



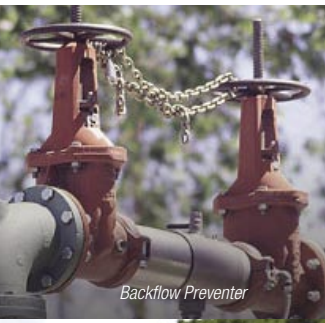
Annual Report 2008

2008

Innovative Water Solutions



A Legacy of



Backflow Preventer



Water Infrastructure Projects in China



Robotic Welding at Ames



*Custom Fabrication
at Mueller Steam Specialty*



Watts Pressure Reducing Valve



Powers Shower System



CNC Milling Center at Webster Valve

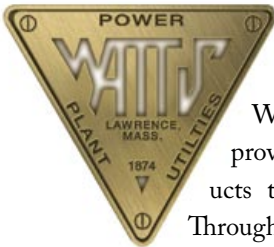


Pipe Cutting at Blücher



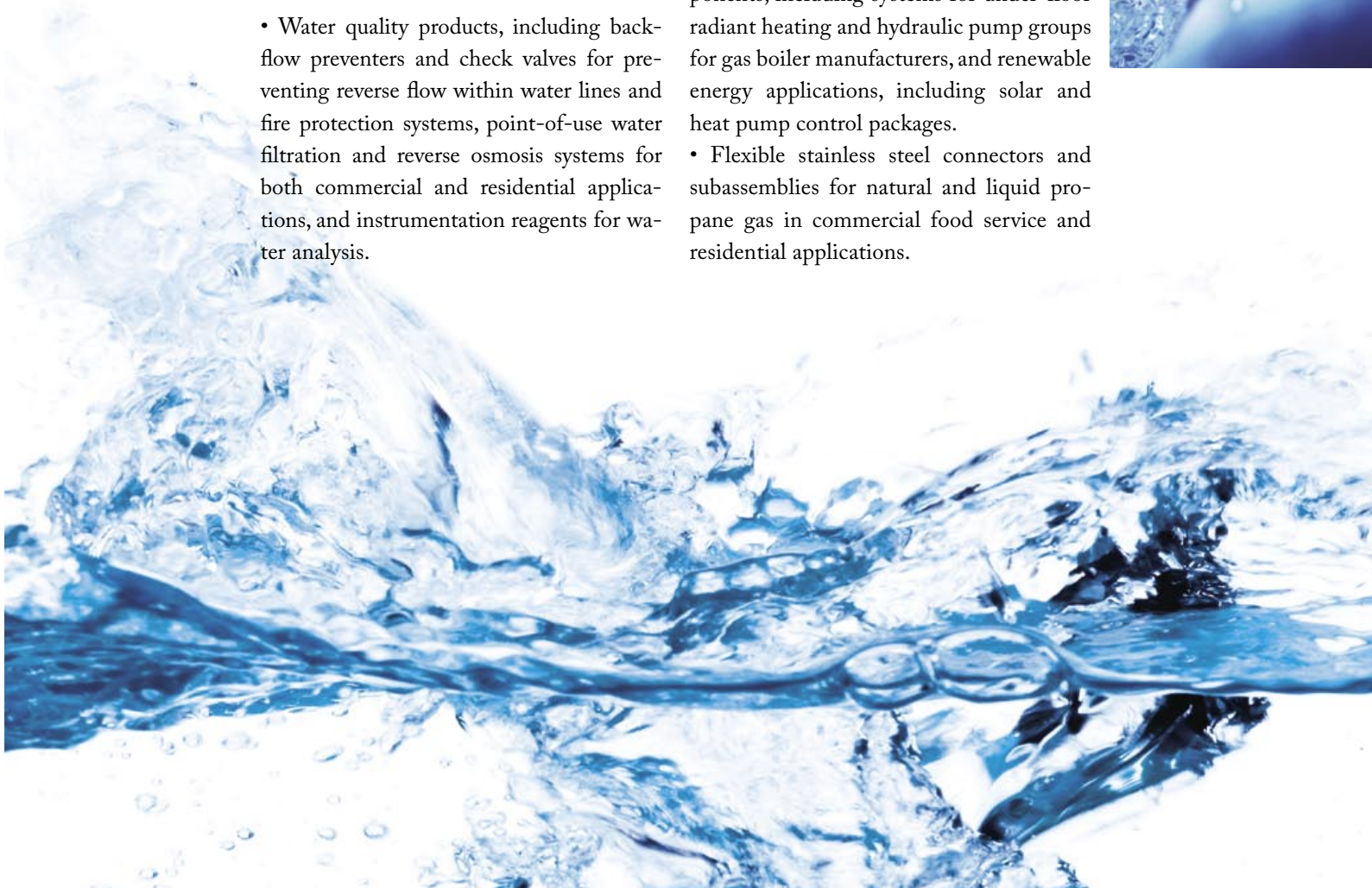
Innovation

One hundred and thirty five years ago, the then-named Watts Regulator Company developed steam pressure relief valves for the emerging textile industry in the Merrimack Valley area of New England. Today, Watts Water Technologies, Inc. provides a broad range of products to the global water market. Throughout our company's history, we have developed innovative products to meet our customers' needs. Our principal product lines consist of:



- Water quality products, including back-flow preventers and check valves for preventing reverse flow within water lines and fire protection systems, point-of-use water filtration and reverse osmosis systems for both commercial and residential applications, and instrumentation reagents for water analysis.

- Water safety and flow control products, including water pressure regulators for both commercial and residential applications, water supply products for commercial and residential applications, temperature and pressure relief valves for water heaters, boilers and associated systems, and thermostatic mixing valves for tempering water in commercial and residential applications.
- Drainage and conveyance products for industrial, commercial, infrastructure, marine and residential applications.
- Water-based HVAC systems and components, including systems for under-floor radiant heating and hydraulic pump groups for gas boiler manufacturers, and renewable energy applications, including solar and heat pump control packages.
- Flexible stainless steel connectors and subassemblies for natural and liquid propane gas in commercial food service and residential applications.





Rainwater Harvesting Systems



Fully Integrated Solar Control Package



Radiant Floor Warming



Conservation

