On the Cover:
Stamping foil provided by ITW Foilmark.
## Financial Highlights

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2003</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Results</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$10,035,623</td>
<td>$9,467,740</td>
<td>$9,292,791</td>
</tr>
<tr>
<td>Operating income</td>
<td>1,633,458</td>
<td>1,505,771</td>
<td>1,306,103</td>
</tr>
<tr>
<td>Operating income margin</td>
<td>16.3%</td>
<td>15.9%</td>
<td>14.1%</td>
</tr>
<tr>
<td><strong>Income from continuing operations</strong></td>
<td>$1,040,214</td>
<td>$931,810</td>
<td>$802,449</td>
</tr>
<tr>
<td>Return on operating revenues</td>
<td>10.4%</td>
<td>9.8%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

**Operating income margins by segment:**
- Engineered Products—North America: 16.0% 17.6% 16.7%
- Engineered Products—International: 13.9 13.6 12.2
- Specialty Systems—North America: 16.5 15.2 13.3
- Specialty Systems—International: 11.1 9.7 11.0
- Leasing and Investments: 76.6 47.1 53.0

**Per Share of Common Stock**
- Income from continuing operations:
  - Basic: $3.39  $3.04  $2.64
  - Diluted: 3.37 3.02 2.62
  - Cash dividends paid: 0.93 0.89 0.82

**Returns**
- Return on average invested capital: 16.1% 15.0% 13.0%
- Return on average stockholders’ equity: 14.3 14.7 14.0

**Liquidity and Capital Resources**
- Free operating cash flow: $1,169,938 $1,095,112 $1,305,133
- Total debt to capitalization: 11.0% 19.2% 20.7%
ILLINOIS TOOL WORKS INC. (NYSE: ITW) DESIGNS AND PRODUCES AN ARRAY OF HIGHLY ENGINEERED FASTENERS AND COMPONENTS, EQUIPMENT AND CONSUMABLE SYSTEMS, AND SPECIALTY PRODUCTS AND EQUIPMENT FOR CUSTOMERS AROUND THE WORLD. A LEADING DIVERSIFIED MANUFACTURING COMPANY WITH NEARLY 100 YEARS OF HISTORY, ITW’S MORE THAN 600 DECENTRALIZED BUSINESS UNITS IN 44 COUNTRIES EMPLOY APPROXIMATELY 47,500 MEN AND WOMEN WHO ARE FOCUSED ON CREATING VALUE-ADDED PRODUCTS AND INNOVATIVE CUSTOMER SOLUTIONS.

### ENGINEERED PRODUCTS

#### NORTH AMERICA

<table>
<thead>
<tr>
<th>PRODUCT CATEGORIES</th>
<th>MAJOR BUSINESSES</th>
<th>PRIMARY END MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short lead-time plastic and metal components and fasteners, and specialty products such as electronic component packaging</td>
<td>Buildex, CIP, Deltar, Devcon, Drawform, Fastex, Fiberglass Evercoat, Minigrip/Zip-Pak, Paslode, Ramset/Red Head, Shakeproof, TACC, Texwipe and Wilsonart</td>
<td>Construction, automotive and general industrial</td>
</tr>
</tbody>
</table>

#### INTERNATIONAL

<table>
<thead>
<tr>
<th>PRODUCT CATEGORIES</th>
<th>MAJOR BUSINESSES</th>
<th>PRIMARY END MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short lead-time plastic and metal components and fasteners, and specialty products such as electronic component packaging</td>
<td>Bailly Comte, Buildex, Deltar, Fastex, Ispra, Meritex, Nexus, Paslode, Ramset/Red Head, Resopal, Rocol, Shakeproof, SPIT and Wilsonart</td>
<td>Construction, automotive and general industrial</td>
</tr>
</tbody>
</table>

### SPECIALTY SYSTEMS

#### NORTH AMERICA

<table>
<thead>
<tr>
<th>PRODUCT CATEGORIES</th>
<th>MAJOR BUSINESSES</th>
<th>PRIMARY END MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing</td>
<td>Acme Packaging, Angleboard, Binks, DeVilbiss, Gerrard, Hi-Cone, Hobart, ITW Foils, Miller, Ransburg, Signode, Valeron, Unipac and Vulcan</td>
<td>Food retail and service, general industrial, construction, and food and beverage</td>
</tr>
</tbody>
</table>

