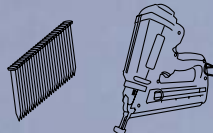
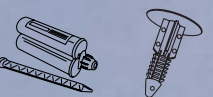

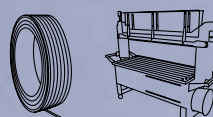
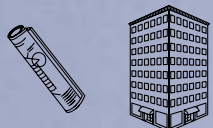


# ITW Annual Report 2002



ILLINOIS TOOL WORKS INC.

## ITW AT A GLANCE

ITW AT A GLANCE	Product Categories	Major Businesses	Primary End Markets
<p>Engineered Products North America</p> 	<p>Short lead-time plastic and metal components and fasteners, and specialty products such as adhesives, fluid products and resealable packaging</p>	<p>Anchor, Buildex, Chemtronics, Deltar, Devcon, Duo-Fast, Fastex, Foamseal, Medalist, Minigrip/Zip-Pak, Paslode, Plexus, Ramset/Red Head, Shakeproof and Wilsonart</p>	<p>Construction, automotive, general industrial and consumer durables</p>
<p>Engineered Products International</p> 	<p>Short lead-time plastic and metal components and fasteners, and specialty products such as electronic component packaging</p>	<p>Buildex, Deltar, Fastex, Henschel, Highland, Ispra, Jemco, Magnaflux, Meritex, Nexus, Plexus, Ramset/Red Head, Shakeproof and SPIT</p>	<p>Construction, automotive, general industrial, consumer durables and electronics</p>
<p>Specialty Systems North America</p> 	<p>Longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing</p>	<p>Angleboard, BGK, Dynatec, Hi-Cone, Hobart, Loveshaw, Miller Electric, Norwood Marking, PRO/MARK, Ransburg, Signode, Traulsen, Trident and Vulcan</p>	<p>Food retail and service, general industrial, construction, and food and beverage</p>
<p>Specialty Systems International</p> 	<p>Longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing</p>	<p>Auto-Sleeve, DeVilbiss, Dynatec, Foster, Gema, Gunther, Hi-Cone, Hobart, ITW Foils, Mima, Orgapack, Signode and Simco</p>	<p>General industrial, food retail and service, and food and beverage</p>
<p>Leasing and Investments</p> 	<p>This segment makes opportunistic investments in mortgage-related assets, leveraged and direct financing leases of equipment, properties and property developments, affordable housing and a venture capital fund</p>		

