the underlying long-term obligations. 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, 2005 the Company had no foreign currency cash flow hedges outstanding. At December 31, 2004 the Company had one foreign currency cash flow hedge outstanding that had no change in value during 2004. There were no changes in the forecasted transactions during the covered period regarding their probability of occurring that would require amounts to be reclassified to earnings.

At December 31, 2005 and 2004, the Company had foreign currency forward contracts with notional amounts of \$120.5 and \$93.3, respectively, to hedge the value of recognized assets, liabilities and firm commitments. The fair values of the contracts were \$0.1 and \$(0.4) at December 31, 2005 and 2004, respectively. The ineffective portion of changes in fair values of such hedge positions reported in operating income during 2005, 2004 and 2003 amounted to \$(0.5), \$(0.4) and \$(0.3), respectively. There were no amounts excluded from the measure of effectiveness.

The fair values associated with the foreign currency contracts have been determined 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 pension plans, certain employees of the Company participate in multi-employer pension plans sponsored by local or national unions. The Company's contribution to such plans amounted to \$1.3, \$1.2 and \$0.7 for the years ended 2005, 2004 and 2003, 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.

year \$ 4,110.6 \$
3,454.9 \$ 235.3
\$ 211.5 Actual
return on plan
assets 554.9
539.3 25.6 32.3
Assets assumed
through
acquisition/other
37.0 237.9 -- --
Employer
contributions
122.5 126.0 -- -
- Employee
contributions
2.4 2.6 -- --
Benefits paid
(271.4) (265.4)
(7.9) (8.5)
Effect of
currency
translation
(18.1) 15.3 -- -

- Fair value of
plan assets at
end of year \$
4,537.9 \$
4,110.6 \$ 253.0
\$ 235.3
=====
=====
=====
=====
Funded status \$
(623.3) \$
(740.8) \$
(513.3) \$
(538.9)
Unrecognized net
transition asset
0.1 0.1 -- --
Unrecognized net
actuarial (gain)
loss 1,059.8
1,108.7 207.4
241.1
Unrecognized
prior service
cost 22.1 20.1
0.4 (1.0) -----

----- Net
accrued benefit
cost recognized
in the balance
sheet \$ 458.7 \$
388.1 \$ (305.5)
\$ (298.8)
=====
=====
=====
=====

Amounts recognized in the Consolidated Balance Sheets consist of:

Pension
Benefits
Other
Benefits ---

2005 2004
2005 2004 -

```

-----
-----
-----
-----
-----
-----
-----
-----
-----
- Prepaid
benefit cost
$ 687.9 $
637.0 $ -- $
-- Accrued
benefit cost
(432.6)
(1,063.2)
(305.5)
(298.8)
Intangible
assets 20.9
21.6 -- --
Accumulated
other
comprehensive
income 182.5
792.7 -- --
-----
-----
-----
-----
-----
Net amount
recognized $
458.7 $
388.1 $
(305.5) $
(298.8)
=====
=====
=====
=====

```

In 2005, the Company recorded a total after tax increase of \$400.0 to its shareholders' equity which reflects a decrease in the minimum pension liability.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

December -

2005 2004

- - - - -

ACCUMULATED BENEFIT OBLIGATION:

The accumulated benefit obligation for all defined benefit plans was \$4,849.1 and \$4,552.2 at December 31, 2005 and 2004, respectively.

TABLE OF ASSUMPTIONS:

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

Pension

Benefits

Other

Benefits --

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

Pension

Benefits

Other

Benefits --

Total benefit expense \$			
83.0 \$	63.2 \$	33.4 \$	
44.8 \$	34.7 \$	41.7	
=====	=====		
=====	=====		
=====	=====		

PLAN ASSETS:

The pension and welfare benefit plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments, hedge funds and cash and cash equivalents. The assets of the domestic pension

CONTRIBUTIONS:

The Company currently anticipates making contributions to its pension plans in a range of \$120.0 to \$140.0, during 2006, of which \$102.3 was made in the first quarter of 2006, 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
Other
Benefits
Benefits
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
- - - - -
-- 2006
\$ 285.6
\$ 54.2
2007
290.3
49.1
2008
297.3
50.4
2009
304.5
51.5
2010
311.7
52.8
2011 --
2015
1,711.6
280.9

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) is 9.0% for 2006, decreasing ratably to 5.0% in 2010. Increasing the health care trend rates by one percent per year would have the effect of increasing the benefit obligation by \$39.8 and the aggregate service and interest cost components by \$3.0. A decrease of one percent in the health care trend rate would reduce the benefit obligation by \$39.7 and the aggregate service and interest cost components by \$2.8. 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 indices, 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 (MMA) was signed into law. The MMA introduced 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, effective January 1, 2006, that elect to provide a retiree a prescription drug benefit which is at least actuarially equivalent to Medicare Part D. There were significant uncertainties regarding the eventual regulations required to implement the MMA as well as the MMA's overall effect on plan participant's coverage choices and the related impact on their health care costs which were, in part, answered by regulations issued in 2005. The Company has now determined that a majority of it's healthcare plans pass the test of actuarial equivalence and during the fourth quarter of 2005 made application to CMS for the subsidy provided under the Act. The Company's actuary has estimated that the effect of the Act will reduce the Accumulated Postretirement Benefit Obligation for the subject plans by approximately \$41.0 at December 31, 2005 and that net periodic benefit cost in 2006 will be reduced by \$5.4. Other than the effect of the subsidy, there was no

expectation that retiree participation would be affected in the short-term given the nature of the Company's healthcare plans.

of options
granted
during the
year \$
11.21 \$
10.47 \$
8.84

=====
=====
=====

37.48
 41.52 --
 42.20 260
 8.5 years
 41.54 260
 41.54
 42.54 --
 49.27
 3,572 6.2
 years
 45.52 -- -
 - 50.74 --
 57.46 148
 6.7 years
 54.32 -- -
 - - - - -
 - - - - -
 - - - - -
 13,143
 9,422 ----
 - - - - -
 - - - - -

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 12,200,000. As of December 31, 2005, 4,315,918 net shares were available for future grants. During 2005 and 2004, the Company awarded 12,996 and 12,388 restricted shares with five-year restriction periods, respectively, in payment of the annual retainer for non-employee directors. During 2005, the Company awarded 104,000 restricted shares to employees with a weighted average restriction period of 3.7 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 be exercisable in accordance with their original terms; however, no future grants will be made from these prior plans.