#### INTERNATIONAL

<table>
<thead>
<tr>
<th>PRODUCT CATEGORIES</th>
<th>MAJOR BUSINESSES</th>
<th>PRIMARY END MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing</td>
<td>Auto-Sleeve, Binks, Decorative Sleeves, DeVilbiss, Eiga, Foster, Gema, Gerrard, Hi-Cone, Hobart, ITW Foils, Mima, Orgapack, Ransburg, Signode, Simco, Strapex and Tien Tai Electrode</td>
<td>General industrial, food retail and service, and food and beverage</td>
</tr>
</tbody>
</table>

### LEASING & INVESTMENTS

This segment makes opportunistic investments in the following categories: mortgage entities; leases of telecommunications, aircraft, air traffic control and other equipment; properties and property developments; affordable housing; and a venture capital fund.
We believe the future of good business is deeply rooted in the past. By following six simple truths that stand the test of time, we are able to make continual process and product improvements for customers, while producing solid results for our shareholders.

After nearly 100 years of being in business, basic wisdom endures as our tried-and-true approach quietly succeeds.
We operate a collection of business units and brands across diverse worldwide end markets. Because of our decentralized structure, we’re able to move quickly and take full advantage of profitable opportunities within these markets. We do this by maximizing our business mix and utilizing our operating discipline to best serve our customers.

Our decentralized operating strategy places our businesses close to the people who buy our products. This familiarity results in entrepreneurial sales and support activities, where we can quickly identify and respond to customer needs by providing original, customized products and service.

For our shareholders, the advantage of diversification allows us to overcome market uncertainties. Strength in one market helps offset fluctuations in another. When assets are used efficiently (thanks to our 80/20 process) throughout a broad mix of markets, risk is reduced and we optimize our ability to produce improved financial results and shareholder returns.
We search high and low for greater performance.

ITW is a lean organization. We believe improvements throughout our business operations should be continual and tied directly to financial results. That’s why our global workforce is relentless in its pursuit of new thinking and innovative solutions that will further streamline ITW’s process and practices. We strive to use every available internal asset at a cost advantage.

Because we operate multiple companies, our disciplined 80/20 business process ensures that our primary focus stays right where it needs to be—on the key 20 percent of customers and core products that account for 80 percent of our sales. The results of this 80/20 process are more relevant product development and delivery geared specifically toward the most important customer needs and interests. Margins that grow, costs that fall, inventory levels that shrink—that’s the way we operate.

With a flat organizational structure, business unit managers are entrusted to make timely decisions and efficient use of the teams they lead. Encouraged to manage with the authority of an owner, they forge close customer relationships and develop unique entrepreneurial opportunities that keep ITW in step with customers.
We're not searching for The Next Big Thing on which to rest our laurels. Instead, we think that a constant stream of small-but-mighty innovations will foster the most valuable gains. That's why we place a great premium on the development of thousands of engineered products and specialty systems that are created and later improved in direct partnership with our customers. Whether it is a multipack carrier used for bottled water or a construction fastener used in a home, ITW’s culture is rooted in innovation.

Many of our product success stories begin on-site, where our customers’ needs are most apparent. Thanks to the expertise of ITW’s management and sales force (many of whom are trained engineers), we are well equipped to provide practical and time-sensitive solutions to the most complex situations. Our seasoned workforce intimately understands the manufacturing challenges facing customers and can develop original solutions from the ground up. We’re confident that staying close to our customers leads to novel product insights.

ITW’s passion for creation is no secret, considering we typically rank in the top 100 of patent recipients in the United States. In 2003, we had more than 14,000 unexpired patents and pending applications worldwide.
ITW’s disciplined acquisition strategy is driven by a bottom-up approach that begins at the business unit and customer levels. Our business units are constantly looking to acquire complementary businesses, product lines and technologies that make sense for our customers.

We look to add companies that are positioned for long-term growth—emphasizing product and market strengths rather than purely financial goals. Because of these criteria, ITW has a proven track record for maintaining a diverse portfolio of industry-leading brands, as well as for integrating value-added acquisitions that thrive. Simply put, we buy what’s best for our customers.