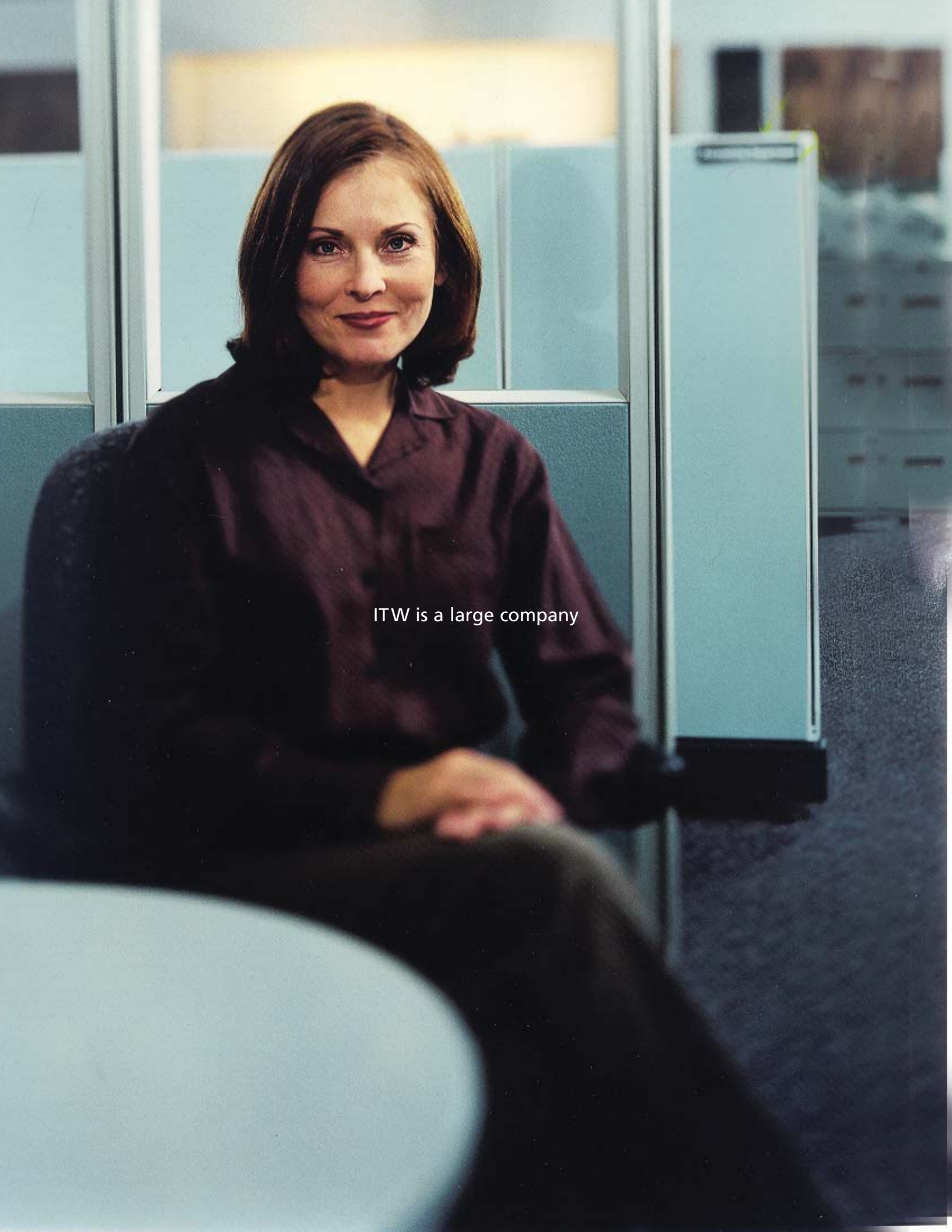
## FINANCIAL HIGHLIGHTS

Dollars in thousands except per share amounts

	2002	2001	2000
<b>Year Ended December 31</b>			
<b>Operating Results</b>			
Operating revenues	\$9,467,740	\$9,292,791	\$9,511,647
Operating income	1,505,771	1,306,103	1,577,453
Operating income margin	15.9%	14.1%	16.6%
Income from continuing operations	\$ 931,810	\$ 802,449	\$ 969,451
Return on operating revenues	9.8%	8.6%	10.2%
Operating income			
margins by segment:			
Engineered Products—North America	17.5%	16.7%	19.7%
Engineered Products—International	13.6	12.2	11.4
Specialty Systems—North America	15.2	13.3	17.3
Specialty Systems—International	9.7	11.0	10.9
Leasing and Investments	47.1	53.0	54.4
<b>Per Share of Common Stock</b>			
Income from continuing operations:			
Basic	\$3.04	\$2.64	\$3.21
Diluted	3.02	2.62	3.18
Cash dividends paid	0.89	0.82	0.74
<b>Returns</b>			
Return on average invested capital	15.0%	13.0%	17.1%
Return on average stockholders' equity	14.7	14.0	19.0
<b>Liquidity and Capital Resources</b>			
Free operating cash flow	\$1,095,112	\$1,305,133	\$ 893,719
Total debt to capitalization	19.2%	20.7%	26.8%

## TABLE OF CONTENTS

ITW the Company 2 Letter to Shareholders 17 Management's Discussion and Analysis 20 Reports of Independent Public Accountants 32 Financial Statements 34 Notes to Financial Statements 37 Eleven-Year Financial Summary 56 Corporate Executives and Directors 58



ITW is a large company






with the mindset of a small startup.






There is no single R&D department,




A woman with dark hair, wearing a blue denim shirt and dark pants, stands with her arms crossed, holding a red vacuum cleaner. She is positioned in front of a light green server cabinet. To her left, the open door of the cabinet reveals a red robotic vacuum cleaner with a black flexible hose. The background is a dark, textured wall.

yet we hold thousands of patents in our arsenal of products.

A man in a dark blue work jacket and pants stands in a factory, smiling, with large industrial machinery in the background. The machinery is yellow and green, with a large circular component visible. The man is holding a pair of blue gloves in his hands.

Since 1912, we have defied skeptics and grown profitably.



A man with short, light-colored hair, wearing a dark red button-down shirt, stands in a large industrial warehouse. He has his arms crossed and is looking directly at the camera with a slight smile. The background is filled with the structural elements of the warehouse, including high ceilings with exposed metal beams and long, bright fluorescent light fixtures. In the distance, there are various pieces of equipment, shelving units, and boxes, suggesting a busy manufacturing or distribution environment. The lighting is warm, with a yellowish tint from the overhead lights.

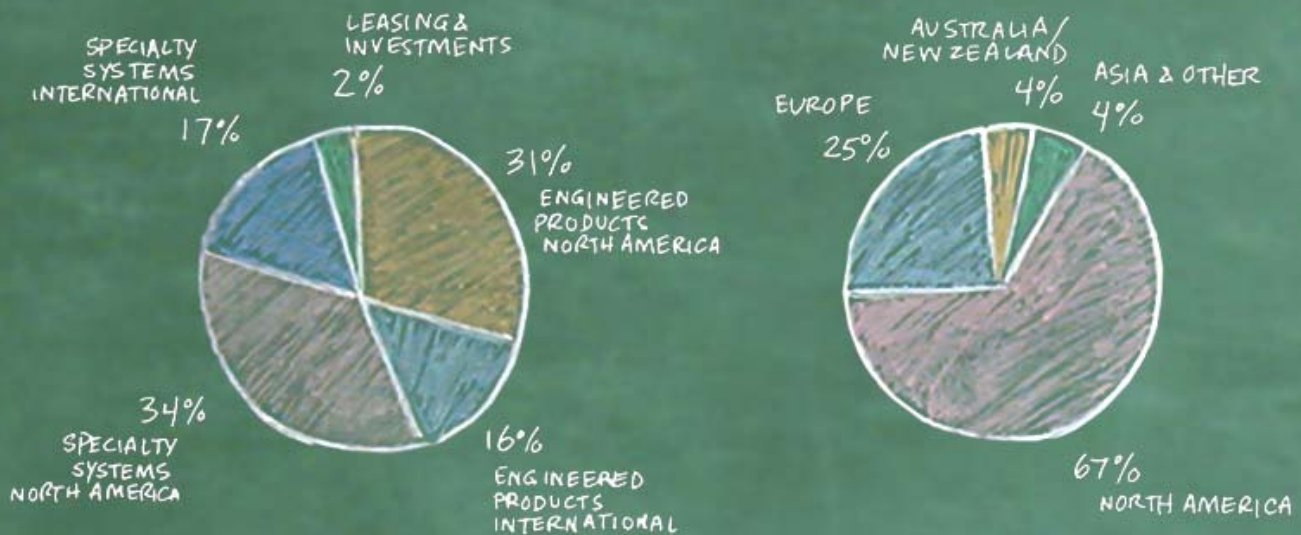
Our global perspective and client focus define ITW's success.



## GLOBAL

*ITW is a large company with*  
**distinct business segments**

THAT SERVE A VARIETY OF INDUSTRIES AND FAR-REACHING GEOGRAPHIES.