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, "Summary of Significant 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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, 2005, the Company is responsible, or is alleged to be responsible, for approximately 58 environmental investigation and remediation sites in various countries. In many of these proceedings, the Company's liability is considered de minimis. At December 31, 2005, the Company calculated a best estimate of \$93.0, which approximates its accrual, related to the cleanup of soil and ground water. The low range estimate for its environmental liabilities is \$67.4 and the high range estimate for those liabilities is \$149.2. 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.

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, 2005, the Company's accrual for this liability was \$9.9 representing its best estimate; its low estimate for the liability is \$6.5 and its high estimate is \$15.4.

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 \$4.4 and \$18.3. The Company has accrued \$7.0 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 \$6.5 and \$13.9. It has an accrual for this matter of \$10.1 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 incurred were solely due to administrative (versus judicial) actions. A hearing is expected in 2006. 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 AND OTHER MATTERS:

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 2005, ITT and Goulds resolved in excess of 16,000 claims through settlement or dismissal. The average amount of settlement per plaintiff has been nominal and substantially 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 and Nationwide Indemnity 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 and Goulds are negotiating 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, Irwin Bast 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. In late 2005, the Court dismissed the Bund zur Unterstutzung Radargeschadigter from the case and also dismissed all claims relating to medical monitoring. Numerous other motions are currently pending before the Court. A hearing on class certification is expected in 2006. 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 resolved this matter whereby the Company will receive 82.5% of the cost of defense of this matter from these insurers. The Company is pursuing other insurers for the remaining costs. 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 provides an indemnity to U.S. Silica for silica personal injury suits against its former subsidiary Pennsylvania Glass Sand filed prior to September 12, 2005. ITT sold the stock of Pennsylvania Glass Sand to U.S. Silica in 1985. The Company's indemnity had been paid in part by its historic product liability carrier, however, in September 2005, the carrier communicated to ITT that it would no longer pay a share of the costs. On October 4, 2005, ITT filed a suit against its insurer, ITT v. Pacific Employers Insurance Co., CA No. 05CV 5223, seeking its defense costs and indemnity from the carrier for Pennsylvania Glass Sand product liabilities. All silica related costs, net of insurance recoveries, are shared pursuant to the Distribution Agreement. See "Company History and Certain Relationships" within Part I, Item 1 of this Annual Report on Form 10-K 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.

Our Defense Electronics & Services company is subject to the export control regulations of the U.S. Department of State and the Department of Commerce. Currently, the U.S. Attorney for the Western District of Virginia is investigating ITT Night Vision's compliance with International Traffic in Arms Regulations. The Company is cooperating with the investigation and recently, with the Government's consent, it began its own investigation of Night Vision's compliance with the federal laws utilizing outside counsel. Data and information

derived from the investigation is shared with the U.S. Attorney. The Company will continue to assist the Government in its investigation, however at this time, it is not possible to predict the outcome of the investigation or what action, if any, the Government may take at the conclusion of the investigation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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, 2005 the Company has an accrual of \$7.8 which is its best estimate of the potential exposure.

In September of 1998, the Company completed the sale of its Brake and Chassis unit to Continental AG for approximately \$1,930. As part of the sale, the Company provided Continental AG with representations and warranties with respect to the operations of 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, the fact that the parties have resolved certain issues, or the quantification of certain accepted by ITT, at December 31, 2005 the Company has an accrual of \$14.0 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 ten years.

The Company provided a performance bond guarantee in the amount of \$10.0 related to its real estate development activities in 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 equals \$10.0. At December 31, 2005, the Company has an accrual related to the expansion of a bridge in the amount of \$10.0.

In December of 2002, the Company entered into a sales-type lease agreement for its corporate aircraft and then leased the aircraft back under an operating lease agreement. The Company has provided, under the agreement, a residual value guarantee to the counterparty in the amount of \$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, 2005, 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, 2005, that may be affected by various conditions and external 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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 23

BUSINESS SEGMENT INFORMATION

DEFENSE
 MOTION &
 CORPORATE,
 FLUID
 ELECTRONICS &
 FLOW
 ELECTRONIC
 ELIMINATIONS
 & TECHNOLOGY
 SERVICES
 CONTROL
 COMPONENTS
 OTHER TOTAL -

---- 2005
 SALES AND
 REVENUES \$
 2,837.1 \$
 3,224.2 \$
 670.0 \$ 708.9
 \$ (12.9) \$
 7,427.3

OPERATING
 INCOME (LOSS)
 324.5 363.7
 119.7 (216.7)
 (91.1) 500.1
 INTEREST
 INCOME 42.7
 INTEREST
 EXPENSE 75.0
 MISCELLANEOUS
 EXPENSE
 (INCOME) 19.7

 INCOME FROM
 CONTINUING
 OPERATIONS
 BEFORE INCOME
 TAX EXPENSE \$
 448.1

=====
 PLANT,
 PROPERTY AND
 EQUIPMENT,
 NET 331.4
 266.4 123.2
 107.7 12.3
 841.0

INVESTMENTS
 IN
 UNCONSOLIDATED
 COMPANIES 8.9

 8.9 TOTAL
 ASSETS
 2,526.4
 1,950.5 510.6
 503.4 1,572.5
 7,063.4 GROSS
 PLANT
 ADDITIONS
 50.2 65.0

37.5	22.9	3.6
	179.2	
DEPRECIATION		
62.4	40.5	
26.3	33.1	2.0
	164.3	
AMORTIZATION		
8.7	15.9	0.1
0.1	7.5	32.3
2004 Sales and revenues		
\$ 2,594.1	\$	
2,414.0	\$	
633.8	\$ 696.9	
\$ (11.4)	\$	
6,327.4		
Operating income (loss)		
285.9	254.1	
122.5	29.5	
(82.4)	609.6	
Interest income		
22.5		
Interest expense		
50.4		
Gain on sale of investments		
20.8		
Miscellaneous expense (income)		
17.7		