One of the 21st century's greatest challenges is the preservation of the earth's natural resources in the face of a skyrocketing world population and the depletion of water and conventional energy sources. Consistent with our history, Watts Water Technologies strives to provide innovative products and systems that deliver clean and safe water in a controlled and resource-conscious manner.

Our membership in the United States Green Building Council demonstrates our commitment to offering an extensive product line for the sustainable building industry that reduces water and energy consumption and lowers operating costs. Our products are specified and installed in sustainable building projects and are used in renewable energy systems, such as solar and geothermal.

Our recently introduced rainwater harvesting systems preserve valuable groundwater supplies, reduce water treatment and

transport expenses, and counter rising water and wastewater costs.

In Europe, we continue to develop our line of alternative energy solutions, including our extensive line of safety and control packages for solar thermal systems, solid fuel boilers (pellets, split logs, wood chips), and geothermal heat pumps that promote both energy efficiency and environmental protection.

While Europeans have used radiant heating for decades, Watts Water Technologies has pioneered its development and widespread use in North America as a more efficient and comfortable means of heating homes and institutional and commercial buildings.

Warming floors with renewable energy and radiant energy is an ideal way to heat a space. Objects are warmed directly without overheating the air. Lower air temperatures mean less heat loss through windows and air

Safety

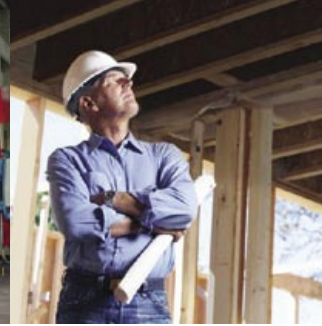




Commercial Reverse Osmosis System



Large Diameter Butterfly Valves



Comfort

infiltration. Zone by zone control dramatically lowers fuel consumption. In addition, our water-based radiant systems can use solar, biomass, geothermal, and waste heat recovery to heat rooms.

neers fight the battle against water scale and its destructive by-products. Our OneFlow® Anti-Scale Systems prevent scale formation by transforming dissolved hardness minerals into harmless, inactive microscopic particles. They also reduce energy consumption by keeping heat transfer surfaces free of energy-robbing scale formation and do not require chemicals or ongoing consumables (such as salt) that can harm wastewater treatment processes.