2002

ITW's financial performance is generated by some 600 worldwide businesses, operating in 44 countries, that develop more than 5,000 product lines for customers who are principally located in North America, Europe, Australia, Asia and Latin America. We report our multiple revenue sources via our five North American and international segments. Our stable of value-added products includes short lead-time engineered fasteners and components, which become part of customers' products, as well as longer lead-time systems and consumables, which are integral to customers' production processes. Examples of our design and manufacturing prowess include Paslode's cordless nailing system, used by the new housing and remodeling/rehab trade, as well as Deltar's specialty interior door handles for automobiles and light trucks. In Specialty Systems, our

Signode business develops and manufactures highly engineered tools and machinery, employing plastic or steel strap, to provide industrial-based customers with on-the-line packaging and shipping solutions.

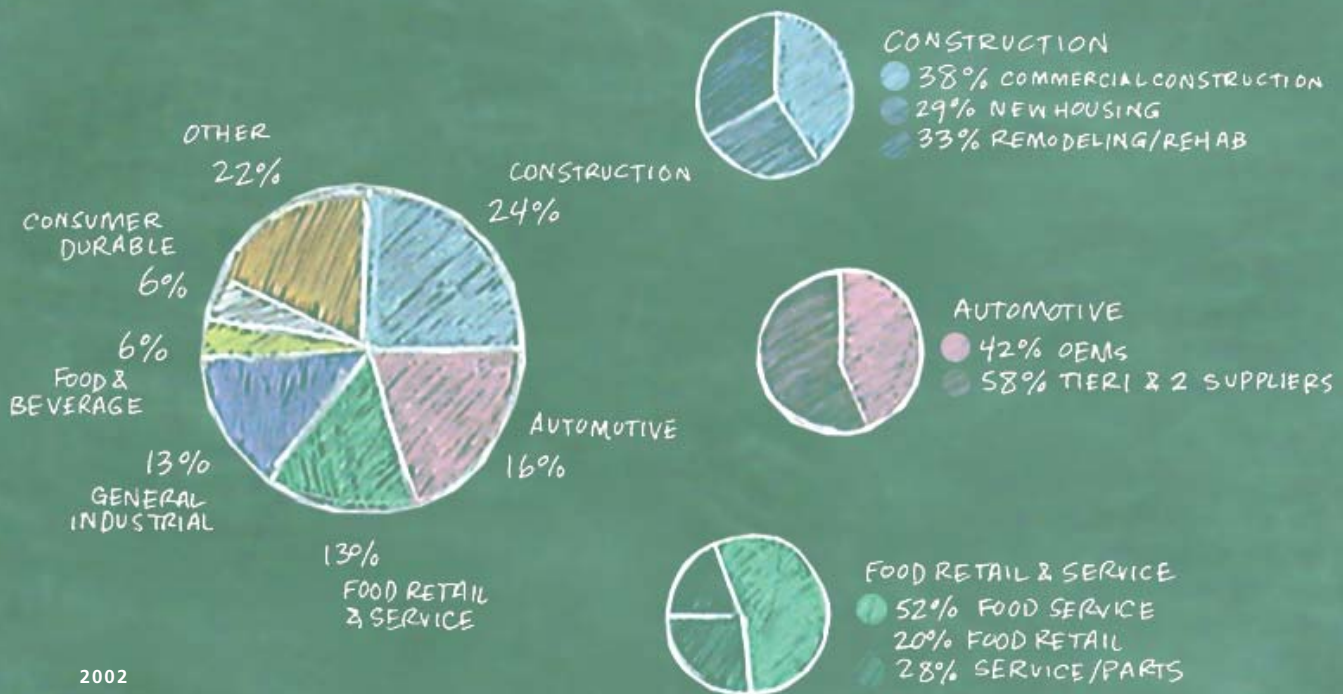
The counterbalance between our engineered products and specialty systems and consumables serves ITW well. In fact, the short lead-time components businesses serving North American automotive customers, in combination with solid performance in the worldwide new housing and remodeling/rehab sectors, boosted the company's bottom line in 2002. These stronger end markets helped offset weaker customer demand experienced by many of our longer lead-time systems businesses, which are more dependent on capital expenditure dollars for growth.



## DIVERSIFIED

*Our overall success comes from the collective results of*  
**many different end markets.**

COMPLEMENTING OUR GLOBAL REACH IS A SPECTRUM OF PRODUCTS AND CUSTOMERS.



Our three largest end markets provide an example of further diversification both in terms of customers and geographies. The construction businesses consist of 66 autonomous units operating in 30 countries, and include products for the commercial, new housing and remodeling/rehab sectors. Our construction businesses in North America, Europe, Australia and Asia each have different end market dynamics and operate within varied economies. Our automotive businesses are comprised of 52 units in 15 countries, serving original equipment manufacturers as well as Tier 1 and Tier 2 suppliers globally. Although we are a well-known North American auto supplier, a meaningful portion of our auto revenues are derived from overseas markets. The food equipment businesses are made up of 50 units in 25 countries, and include food service (products such as

dishwashers and bakery ovens for restaurants and institutional settings) and food retail (products such as food slicers and food scales) for supermarkets and specialty stores. We also provide parts and service to food service and food retail customers.

This mix of revenue sources provides stability during economic swings and helps to minimize country-specific market cycles. For example, in 2002 the economies of Europe and Australia generally performed better than the United States. The ability to maximize different business cycles and economies in the various countries where we do business helped to provide a solid earnings performance for the company as a whole in 2002.

## DECENTRALIZED

*Our decentralized and flexible operating structure is the foundation for our success.  
In fact, our flat organization results in only*

# two layers

BETWEEN OUR CEO AND CUSTOMERS ACROSS EACH DIVISION.