Income from continuing operations before income tax expense		
\$ 584.8		
=====		
Plant, property and equipment, net		
379.8		
218.8	126.2	
141.2	6.0	
872.0		
Investments in unconsolidated companies		
7.5		

7.5	Total assets	
2,569.7		
1,717.1	519.6	
796.8	1,679.4	
7,282.6	Gross plant additions	
53.6	37.4	
24.4	28.0	2.0
145.4		
Depreciation		
63.5	31.8	
24.4	33.7	1.1
154.5		
Amortization		
4.8	4.8	--
4.7	6.3	20.6
2003 Sales and revenues		
\$ 2,249.9	\$	
1,790.9	\$	
545.0	\$ 585.7	
\$ (8.0)	\$	
5,163.5		
Operating income (loss)		
271.4	187.1	
100.5	14.7	

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	2005	2004
2003 - -----		

Sales and Revenues by Product Category		
Pumps & Complementary Products	\$2,837.1	\$2,593.9
Defense Products	\$2,249.9	\$1,870.6
Defense Services	1,870.6	1,309.2
Connectors & Switches	1,352.4	1,103.9
583.0 Flow Control	792.2	700.1
200.1 Brakes	689.0	583.0
292.1 Marine Products	194.5	158.6
84.9 Shock Absorbers	265.6	292.1
89.6 -----	206.1	89.6

Total	\$7,427.3	\$6,327.4
	\$5,163.5	
	=====	
	=====	
	=====	

Defense Electronics & Services had sales and revenues from the United States government of \$2,668.3, \$2,098.2 and \$1,454.7 for 2005, 2004 and 2003, 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 65% of its segment operating income for 2005.

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 42% 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 83%, 87% and 81% of 2005, 2004 and 2003 Defense Electronics & Services sales and revenues, respectively, were to the U.S. government. The Defense Electronics & Services segment comprises about 43% of the Company's sales and revenues and 72% of its segment operating income in 2005.

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 tub and spa markets under the HydroAir(R) brand, specialty shock absorbers under the brand KONI(R) and brake components for the transportation industry. The Motion & Flow Control segment comprises approximately 9% of the Company's sales and revenues and approximately 24% of its segment operating income for 2005.

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 for 2005 and the segment recorded an operating loss of \$(216.7), primarily as a result of a \$222.7 asset impairment charge in its Switches component.

CORPORATE AND OTHER:

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

0.72 \$
0.80 \$
(0.48) \$
1.70 --
DILUTED(A)
\$ 0.65 \$
0.70 \$
0.79 \$
(0.48) \$
1.67 NET
INCOME
(LOSS) PER
SHARE --
BASIC(A) \$
0.63 \$
0.75 \$
1.02 \$
(0.46) \$
1.95 --

DILUTED(A)
\$ 0.62 \$
0.73 \$
1.00 \$
(0.46) \$
1.91

COMMON
STOCK

INFORMATION

PRICE
RANGE:
HIGH \$
45.88 \$
49.68 \$
57.73 \$
58.05 \$
58.05 LOW
\$ 40.24 \$
42.27 \$
48.57 \$
47.13 \$
40.24
CLOSE \$
45.12 \$
48.82 \$
56.80 \$
51.41 \$
51.41

DIVIDENDS
PER SHARE
\$ 0.09 \$
0.09 \$
0.09 \$
0.09 \$

0.36 -----

--- 2004

Sales and
revenues \$
1,399.6 \$
1,531.9 \$
1,565.1 \$
1,830.8 \$
6,327.4
Costs of
sales and
revenues
1,020.4
1,108.2
1,126.8
1,320.1
4,575.5
Income
from
continuing
operations
84.1 106.5
108.2

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, New York, Pacific, and Paris.

During the period from January 1, 2006 through February 28, 2006, the high and low reported market prices of the Company's common stock were \$55.00 and \$49.85, respectively. The Company declared dividends of \$0.11 per common share in the first quarter of 2006. There were 25,985 holders of record of the Company's common stock on February 28, 2006.

INDEX TO SCHEDULE

Page ----
Valuation
and
Qualifying
Accounts
S-1

F-36

SIGNATURES

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

ITT INDUSTRIES, INC.

By /s/ ROBERT J. PAGANO, JR.

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

March 10, 2006

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

SIGNATURE
TITLE DATE

/s/ STEVEN
R.

LORANGER
Chairman,
President
and Chief
March 10,
2006 - ---

Executive
Officer
and

Director
STEVEN R.
LORANGER
(PRINCIPAL
EXECUTIVE
OFFICER)

/s/ GEORGE
E. MINNICH

Senior
Vice
President
and Chief
March 10,
2006 - ---

Financial
Officer
GEORGE E.
MINNICH
(PRINCIPAL
FINANCIAL
OFFICER)

/s/ CURTIS
J.

CRAWFORD
Director
March 7,
2006 - ---

CURTIS J.