Once under the ITW umbrella, acquired companies are expected to significantly improve their operating margins over a five-year period. We accomplish this through the application of our disciplined 80/20 business process, enabling ITW to streamline operations and refocus efforts toward the most profitable areas of the business. We expect this improvement of every new business we acquire.

Call us persistent explorers of opportunity.
Consistent performance and fiscal responsibility are ITW hallmarks. Our strong financial metrics, healthy balance sheet and transparent reporting process continue to ensure we’re trusted as a quality company. Key to our impressive performance is our commitment to achieving value-added returns, delivering healthy free operating cash flows and improving already strong margins.

We’re proud of our track record, which features strong financial results as well as solid returns for our investors around the world. Over the past 25 years, revenues and earnings per share have grown at a compounded annual rate of 14 percent and 13 percent, respectively. During the same time frame, return on invested capital has averaged 15 percent, and shareholder returns have grown at a compounded annual rate of 19 percent.

Our ability to perform, even in times of economic uncertainty, reflects our strength and consistency as a company.

Our straightforward culture of responsibility, open communication and ownership allows us to address tough times frankly, report our results honestly and build our businesses consistently. For ITW, the means are as valuable as the ends.

Money isn’t everything—but results are.
At ITW, experience has always been the key to our success. We’re fortunate that our continued growth has been nurtured by dedicated, capable—and proudly—homegrown leaders who built ITW from the ground up. The bedrock principles these leaders embodied from the start are the very ones that guide our business decisions and activities today.

Since our founding in 1912, we have relied on just four CEOs to lead the business. Our eight EVPs share an average tenure of 24 years at the company. Just as they did nearly a century ago, ITW’s leaders today understand the value of sticking to some surprisingly basic principles—like patience, common sense, client focus and confidence. These fundamental principles define our business managers who recognize and seize opportunity, take calculated risks and share their vision with both customers and employees.

Just ask our highly tenured faculty.

Our leaders are dedicated to building on ITW’s rich history to pave the way for an even more promising future. We succeed by placing the greatest value on experience while building a more resilient company, a stronger bottom line and increasing customer trust. Just as we’ve done from the start.
Business Review

Key Components of Revenue Growth

<table>
<thead>
<tr>
<th>YEAR</th>
<th>BASE BUSINESS REVENUES</th>
<th>ACQUISITIONS</th>
<th>CURRENCY TRANSLATION</th>
<th>TOTAL REVENUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>-2%</td>
<td>+3%</td>
<td>+6%</td>
<td>+6%</td>
</tr>
<tr>
<td>2002</td>
<td>-2%</td>
<td>+2%</td>
<td>+1%</td>
<td>+2%</td>
</tr>
<tr>
<td>2001</td>
<td>-7%</td>
<td>+7%</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>2000</td>
<td>+2%</td>
<td>+8%</td>
<td>-3%</td>
<td>+7%</td>
</tr>
<tr>
<td>1999</td>
<td>+3%</td>
<td>+10%</td>
<td>-1%</td>
<td>+11%</td>
</tr>
</tbody>
</table>

ITW's revenue growth primarily consists of contributions from three sources: base business, acquisitions and currency translation. Over the past 10 years, base business revenues have grown an average of 2 percent. This 10-year growth figure was dampened most recently by the weak economic conditions and challenging end markets we experienced over the past three years, especially in North America. Contributions to revenue growth from acquisitions have averaged 6 percent since 1999, even as our ability to close deals over the past two years was affected by what we considered unrealistic pricing demands from sellers. Currency translation turned positive in 2002 and 2003, mainly as a result of the strength of European currencies versus the U.S. dollar. While approximately 40 percent of ITW's revenues are derived outside the United States, nearly 70 percent of international revenues are produced within Europe.