Our senior management team is led by our Chief Executive Officer, who oversees eight Executive Vice Presidents. Each EVP supervises five to six group support staff at the corporate level, and approximately 75 general managers at the business unit level. With direct responsibility for an average of more than \$1 billion in revenues, EVPs essentially run their collection of worldwide businesses. We like to think of our EVPs as mini-CEOs.

ITW's lean structure gives the individual business unit leaders the power to direct each operation at the local level. Drawing upon the EVPs' more than 20 years of average company tenure, business unit leaders are responsible for the hands-on, day-to-day business activities. This segmentation of responsibility—from the CEO to the general manager—creates a high level of accountability across the company and encourages more focus on the customer by ITW business units around the world.



## FOCUSED

*We purposely skew our organization toward the operations side of our business.  
With an emphasis on*

# business unit vs. corporate staff,

WE RECOGNIZE THE IMPORTANCE OF CUSTOMER PROXIMITY.



ITW corporate leadership provides support and fosters a culture of ownership among employees around the world. We employ close to 48,700 people worldwide, yet we have only 250 employees at corporate headquarters. Our approach is entrepreneurial, concentrating the bulk of our most important resources—our people—on our customers. This emphasis on putting the decision-making authority at the local level cultivates stronger relationships between our customers and our business units, and leverages our expertise and ability to better penetrate end markets.

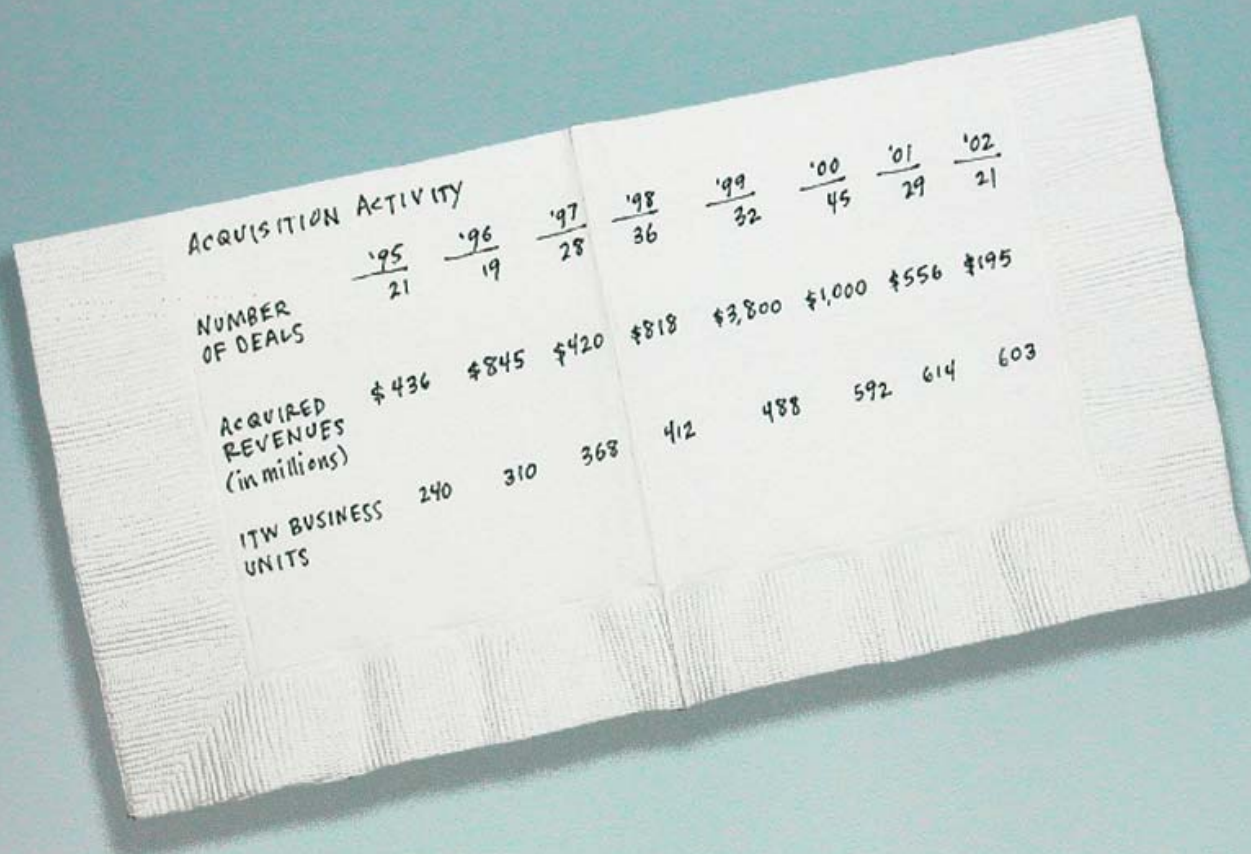
Our corporate-wide efforts often involve the teaching and cultivation of our 80/20 business planning process.

Within each business—those we have owned for decades as well as newly acquired ones—we devote the majority of our resources to the 20 percent of customers who represent 80 percent of revenues. This discipline keeps us focused on customer satisfaction and streamlines operations across the board. At the end of the day, it enables us to simplify our businesses by reducing indirect overhead and efficiently managing inventories, account receivables and virtually every other aspect of the business. For the customers who fall outside of the core 80/20 focus, we continue to provide support and product, but most often through less customer-service intensive ways.

## PRAGMATIC

*We view acquisitions as a*  
**commonsense**

WAY TO HELP PROVIDE SUPERIOR SOLUTIONS TO OUR CUSTOMERS.