CRAWFORD
/s/

CHRISTINA
A. GOLD
Director
March 7,
2006 - ---

CHRISTINA
A. GOLD
/s/ RALPH
F. HAKE
Director
March 7,
2006 - ---

RALPH F.
HAKE /s/
JOHN J.
HAMRE
Director
March 7,
2006 - ---

----- JOHN
J. HAMRE
/s/
RAYMOND W.
LEBOEUF
Director
March 7,
2006 - ---

RAYMOND W.
LEBOEUF
/s/ FRANK
T.
MACINNIS
Director
March 7,
2006 - ---

FRANK T.
MACINNIS
/s/ LINDA
S. SANFORD
Director
March 7,
2006 - ---

LINDA S.
SANFORD
/s/ MARKOS
I.
TAMBAKERAS
Director
March 7,
2006 - ---

MARKOS I.
TAMBAKERAS

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION	(3)	(a)
	ITT Industries, Inc.'s Restated Articles of Incorporation.....			
	Incorporated by reference to Exhibit 3 (a) of ITT Industries' Form 10-Q for the quarter ended June 30, 2005. (CIK No. 216228, File No. 1-5672). (b) ITT Industries, Inc.'s By-laws, as amended December 7, 2004.....			
	Incorporated by reference to Exhibit 99.2 to ITT Industries' Form 8-K Current Report dated December 9, 2004. (CIK No. 216228, File No. 1-5672). (4) Instruments defining the rights of security holders, including indentures.....			Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries upon request of the Commission. (10) Material contracts (10.1)* Employment Agreement dated as of February 5, 2004 between ITT Industries, Inc. and Edward W. Williams.....
	Incorporated by reference to Exhibit 10.1 of ITT Industries' Form 10-K for the year ended December 31, 2004 (CIK No. 216228, File No. 1-5672). (10.2)* Employment Agreement dated as of June 28, 2004 between ITT Industries, Inc. and Steven R. Loranger.....			
	Incorporated by reference to Exhibit 10.2 of ITT Industries' Form 10-Q for the quarter ended June 30, 2004 (CIK No. 216228, File No. 1-5672). (10.3)* Form of Non-Qualified Stock Option Award Agreement for Band A Employees.....			
	Incorporated by reference to Exhibit 10.3 of ITT Industries' Form 10-K for the year ended December 31, 2004 (CIK No. 216228, File No. 1-5672). (10.4)* Form of Non-Qualified Stock Option Award Agreement for Band B Employees.....			Incorporated by reference to Exhibit 10.4 of ITT Industries' Form 10-K for the year ended December 31, 2004 (CIK No. 216228, File No. 1-5672). (10.5)* ITT Industries, Inc. 2003 Equity Incentive Plan (amended and restated as of July 13, Incorporated by reference to Exhibit 10.4
	2004).....			
	of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672). (10.6)* ITT Industries, Inc. 1997 Long-Term Incentive Plan (amended and restated as of July 13, Incorporated by reference to Exhibit 10.5			
	2004).....			
	of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672). (10.7)* ITT Industries, Inc. 1997 Annual Incentive Plan for Executive Officers (amended and restated as of July 13, 2004).....			Incorporated by reference to Exhibit 10.6 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).

EXHIBIT NUMBER	DESCRIPTION	LOCATION (10.8)*
1994	ITT Industries Incentive Stock Plan (amended and restated as of July 13, Incorporated by reference to Exhibit 10.7	2004)
	of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.9)*
	ITT Industries Special Senior Executive Severance Pay Plan (amended and restated as Incorporated by reference to Exhibit 10.8 of July 13,	2004)
	of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.10)*
	ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors (amended and restated as of July 13, 2004)	
	Incorporated by reference to Exhibit 10.9 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.11)*
	ITT Industries Enhanced Severance Pay Plan (amended and restated as of July 13, Incorporated by reference to Exhibit	2004)
	10.10 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.12)*
	ITT Industries Deferred Compensation Plan (Effective as of January 1, 1995 including amendments through July 13,	2004)
	Incorporated by reference to Exhibit 10.11 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.13)*
	ITT Industries 1997 Annual Incentive Plan (amended and restated as of July 13, Incorporated by reference to Exhibit	2004)
	10.12 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.14)*
	ITT Industries Excess Pension Plan IA	
	Incorporated by reference to Exhibit 10.13 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.15)*
	ITT Industries Excess Pension Plan IB	
	Incorporated by reference to Exhibit 10.14 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.16)*
	ITT Industries Excess Pension Plan II (as amended and restated as of July 13, 2004)	
	Incorporated by reference to Exhibit 10.15 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.17)*
	ITT Industries Excess Savings Plan (as amended and restated as of July 13, 2004)	
	Incorporated by reference to Exhibit 10.16 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.18)*
	ITT Industries Excess Benefit Trust	
	Incorporated by reference to Exhibit 10.17 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (CIK No. 216228, File No. 1-5672).	(10.19)
	Form of indemnification agreement with Incorporated by reference to Exhibit directors	10(h)
	to ITT Industries' Form 10-K for the fiscal year ended December 31, 1996 (CIK No. 216228, File No. 1-5672).	