Acquisitions

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER OF DEALS</th>
<th>ACQUIRED REVENUES (IN MILLIONS)</th>
<th>ITW BUSINESS UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>28</td>
<td>$ 347</td>
<td>622</td>
</tr>
<tr>
<td>2002</td>
<td>21</td>
<td>195</td>
<td>603</td>
</tr>
<tr>
<td>2001</td>
<td>29</td>
<td>556</td>
<td>614</td>
</tr>
<tr>
<td>2000</td>
<td>45</td>
<td>1,000</td>
<td>592</td>
</tr>
<tr>
<td>1999</td>
<td>32</td>
<td>3,800</td>
<td>488</td>
</tr>
<tr>
<td>1998</td>
<td>36</td>
<td>818</td>
<td>412</td>
</tr>
<tr>
<td>1997</td>
<td>28</td>
<td>420</td>
<td>368</td>
</tr>
<tr>
<td>1996</td>
<td>19</td>
<td>845</td>
<td>310</td>
</tr>
<tr>
<td>1995</td>
<td>21</td>
<td>436</td>
<td>240</td>
</tr>
</tbody>
</table>

We run a disciplined acquisition program that typically focuses on purchasing smaller, privately held companies that add distinct value for our customers, as well as complement or expand our existing product and technology offerings. On occasion, we will complete a larger, top-down deal. We have only closed four of these larger deals since 1986. We are diligent in our pursuit of quality products and companies, as well as fair and reasonable purchase prices. While acquisition activity is never a straight-line proposition, we are encouraged by the improvement in both the number of deals closed and revenues acquired in 2003.
The comparison between our 1998 and 2003 revenue portfolios illustrates how the 1999 addition of Premark’s food equipment companies further diversified our business mix. At year-end 2003, 13 percent of total revenues came from food equipment, which helped reduce our automotive exposure to 16 percent. While construction revenues have grown modestly due to the addition of Premark’s Wilsonart laminate business, these revenues tend to exhibit different sales cycles as a result of customer segmentation in the commercial, remodeling/rehab and new housing sectors.

We sell to three distinct food-related channels: food service, which includes restaurants, cafeterias and other institutions; food retail, which encompasses supermarkets; and the service and parts segment. Geographically, international sales account for approximately 31 percent of total food retail and service revenues, with the majority emanating from Western European countries.

Serving distinct segments of the construction market—the commercial, remodeling/rehab and new housing sectors—provides further portfolio diversification. Today’s near balance among these three sectors owes much to the tremendous growth in the remodeling/rehab segment in the 1990s. Our worldwide reach resulted in 41 percent of 2003 revenues coming from international operations.

We serve leading Tier 1 and Tier 2 suppliers, as well as a wide range of worldwide original equipment manufacturers, including VW, Ford, Renault and General Motors. Our automotive end market continues to gain better balance geographically, with 57 percent of our revenues generated from North American customers and 43 percent from European automakers.
Management Team

DAVID B. SPEER  
Executive Vice President

FRANK S. PTAK  
Vice Chairman

JON C. KINNEY  
Chief Financial Officer

JAMES M. RINGLER  
Vice Chairman

THOMAS J. HANSEN  
Executive Vice President

PHILIP M. GRESH, JR.  
Executive Vice President
To Our Shareholders

The well-known proverbs featured in this year’s annual report reflect the way your company has done business for more than 90 years: with integrity and intensity, an all-out commitment to quality and a shop-floor understanding that earning the trust of the customer is everyone’s job, every day. Our goals were, and will be, to make and market superior, value-added products; to consistently deliver high-quality earnings; and to be open and accountable—with our customers, our investors, our employees and others.

In 2003, we made progress in all of these areas. Despite difficult conditions in many of our markets, ITW’s more than 600 worldwide business units grew profitably by innovating in response to real customer needs, improving their own productivity, and acquiring new products and technologies. The result: record net income, even as companies and economies struggled with continued weak demand.

2003 Financial Results

In 2003, revenues, operating income, income from continuing operations and operating margins all showed healthy gains. For the full year, ITW generated $10 billion in revenues, a 6-percent rise over 2002. The revenue increase was fueled by 3-percent growth through acquisitions and a 6-percent contribution from currency translation. These gains were offset by a 2-percent decline in global base business revenues due to weakness in many of our end markets, including Europe, Australia, Asia and, especially, North America. Despite still-sluggish economies, ITW grew operating income 8 percent and increased income from continuing operations 12 percent for full-year 2003. As a result, worldwide operating margins rose to 16.3 percent for the year, 40 basis points higher than in 2002. In 2003, we also generated $1.2 billion in free operating cash flow, $75 million more than the prior year.