While our acquisition program focuses on the smaller “bottom up” deals sourced by the business units, we occasionally complete the larger “top down” transactions identified by corporate management. Since 1999, we have completed 127 acquisitions totaling nearly \$5.6 billion of acquired revenues. Our marketplace experience, coupled with insights gleaned from our partnerships with customers, drives our acquisition process and pipeline. We evaluate, and ultimately buy, companies with products that allow us to exceed our customers’ expectations. And we occasionally sell companies that no longer fit within our progressive, business-to-business framework. One such example was the 2002 disposition of two consumer businesses—Precor and West Bend—that came to us in 1999 as part of the Premark International acquisition.

In 2002, ITW completed fewer acquisitions than in typical years, primarily because pricing continued to be a barrier. However, we continued our disciplined evaluation of potential acquisitions against our core set of criteria: The target company must have a highly engineered product, a leading brand name, an experienced management team, a strong market position and margins that can be improved. Our conservative fiscal approach and 80/20 process fosters a thorough evaluation of these companies, and helps ensure that acquisitions continue to add long-term value to both the customer and the company.

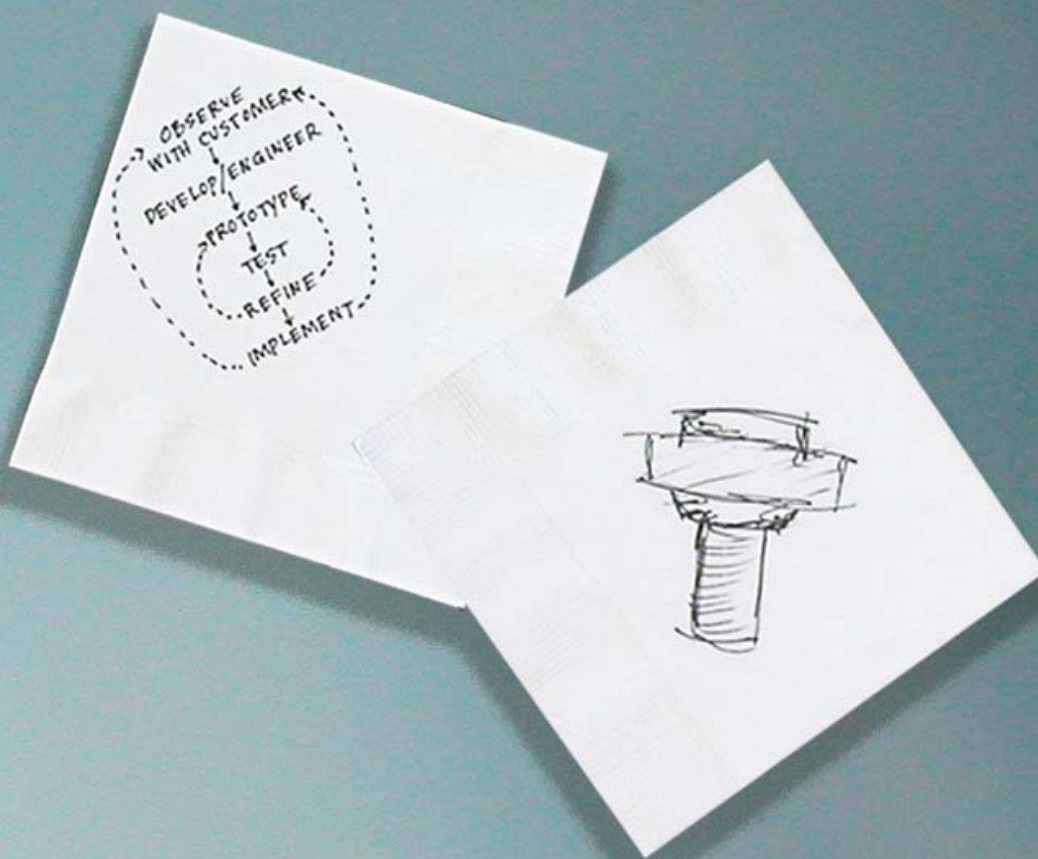


## INNOVATIVE

*We are champions of innovation. Our*

# on-the-ground approach

FUELS PRODUCT DEVELOPMENT AND BROADENS OUR CUSTOMER BASE.



Even with a reputation as a conservative company, we are always pursuing a new and better way—for our company and, most importantly, our customers. Typically ranked in the top 100 patent holders in the United States, ITW had more than 14,000 unexpired patents and pending patent applications worldwide in 2002. ITW's research and development happens at the customer location where product needs can be best identified. In fact, many of our salespeople are trained engineers who speak the customers' language and intimately understand their product needs.

ITW employees are given the authority to make decisions quickly. As a result, they generate many of our innovative

product ideas. This autonomy increases speed to market for new and enhanced products, and helps ensure that our businesses remain competitive. Across all levels and around the world, ITW people are encouraged to develop inventive ideas to further our core growth and better serve our customers. To support this process, business units tap into the resources of our Technology Center at our headquarters location. This group of highly trained engineers, technicians and scientists works on longer-term materials, and mechanical and process-oriented projects to augment developments in our business units. These technologies are communicated throughout our worldwide businesses for maximum product and customer impact.