EXHIBIT NUMBER DESCRIPTION LOCATION (10.20)
Distribution Agreement among ITT
Corporation, ITT Destinations, Inc. and ITT
Hartford Incorporated by reference to
Exhibit 10.1 Group,
Inc.....
listed under ITT Industries' Form 8-B dated
December 20, 1995 (CIK No. 216228, File No.
1-5672). (10.21) Intellectual Property
License Agreement between and among ITT
Corporation, ITT Destinations, Inc. and ITT
Hartford Group, Incorporated by reference
to Exhibit 10.2
Inc.....
to ITT Industries' Form 8-B dated December
20, 1995 (CIK No. 216228, File No. 1-5672).
(10.22) Tax Allocation Agreement among ITT
Corporation, ITT Destinations, Inc. and ITT
Hartford Group,
Inc..... Incorporated
by reference to Exhibit 10.3 to ITT
Industries' Form 8-B dated December 20,
1995 (CIK No. 216228, File No. 1-5672).
(10.23) Employee Benefit Services and
Liability Agreement among ITT Corporation,
ITT Destinations, Inc. and ITT Hartford
Group, Incorporated by reference to Exhibit
10.7
Inc.....
to ITT Industries' Form 8-B dated December
20, 1995 (CIK No. 216228, File No. 1-5672).
(10.24) Five-year Competitive Advance and
Revolving Credit Facility Agreement dated
as of Incorporated by reference to Exhibit
10.1 November 10,
2005..... to ITT
Industries' Form 8-K Current Report dated
November 10, 2005 (CIK No. 216228, File No.
1-5672). (10.25) Agreement with Valeo SA
with respect to the sale of the Automotive
Electrical Systems Incorporated by
reference to Exhibit
Business.....
10(b) to ITT Industries' Form 10-Q
Quarterly Report for the quarterly period
ended September 30, 1998 (CIK No. 216228,
File No. 1-5672). (10.26) Agreement with
Continental AG with respect to the sale of
the Automotive Brakes and Incorporated by
reference to Exhibit 2.1 Chassis
Business..... to ITT
Industries' Form 8-K Current Report dated
October 13, 1998 (CIK No. 216228, File No.
1-5672). (10.27) Participation Agreement
among ITT Industries, Rexus L.L.C. (Rexus)
and Air Bail S.A.S. and RBS Lombard, Inc.,
as investors, and master lease agreement,
lease supplements and related agreements
between Rexus as lessor Incorporated by
Reference to Exhibits and ITT Industries,
as lessee..... listed under Item
9.01 to ITT Industries Form 8-K Current
Report dated December 20, 2004 (CIK No.
216228, File No. 1-5672). (10.28)* Form of
Restricted Stock Award for Non-Employee
Directors.....
Incorporated by reference to Exhibit 10.28
of ITT Industries' Form 10-Q for the
quarter ended March 31, 2005 (CIK No.
216228, File No. 1-5672). (10.29)* Form of
Restricted Stock Award for Incorporated by
reference to Exhibit
Employees.....
10.29 of ITT Industries' Form 10-Q for the
quarter ended March 31, 2005 (CIK No.
216228, File No. 1-5672). (10.30) Amended
and Restated 364-day Revolving Credit
Agreement.....

Incorporated by reference to Exhibits 10.1 and 10.2 to ITT Industries' Form 8-K dated March 28, 2005 (CIK No. 216228, File No. 1-5672).

II-4

EXHIBIT NUMBER DESCRIPTION LOCATION

(10.31)* Employment Agreement dated as of May 31, 2005 and effective as of July 1, 2005 between ITT Industries, Inc. and George E. Minnich..... Incorporated by reference to Exhibit 10.31 of ITT Industries' Form 10-Q for the quarter ended June 30, 2005. (CIK No. 216228, File No. 1-5672). (10.32)* Separation Agreement dated September 7, 2005 and effective as of September 30, 2005 between ITT Industries, Inc. and Robert Incorporated by reference to Exhibit 99.1

Ayers.....
to ITT Industries' Form 8-K dated September 8, 2005 (CIK No. 216228, File No. 1-5672). (10.33) Non-Employee Director Compensation Agreement Incorporated by reference to Exhibit 10.1 to ITT Industries' Form 8-K Current Report dated December 1, 2005 (CIK No. 216228, File No. 1-5672). (11) Statement re computation of per share Not required to be filed.

earnings.....
(12) Statement re computation of ratios..... Filed herewith. (18) Letter re change in accounting principles..... None. (21) Subsidiaries of the Registrant..... Filed herewith. (22) Published report regarding matters submitted to vote of security holders..... Not required to be filed. (23.1) Consent of Deloitte & Touche LLP..... Filed herewith. (24) Power of

attorney..... None.
(31.1) Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of Filed herewith.

2002.....
(31.2) Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of Filed herewith.

2002.....
(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 or the Securities Exchange Act of 1934, 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 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CALCULATION OF RATIO OF EARNINGS TO TOTAL FIXED CHARGES
AND CALCULATION OF EARNINGS TO TOTAL FIXED CHARGES AND
PREFERRED DIVIDEND REQUIREMENTS

Years Ended
December 31,

----- (In
Millions)
2005 2004
2003 2002
2001 - -----

Earnings:
Income
(loss) from
continuing
operations \$
314.4 \$
420.1 \$
370.3 \$
350.6 \$
184.1 Add
(deduct):
Adjustment
for
distributions
in excess of
(less than)
undistributed
equity
earnings and
losses(a)
0.8 (0.4)
(0.8) (5.0)
(1.6) Income
taxes
(benefits)
133.7 164.7
130.3 115.1
108.3 -----

----- 448.9
584.4 499.8
460.7 290.8

Fixed
Charges:
Interest and
other
financial
charges 75.0
50.4 43.2
56.5 83.3
Interest
factor

EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT

Set forth below are the names of subsidiaries, divisions and related organizations of ITT Industries, Inc., the respective jurisdiction in which each was organized (in the case of subsidiaries), and the name under which each does business (if other than the name of the entity itself).