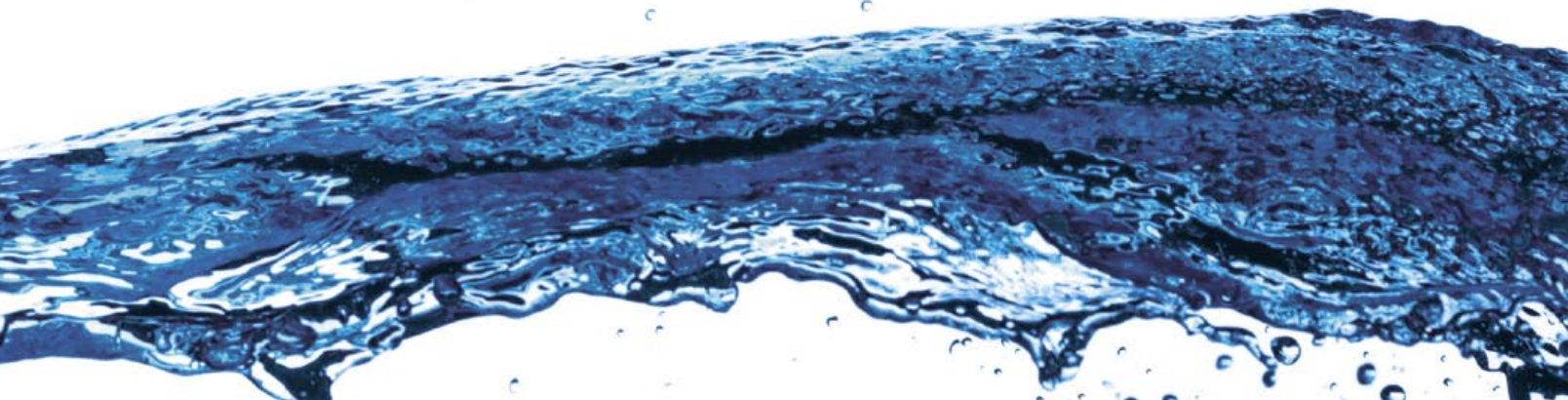
Quality

The need for pure water, both for drinking and for industrial and manufacturing uses, grows every year while the sources of clean surface water are diminishing. Our commercial grade, large volume reverse osmosis (RO) water purification systems and consumer-oriented zero waste RO systems are helping to clean and conserve water every day.

At Watts Water Technologies, our continual focus on developing products to meet our customers' needs derives from our five operational pillars – comfort, safety, quality, conservation and control. These pillars drive our product development and acquisitions and direct our search for innovative products to satisfy customers' needs in the various markets of the world we serve.

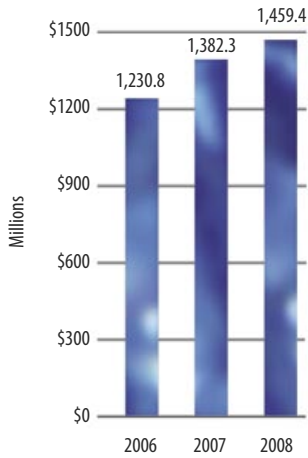
We are also providing environmentally friendly alternatives to help building owners, property managers and facility engi-