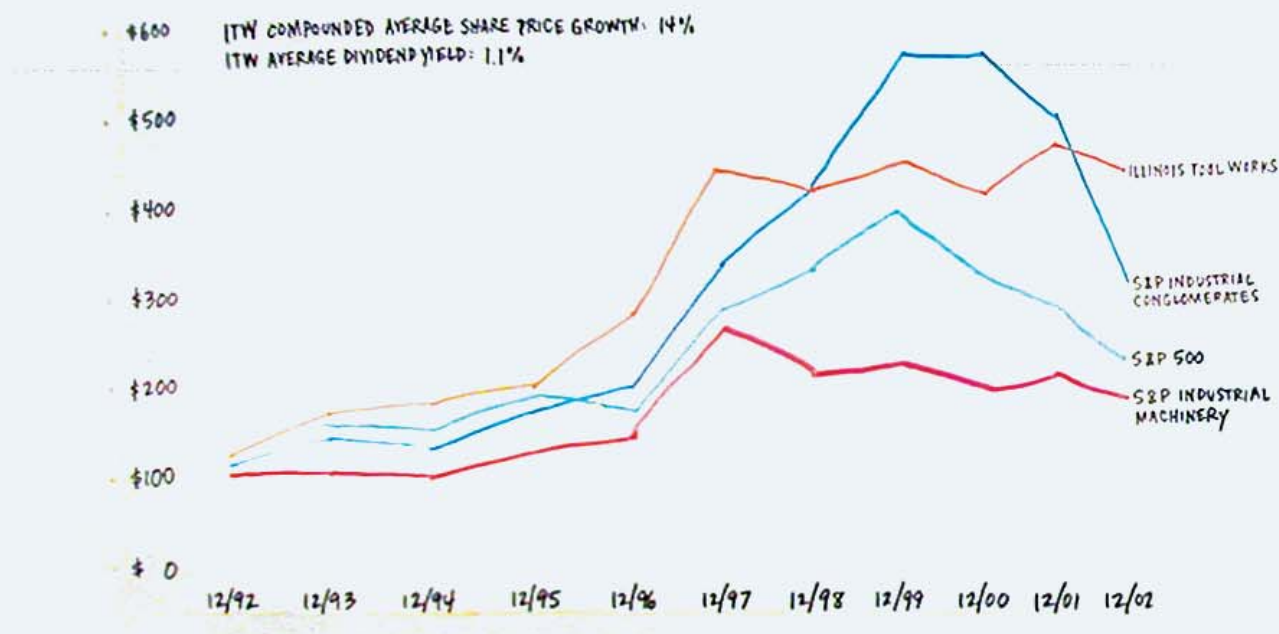
## STABLE

*ITW is synonymous with a long-term growth stock*

THAT SINCE 1992 HAS DELIVERED A COMPOUNDED AVERAGE

# shareholder return of 15 percent.

COMPARISON OF 10-YEAR CUMULATIVE TOTAL RETURN\*



\*\$100 invested on 12/31/92 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

A review of the past decade demonstrates how ITW's stock price valuation has remained strong when compared with other indices and peers, even during the latest recession. Key to our consistent performance is our commitment to achieving value-added returns, deliver healthy free operating cash flows and improve already strong margins across all units. In particular, we continued to enhance newer acquisitions, which we consider to be those purchased within the past five years.

As an example, the improvement of the former Premark businesses continues to be a big win for the company.

In 2002, we achieved significant improvements within the Food Equipment and Wilsonart businesses, in part by breaking the businesses into smaller, more manageable units. This process, in turn, allows our people to more effectively focus their efforts and implement 80/20 programs. The result: operating margins were 13 percent for 2002—up from 9 percent when we acquired Premark in 1999—even as end market weaknesses caused revenues to decline nearly 10 percent from 1999 levels. We fully expect the Wilsonart and Food Equipment businesses to meet our operating margin goal of 18 percent by 2004. Our reputation for stability is grounded in our results-driven culture.