JURISDICTION IN NAME UNDER WHICH NAME WHICH ORGANIZED DOING BUSINESS	-----
----- ELECTRONIC COMPONENTS BIW	
Division.....	N/A C & K Components,
Inc.....	Massachusetts C & K Components (HK),
Ltd.....	Hong Kong C & K Components S.A.....
Costa Rica C & K Holdings Inc.....	Delaware C & K Holdings (HK)
Ltd.....	Hong Kong C & K Holdings (UK), Ltd.....
United Kingdom C & K Switches Ltd.....	United Kingdom CableCom Electronics (Shenzhen) Co., Ltd.....
China CableCom International Limited.....	Hong Kong Great American Gumball Corporation.....
California ITT Cannon Santa Clara ITT Cannon Division.....	N/A ITT Cannon/MobileCom, ITT Cannon RF Products, ITT Cannon Switch Products and Cannon SanTeh ITT Cannon GmbH.....
Germany ITT Cannon (Hong Kong), Ltd.....	Hong Kong ITT Cannon International, Inc.....
Delaware ITT Cannon/Network Systems & Services ITT Cannon Italy SRL.....	Italy ITT Cannon, Ltd.....
Japan ITT Cannon Mexico, Inc.....	Delaware ITT Cannon de Mexico S.A. de C.V.....
Mexico ITT Cannon Electronic (Shenzhen) Co., Ltd.....	China ITT Cannon (Nantong) Electronic Industry Co., Ltd.....
China ITT Cannon (Nantong) Precision Mechanical Engineering Co., Ltd.....	China ITT Cannon (Tianjin) Electronic Industrial Co. Ltd....
China (Xiamen) Electronics Ind. Co. Ltd.....	China ITT Cannon (Xiamen) Electronic & Science Technology Co.....
China ITT Cannon (Xiamen) Precision Mechanical Engineering Co. Ltd.....	China ITT Cannon (Zhenjiang) Electronics, Ltd.....
China ITT Datacommunications Limited.....	United Kingdom ITT Cannon Network Systems & Services ITT Industries Cannon Ltd.....
Hong Kong ITT Industries S.A.S.....	France ITT Industries (Tianjin) Co. Ltd.....
China ITT Industries Precision Engineering Pte. Ltd.....	Singapore ITT Industries Pte. LTD.....
Singapore ITT Schadow Division.....	N/A ITT VEAM LLC.....
Delaware	

JURISDICTION IN NAME UNDER WHICH NAME WHICH
ORGANIZED DOING BUSINESS ---- ----- --
----- Man Machine Interface
Division..... N/A Rudolf
Schadow GmbH.....
Germany TEC Electrical Components Group
Ltd..... United Kingdom TEC
Electrical Components
Ltd..... United Kingdom Veam
S.r.l.....
Italy Veam Elektro-Anschlussstechnik
GmbH..... Germany DEFENSE
ELECTRONICS & SERVICES Advanced Engineering &
Sciences Division..... N/A Allen
Osbourne Associates, Inc.....
California Felec Services,
Inc..... Delaware
Gilcron
Corporation.....
Delaware ITT Aerospace/Communications
Division..... N/A ITT Advanced
Engineering & Systems, Inc.....
Delaware ITT Advanced Imaging Systems,
Inc..... Delaware ITT Antarctic
Services, Inc.....
Delaware ITT Arctic Services,
Inc..... Delaware ITT
Avionics
Division..... N/A
ITT Avionics Systems International,
Inc..... Delaware ITT Canadian
Enterprises, Ltd..... Canada
ITT Commercial Services,
Inc..... Delaware ITT DCD
Saudia Arabia Inc.....
Delaware ITT Defence
Ltd.....
United Kingdom ITT Defense
Division..... N/A
ITT Defense & Electronics
Division..... N/A ITT Defense
International, Inc.....
Delaware ITT Employment and Training Systems,
Inc..... Delaware ITT Federal Services
Arabia Ltd..... Saudi Arabia
ITT Federal Services
Corporation..... Delaware ITT
Federal Services
GmbH..... Germany ITT
Federal Services International
Corporation..... Delaware ITT Federal
Services International, Ltd.....
Cayman Islands ITT FSC Investment
Corporation..... Delaware ITT
FSC Management
Corporation..... Delaware ITT
Gilfillan
Division..... N/A ITT
Gilfillan,
Inc..... Delaware
ITT Industries Space System
LLC..... Delaware ITT Job
Training Services, Inc.....
Delaware ITT Night Vision
Division..... N/A ITT
Power
Solutions.....
Massachusetts ITT Systems
Division..... N/A
ITT Systems & Sciences
Corporation..... Delaware
Research Systems,
Inc..... Colorado
Research Systems International France
SARL..... France Research Systems
International UK Limited..... United
Kingdom Research Systems Italia
S.r.l..... Italy '

JURISDICTION IN NAME UNDER WHICH NAME WHICH ORGANIZED DOING BUSINESS -----
----- FLUID TECHNOLOGY AC Custom
Pumps Division.....
N/A Anadolu Flygt Pompa Sanayi Ve
Ticaret..... Turkey Avis Werberg
GmbH.....
Austria BEC Acquisition Corporation,
Inc..... Delaware Bombas
Flygt de
Venezuela.....
Venezuela Bombas Goulds de
Argentina.....
Argentina Goulds Bombas Goulds de Mexico S. de
R.L. de C.V..... Mexico Goulds Bombas
Goulds de Venezuela,
C.A..... Venezuela Goulds
Distribuidora Arbos,
C.A..... Venezuela
Faradyne Motors
LLC.....
Delaware Flowtronex Acquisition, Inc.
..... Delaware Flowtronex
PSI, Inc.....
Nevada Fluid and Water Technology India, Inc.
..... Delaware Flygt Argentina
S.A.....
Argentina Flygt Flygt do
Brazil.....
Brazil Flygt Flygt Chile
S.A.....
Chile Flygt Flygt Hellas
S.A.....
Greece Flygt Flygt Huolto
OY.....
Finland Flygt Flygt Korea
Ltd.....
Korea Flygt Flygt Peru
S.A.....
Peru Flygt Flygt Portugal Technologia Agua do
Ambiente..... Portugal Flygt Flygt
Pumpet
OY.....
Finland Goulds Pumps
Administration.....
Delaware Goulds Pumps Canada,
Inc..... Canada
Goulds Goulds Pumps Co.,
Ltd..... Korea
Goulds Goulds Pumps Financial Services
Ltd..... Ireland Goulds Goulds
Pumps,
Incorporated.....
Delaware Goulds Goulds Pumps (IPG),
Inc..... Delaware
Goulds Goulds Pumps (Ireland),
Limited..... Ireland Goulds
Goulds Pumps (NY),
Inc..... New York
Goulds Goulds Pumps (PA),
Inc..... Delaware
Goulds Goulds Pumps (Philippines),
Inc..... Philippines Goulds
Goulds Pumps World Sales (VI)
Ltd..... Virgin Islands Goulds
GP Holding Company,
Inc..... Delaware
Goulds Grindex
AB.....
Sweden Innotec Water Management
BV..... Netherlands ITT
Bell & Gossett
Division..... N/A Bell &
Gossett ITT EP
(Nanjing).....
China ITT Fluid Technology Asia Pte
Ltd..... Singapore ITT Fluid
Technology Corporation.....