Just as important as the quantity of our earnings was the quality. ITW rarely takes special charges and does not report “pro forma” results; our restructuring expenses are considered an everyday cost of doing business. So income generated by our operating units translates directly into the earnings we report every quarter. The quality of earnings also is reflected in our rigorous inventory grading policy, conservative depreciation of plant and equipment, and cumulative free cash flow from operations, which for the past five years was 15 percent above income from continuing operations.

The quality and consistency of your company’s financial performance was noted in a 2003 Standard & Poor’s study that rated more than 3,400 U.S. companies and their stocks based on long-term earnings growth, dividends and strong balance sheets. ITW was one of only 45 “Straight-A” companies to earn an A+ ranking. Over the past 25 years, your company has averaged 13-percent annual earnings per share growth, 15-percent return on average invested capital and 19-percent annual shareholder returns—an enviable track record for any company.
80/20 Process: Tried and Tested
What drives these results? We believe it is our time-tested 80/20 business planning process. Simply put, our business units—big and small, new and old—focus their attention and resources on the 20 percent of customers and products that generate 80 percent of revenues. Each business executes a multifaceted, three- to five-year simplification plan. It begins with a hard look at the unit's products, customers and suppliers. Then it identifies high volume areas and corresponding opportunities for new product development. When appropriate, we segment our businesses to make them smaller and more manageable. We ensure that factory floors are flexible and responsive to the changing marketplace. We manufacture to the rate of demand. We also outsource some products or partner with suppliers who are adept at producing them. By keeping our businesses and systems simple, we are able to successfully manage large numbers of companies in different markets.

Premark Outlook
A prime example of the 80/20 process in action is ITW's 1999 merger with Premark International, our largest acquisition to date. As part of the five-year simplification process, we divested businesses that didn’t fit strategically—most recently, the Florida Tile business in the fourth quarter of 2003. We increased operating margins from 9 percent in 1999 to 16 percent in 2003, despite the fact that growth in Premark's top product lines decreased nearly 10 percent for the past four years due to weak end markets. Now in the final year of our five-year profitability improvement plan, we are on track to double Premark's operating margin and reach our margin goal of 18 percent by the end of 2004. We expect that financial performance of the Premark businesses will continue to improve, driven by new product development and greater operating efficiencies.

Looking to 2004
If the North American economy builds on the modest momentum it developed during the fourth quarter of 2003, ITW's businesses are poised to deliver improved financial results. Our strategy will continue to focus on three key objectives:

1. Grow our base businesses. ITW's decentralized structure drives growth and profit in our base businesses. Our entrepreneurial general managers around the world stay close to our people, businesses, processes and customers. Proximity helps us be exceptionally responsive—often resolving issues before they become problems, and identifying opportunities before they become apparent to competitors.

2. Make value-adding acquisitions. With more than $1 billion in cash on our balance sheet, ITW is well positioned to take advantage of solid acquisition targets in 2004. Our experienced management team has a record for making decisions and finding companies that create lasting value for customers and investors. For example, over the past 25 years approximately 90 percent of our acquisitions have returns that exceed our cost of capital.
3. Develop product and process innovations for our customers. ITW's business is creating businesses. We're constantly looking for new growth opportunities—both in our long-time units and recent acquisitions. An intimate knowledge of our customers’ operations helps us improve existing products and develop new ones that deliver real results.

We are hopeful that the global economy will continue to strengthen in 2004. But ITW is positioned to perform even in challenging environments. As always, we are aided by an outstanding management team and an independent board of directors. They provide sound strategic direction and share a strong commitment to corporate governance practices that preserve and protect value for investors.

We also have long-term employees and general managers who thrive in our entrepreneurial, decentralized structure. They are dedicated to making a difference for those who buy and use our products. We have customers who, like ITW, are primed for economic recovery. And we have loyal shareholders who continue to rely on us for consistent, quality returns. To all, we offer our thanks and pledge our continued best efforts.

February 27, 2004

FRANK S. PTAK  W. JAMES FARRELL  JAMES M. RINGLER
Vice Chairman  Chairman & Chief Executive Officer  Vice Chairman