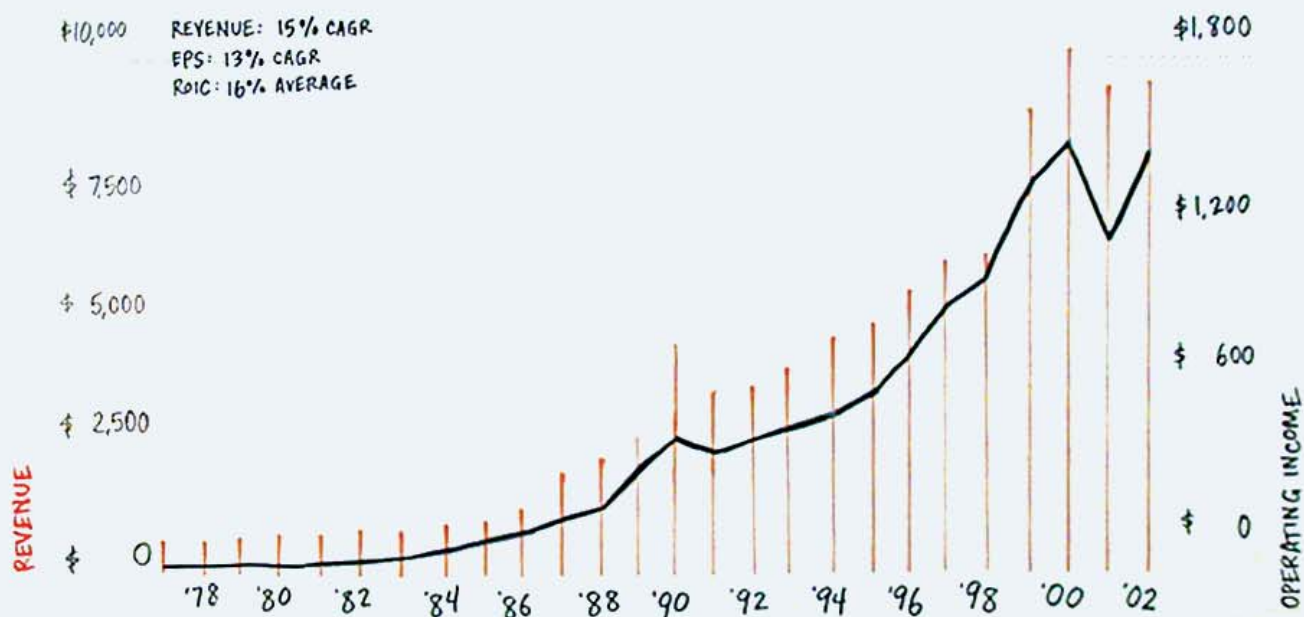
## GROWING

*ITW's numbers speak for themselves.*

OUR STRONG TRACK RECORD OF EARNINGS GROWTH SHOWS

# solid results year after year.

25-YEAR ITW REVENUE/OPERATING INCOME



For more than 25 years, ITW has provided strong, consistent returns to shareholders. In fact, during this time period, ITW investors have benefited from double-digit growth on a variety of key financial measures. Annual revenue growth of 15 percent helped drive our earnings per share growth of 13 percent. At the same time, our return on invested capital and shareholder returns averaged a healthy 16 percent and 19 percent, respectively. Our ability to perform, even during times of economic uncertainty, reflects our strength and consistency as a company.

Several factors are at play in defining ITW's success. The culture of ownership and responsibility that we foster continues to drive our strong financial performance. Our

allegiance to our customers is reflected in our customer-centric approach to business, which has led us into diversified end markets across the globe. And the company's decentralized structure drives product innovation and fuels operating margin improvement through the consistent application of our 80/20 business planning process.

We do things differently at ITW, but the rewards of our distinct approach are proved in our strong financial metrics and our solid balance sheet. To some, the notion of a global, decentralized company may seem illogical, but to us, it is the only way to grow our business.

Frank S. Ptak  
*Vice Chairman*



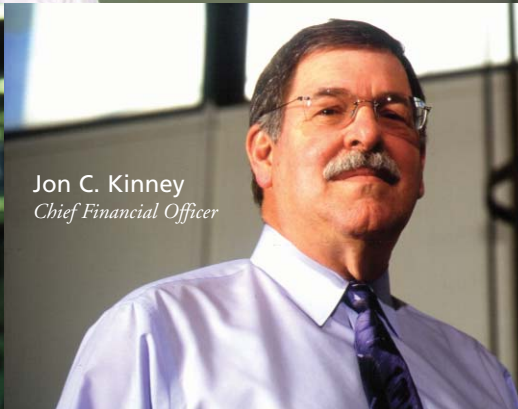
Thomas J. Hansen  
*Executive Vice President*



Russell M. Flaum  
*Executive Vice President*



Jon C. Kinney  
*Chief Financial Officer*



Philip M. Gresh, Jr.  
*Executive Vice President*



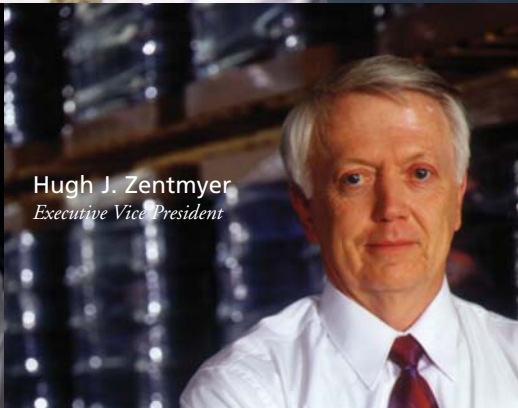
W. James Farrell  
*Chairman and Chief Executive Officer*



David B. Speer  
*Executive Vice President*



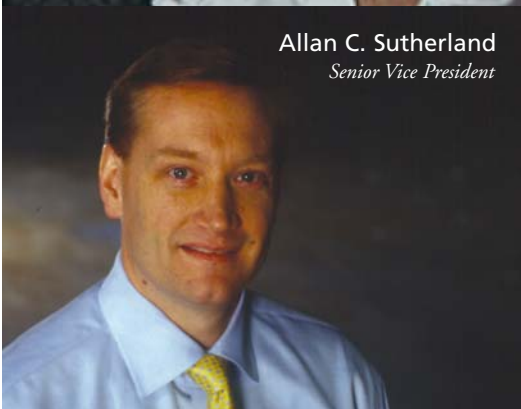
Hugh J. Zentmyer  
*Executive Vice President*



David T. Flood  
*Executive Vice President*



Allan C. Sutherland  
*Senior Vice President*



James M. Ringler  
*Vice Chairman*





## TO OUR SHAREHOLDERS

Stability. Integrity. Trust. In a year where a number of high profile companies made news due to corporate and executive malfeasance, these three words became synonymous with how good business is run. These words are not new to ITW, nor are they an attempt by us to be fashionable. Our more than 90-year history underscores that stability, integrity and trust have long been the ideals for which we strive and measure success. Today, we believe that our conservative business practices and forthright reporting process are recognized.

In the challenging economic environment that has marked the past 30 months, our success also is attributable to the core tenets of our business—our decentralized structure and the 80/20 business planning process that constantly focus on simplification, product innovation and growth opportunities. These company attributes are detailed in this report, and we invite you to learn more about how we operate and continue to manage a successful business enterprise.

### 2002 Financial Results

One clear measurement of ITW's success is our financial track record. We closed 2002 with \$9.5 billion in revenues, or 2 percent higher than the prior year. Within our manufacturing segments, acquisitions accounted for 3 percent of revenues and currency translation added 1 percent, offset by a 2-percent decline in base business revenues. Despite our mildly negative base business revenue performance during the year, we are pleased with its direction, having improved from -7 percent in 2001. And even with the very slow and uneven North American economy, we were able to grow income from continuing operations excluding goodwill amortization 7 percent for full-year 2002. Much of that

income growth was due to improvement in our operating margins. In 2002, operating margins moved to 15.9 percent—a very healthy 100 basis point gain from the prior year.

Another indicator of financial health is that our free operating cash flow continues to be strong. For 2002, free operating cash flow totaled \$1.1 billion—a clear sign that we continued to generate income and reduce working capital needs in our businesses thanks to the diligent management of such things as accounts receivable and inventories.