Delaware ITT Fluid Technology
Division..... N/A ITT
Fluid Technology International,
Inc..... Delaware ITT Fluid
Technology International (HK), Ltd.....
Hong Kong ITT Fluid Technology International
Pty Ltd..... Australia ITT Fluid
Technology International (Thailand), Ltd....
Thailand ITT Fluid Technology
S.A..... Chile ITT
Flygt
AB.....
Sweden Flygt

JURISDICTION IN NAME UNDER WHICH NAME WHICH
ORGANIZED DOING BUSINESS -----
----- ITT Flygt

ApS.....
Denmark Flygt ITT Flygt

A/S..... Norway
Flygt ITT Flygt

BV..... The
Netherlands Flygt ITT Flygt

BVBA.....
Belgium Flygt ITT Flygt

Corporation.....
Delaware Flygt ITT Flygt

GmbH.....
Austria Flygt ITT Flygt HK

Ltd..... Hong Kong
Flygt ITT Flygt

Kft.....
Hungary Flygt ITT Flygt

Limited.....
Australia Flygt ITT Flygt

Lituanica.....
Lithuania Flygt ITT Flygt

LLC.....
Delaware ITT Flygt Ltd.

(Ireland)..... Ireland
Flygt ITT Flygt Ltd.

(UK)..... United
Kingdom Flygt ITT Flygt Pumpen

GmbH..... Germany Flygt
ITT Flygt (PTY),

Ltd..... S. Africa
Flygt ITT Flygt

S.A.S..... France
Flygt ITT Flygt SDC

S.A.S..... France
Flygt ITT Flygt

S.r.l..... Italy
Flygt ITT Flygt sp

ZOO..... Poland
Flygt ITT Flygt (Shenyang) Pumps,

Ltd..... China Flygt ITT Flygt
Werk GmbH.....

Germany Flygt ITT Goulds Benelux

BV..... The Netherlands
Goulds ITT Grindex Pumps

Division..... N/A ITT
Standard Division (Heat Transfer).....
N/A ITT Hengtong Advanced Water Treatment
(Shanghai) Co.

Ltd.....
China ITT Industries Holding

AB..... Sweden ITT Kobay
Sdn BHD.....

Malaysia ITT McDonnell & Miller

Division..... N/A McDonnell &
Miller ITT Pure Flo Co.,

Ltd..... United Kingdom
ITT Richter Chemie Technik

GmbH..... Germany ITT Sanitaire,
Ltd..... United
Kingdom ITT Standard

Division..... N/A ITT
Water Technology Delaware, Inc.....
Delaware ITT Water Technology Holdings,
Inc..... Delaware ITT Water
Technology, Inc.....
Delaware ITT Water Technology, Inc.
(Canada)..... Canada ITT Water
Technology International, Inc.....
Delaware ITT Water Technology Mexico S. de R.L. de
C.V..... Mexico ITT Water Technology Texas
Holdings, Inc..... Delaware ITT Water
Technology (TX) LP.....
Delaware ITT Wellpoint

S.r.l..... Italy
Lowara Deutschland

GmbH..... Germany Lowara

Lowara France
S.A.S..... France
Lowara Lowara (Ireland)
Limited..... Ireland
Lowara Lowara Nederland
BV..... The
Netherlands Lowara Lowara
Portugal.....
Portugal Lowara Lowara
S.r.l.....
Italy Lowara

JURISDICTION IN NAME UNDER WHICH NAME WHICH
 ORGANIZED DOING BUSINESS -----
 ----- Lowara UK
 Limited.....
 United Kingdom Lowara Lowara Vogel Polska Co.
 Ltd..... Poland Nanjing
 Goulds Pumps Ltd.....
 China Goulds OY Flygt Nova
 AB.....
 Finland Flygt PCI Membrane Inc.
 Delaware
 Portacel, Inc.

 Delaware PT Sam
 McCoy.....
 Indonesia Pure-Flo MPC,
 LLC.....
 Delaware Pumpenfabrik Ernst Vogel
 GmbH..... Austria Vogel
 Richter,
 Inc.....
 Delaware Robot Pumps
 BV.....
 Netherlands Sam McCoy Engineering Pte Ltd.
 Singapore Sam McCoy
 Engineering SDN BHD.....
 Malaysia Sam McCoy Manufacturing SDN
 BHD..... Malaysia Sanitaire
 Division.....
 N/A Sanitaire Shanghai Goulds Pumps Co. Ltd.
 China SRP Acquisition
 Corp.
 Delaware Trailigaz Ozone
 S.A.S..... France
 Tecnicas de Filtracion Bombeo S.A.
 Spain Trimate Industries
 Ltd. New
 Zealand Vogel Pumpen
 Drv.....
 Hungary WEDECO
 AG.....
 Germany WEDECO AVP Pty Ltd.
 Australia
 WEDECO
 B.V.....
 The Netherlands WEDECO
 GmbH.....
 Germany WEDECO Inc.

 Delaware WEDECO Katadyn
 AG.....
 Switzerland WEDECO Katadyn France S.A.S.
 France WEDECO
 Limited.....
 United Kingdom WEDECO
 Ltd.....
 New Zealand WEDECO Ltda.

 Brazil WEDECO Rex S.R.L.
 Spain
 WEDECO Sp. z.o.o.
 Poland
 WEDECO Sung Jin Ltd.
 South Korea
 WEDECO Technologie Acque
 S.r.l..... Italy WEDECO
 Visa
 GmbH.....
 Austria 1448170 Ontario Ltd.
 Canada
 MOTION & FLOW CONTROL AGJ Holding
 AB.....
 Sweden A.G. Johansons Metallfabrik
 AB..... Sweden Flojet
 Division.....
 N/A Flojet (Europe)
 Limited..... England
 Fulton-Rohr GmbH & Co.

KG..... Germany Fluid
Handling Systems Management,
GmbH..... Germany Hydro Air
Industries Division.....
N/A ITT Aerospace Controls
Division..... N/A ITT
Automotive Europe GmbH & Co.
KG..... Germany

JURISDICTION IN NAME UNDER WHICH NAME WHICH
ORGANIZED DOING BUSINESS -----
----- ITT Automotive Fluid Handling Systems,
S.A. de C.V.
.....
Mexico ITT Automotive, Inc.
..... Delaware ITT
Conoflow Division.....
N/A ITT Fluid Handling Systems Australia Pty Ltd.
..... Australia ITT Fluid Handling Systems Czech
Republic SRO..... Czech Republic ITT Fluid
Handling Systems GmbH & Co. KG.....
Germany ITT Fluid Handling Systems (Suzhou) Co.
Ltd. China ITT Industries Fluid Handling
Systems do Brasil
Limitada.....
Brazil ITT Industries Friction, Inc.
..... Delaware ITT Industries
Friction Products S.r.l..... Italy ITT
Industries Italia S.r.l.....
Italy ITT Industries Vermoegensverwaltungs
GmbH..... Germany ITT Koni America
LLC..... Delaware ITT
Pure-Flo (UK), Ltd.
United Kingdom Jabsco
GmbH.....
Germany Jabsco Jabsco Marine Italia
S.r.l..... Italy Koni
B.V.....
The Netherlands Koni Koni France
SARL..... France
Koni NHK
Jabsco.....
Japan Jabsco Rule Industries, Inc.
..... Massachusetts Rule
OTHER Admiral
Corporation.....
Florida Admiral Bolton Insurance
Company..... New York
Carbon Industries, Inc.
..... West Virginia Carbon
Carbon Fuel
Company..... West
Virginia Computer & Equipment Leasing
Corporation..... Wisconsin Corporp A&F,
Inc. Delaware
Howard
Corporation.....
North Carolina International Standard Electric
Corporation..... Delaware ITT AES
Enterprises, Inc.
Delaware ITT Automotive Enterprises, Inc.
..... Delaware ITT Benefits
Management, Inc. Delaware
ITT Canada
Company..... Nova
Scotia ITT Canada Finance L.P.
..... Canada ITT Community
Development Corporation..... Delaware
ITT Delaware Investments, Inc.
..... Delaware ITT France
SAS..... France
ITT German Holding
BV..... Germany ITT
Gesellschaft fur Beteiligungen mbH.....
Germany ITT Industriebeteiligungsgesellschaft
mbH..... Germany ITT Industries Asset
Management, Inc. Delaware ITT
Industries Canada LP.....
Canada ITT Industries Global
SARL..... Luxembourg ITT
Industries (China) Investment Company, Limited....
China ITT Industries German Asset Management
GmbH..... Germany ITT Industries German
Holding GmbH..... Germany ITT
Industries GmbH.....
Germany

JURISDICTION IN NAME UNDER WHICH NAME
WHICH ORGANIZED DOING BUSINESS ---- --

----- ITT
Industries Holding
SARL.....
Luxembourg ITT Industries Italia
Holdings S.r.l..... Italy
ITT Industries Investment Ltd.
..... Barbados ITT
Industries Investment
SARL.....
Luxembourg ITT Industries
Limited.....
United Kingdom ITT Industries
Luxembourg
SARL.....
Luxembourg ITT Industries Management
GmbH..... Germany
ITT Industries of Canada Ltd.
..... Canada ITT
Industries
SARL.....
Luxembourg ITT Industries UK Holdings
Ltd. United
Kingdom ITT Industries World Sales
Limited..... Bermuda
ITT Manufacturing Enterprises,
Inc..... Delaware ITT
Remediation Management, Inc.
..... Delaware ITT
Resource Development
Corporation..... Delaware
ITT Transportation Distribution
Services Division.... N/A Kentucky
Carbon
Corporation.....
West Virginia Paul N. Howard
Company.....
North Carolina Sunsport Recreation,
Inc.
Florida Winifrede Railroad
Corporation.....
West Virginia

Note: The names of certain subsidiaries have been omitted since, considered in the aggregate, they would not constitute a "significant subsidiary" as of the end of the year covered by this report.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Post-Effective Amendment No. 1 to Registration Statement No. 033-45756 on Form S-3, Post-Effective Amendment No. 7 to Registration Statement No. 033-06004 on Form S-8, Post-Effective Amendment No. 1 to Registration Statement No. 033-53771 on Form S-8, and Registration Statement Nos. 333-01109, 333-04611, 333-64161, 333-66293, 333-84917, 333-41806, 333-41808, 333-87814 and 333-105203 on Form S-8 of our reports dated March 9, 2006, relating to the consolidated financial statements and financial statement schedule of ITT Industries, Inc. and subsidiaries and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of ITT Industries, Inc. for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP
Stamford, Connecticut
March 9, 2006

CERTIFICATION OF STEVEN R. LORANGER PURSUANT TO SEC. 302
OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Steven R. Loranger, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2005 of ITT Industries, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEVEN R. LORANGER

Steven R. Loranger
Chairman, President and Chief
Executive Officer

Date: March 10, 2006

CERTIFICATION OF GEORGE E. MINNICH PURSUANT TO SEC. 302
OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, George E. Minnich, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2005 of ITT Industries, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GEORGE E. MINNICH

George E. Minnich
Senior Vice President and
Chief Financial Officer

Date: March 10, 2006

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ITT Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven R. Loranger, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN R. LORANGER

Steven R. Loranger
Chairman, President and
Chief Executive Officer

March 10, 2006

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ITT Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George E. Minnich, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE E. MINNICH

George E. Minnich
Senior Vice President and
Chief Financial Officer

March 10, 2006

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.