### Business and 80/20

Overall, there were two distinct trends in our 2002 business performance. First, our engineered products businesses that rely to a higher degree on consumer spending (construction-related new housing and remodeling/rehab, as well as auto) performed well in 2002. In contrast, our specialty systems businesses that are more directly tied to capital spending had weaker results. Specifically, our businesses that serve commercial construction, food equipment and industrial packaging customers exhibited revenue softness. Second, our stronger performance by our international businesses, particularly in parts of Europe and Australia, helped offset some of the North American end market weakness.

Even with the various end market and geographic ups and downs, the strength of our 80/20 business planning process continues to deliver tangible results for ITW shareholders and customers. Our focus on key customers and end markets leads to improvements in product development and delivery. It also reduces inventory, increases market penetration and strengthens our operating margins.

Our 80/20 process is applied company-wide every day, and is a key driver in operating margin improvement. For 2002, a sizable portion of the margin gain was due to improvements at acquired companies. Within the former Premark businesses, operating margins for Wilsonart and Food Equipment—originally at 9 percent at the time of this 1999 transaction—hit 13 percent by year-end 2002. We believe we are on track to meet our five-year goal of doubling Premark operating margins to 18 percent by year-end 2004, even without the benefit of top-line growth in these businesses. In related news, during 2002 we divested two of the three Premark consumer units—Precor exercise equipment and West Bend small consumer appliances—as they did not fit our business-to-business customer model. We continue to work toward the disposition of the Florida Tile business, and we expect to complete this transaction in 2003.

Our acquisition activity slowed in 2002. The acquisition landscape is filled with overpriced companies that reflect valuations based on the metrics of the late 1990s rather than today. While we will continue to pursue companies that add to our product mix, we will maintain our discipline as to purchase costs. In 2003, we will continue to evaluate our strong pipeline of potential acquisition targets with the same mindset.

### **Management and People Strength**

A vital contributor to ITW's success and stability over the years is our "institutional memory." For a company to prosper, it needs a continuum of leadership. People who are most valuable to an organization are those who instinctively understand how the company functions, and are able to apply that insight to make the right decisions. At ITW, we

are fortunate to have a wealth of top managers with many years of institutional memory. For example, our eight Executive Vice Presidents—each responsible for directing the activities of an average of 75 businesses that represent more than 1 billion of revenue dollars—collectively account for nearly 180 years of combined company service, or approximately 23 years of average tenure. This longevity is a real advantage in a marketplace where the average life span of management teams is in the low single digits.

Another key component of our growth relates to successful oversight by ITW's board of directors. One board member, Phillip Rooney, has opted not to stand for re-election in 2003. We want to thank Phil for his many contributions during his 13 years as a board member. His understanding of our operating structure was particularly invaluable to us as ITW more than doubled in revenue size from the early 1990s to today. We wish him the very best. We are also pleased to introduce Robert Morrison as our newest nominee to the board. Bob retired as Vice Chairman of PepsiCo, Inc. in February 2003. Prior to that, he served as Chairman and Chief Executive Officer of The Quaker Oats Company from 1997 until the 2001 merger with PepsiCo. We look forward to his contributions.

Our management practices of today certainly were shaped by our past leaders. We were saddened in 2002 by the death of two such people. Silas S. Cathcart served the company for 38 years, including 16 years in the roles of Chairman and Chief Executive Officer. He made lasting and profound contributions to ITW during his tenure. Si had an innate understanding of the people with whom he worked, and his hallmark legacy is felt to this day. Edward Byron Smith, former head of the Northern Trust Company



and part of the family that established ITW nearly a century ago, also passed away. Edward served as both an ITW director and honorary director for more than 60 years and we benefited from his wisdom and guidance. We will miss both of these ITW pioneers but will remember and rely upon their remarkable contributions to the company.

### Corporate Integrity

In today's era of corporate uncertainty, ITW's reputation as a quality company is exemplified by our strong financial performance and time-tested accounting practices. Our 25-year track record of 13-percent earnings growth, 16-percent return on invested capital and 19-percent shareholder returns all resulted from our prudent, bottom-line approach. For example, when we restructure a business—typically as part of our 80/20 process—we treat the charges as ongoing, rather than special, nonrecurring events. We also employ a rigorous inventory grading policy and practice conservative depreciation of plant and equipment to provide a clear picture of company performance. We take seriously our role as a public company, particularly our responsibility to shareholders.

We also support the various communities in which we work and live. The ITW Foundation is a leader in bolstering programs that help people achieve financial, educational

and personal goals. For example, in a year of strained company and personal budgets, more than 240 ITW business units across the country conducted United Way Campaigns in 2002, resulting in a 12-percent year-over-year increase in contributions by our people. Equally noteworthy, our volunteer programs—staffed by committed ITW retirees—logged more than 12,000 hours to help make their communities better places to live.

Looking ahead, ITW is positioned well to succeed even if an economic recovery is not imminent. However, should the North American economy rebound more quickly, we are poised to maximize end market opportunities. We are proud to be recognized for our exceptional ability to add value to customers' businesses, as well as our financial track record and our reliability and integrity in reporting our results. We salute all of our people who continue to do an outstanding job of paying close attention to the needs of our customers and our company in a very fluid economic environment. We also offer our thanks to our shareholders, many of whom are long-term holders, for their confidence and trust. Finally, we continue to believe that the tenets of stability, integrity and trust—the underpinnings of how we operate the company—will be fundamental to our success in 2003 and beyond.

—February 28, 2003



Frank S. Ptak  
Vice Chairman



W. James Farrell  
Chairman and Chief Executive Officer



James M. Ringler  
Vice Chairman