Control

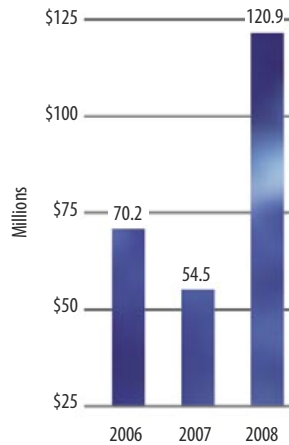


Financial Highlights

Total Net Sales

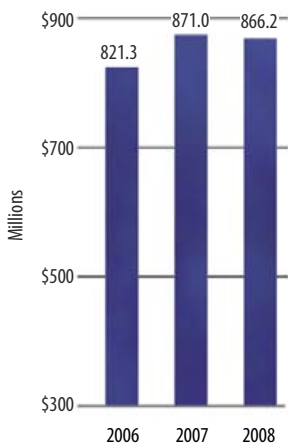


Free Cash Flow

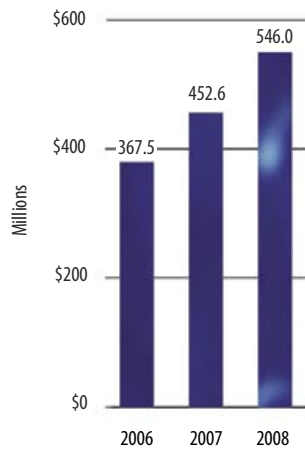


For further discussion of “free cash flow,” a non-GAAP financial measure, and the comparable GAAP measure, see the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Form 10-K included in this Annual Report to Shareholders.

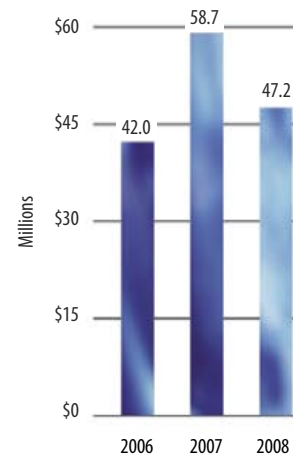
North America Net Sales



Europe Net Sales



China Net Sales



To Our Shareholders

2008 was a year in which we were able to expand and strengthen our worldwide business despite significant volatility in both our end markets and in the global financial markets.



Patrick S. O'Keefe
Chief Executive Officer

The United States residential construction market declined over 30% for the second year in a row, commercial construction in the United States softened and started to decline toward year end, and European construction levels declined across most markets.

Despite this difficult environment, we were able to increase revenue due primarily to our acquisition of Blücher Metals A/S in June 2008 and increased sales of products offered to the European alternative energy markets.

Consolidated revenues grew by \$77.1 million, or 5.6%, with the net increase attributable to the following factors:

| | (in millions) | % change |
|-----------------------------|----------------|-------------|
| Organic | \$ (19.0) | (1.4)% |
| Acquisitions | \$ 63.7 | 4.6% |
| Foreign Exchange | \$ 35.6 | 2.6% |
| Dispositions | \$ (3.2) | (0.2)% |
| Total increase in net sales | <u>\$ 77.1</u> | <u>5.6%</u> |

We achieved record free cash flow of \$120.9 million in 2008, an increase of \$66.4 million over 2007 and representing 259.4% of 2008 net income. This increase is the result of improved processes and focused working capital management. Although early in their implementation, we are seeing immediate benefits from lean manufacturing techniques and sales and operational planning systems. Cash generation will continue to be a focus area as we move into 2009.

2008 marked twenty-two years of continuous dividend payments to our shareholders, with a dividend of \$0.11 per share in each quarter of 2008. We also purchased 1.6 million shares of our Class A Common Stock on the open market. The dividend and our share repurchase program returned \$60.7 million of cash to our shareholders in 2008.

Our net income declined \$30.8 million, or 40.0%, to \$46.6 million in 2008 primarily attributable to the losses we incurred in our China segment and a goodwill impairment of \$17.3 million in our water quality group. Our China operations have experienced cost increases on several fronts due to the strengthening of the Chinese yuan, increases in China value added taxes, wage inflation due to new labor laws and increased costs for ocean freight when the price of oil reached record levels in mid-year.



William C. McCartney
Chief Financial Officer





Blücher EuroPipe



Blücher Stainless Steel Drains



Blücher Floor Drain



European Pressure Reducing Valve

In response to these rising costs, we have introduced lean manufacturing methodologies in all our China operations and we sold an underperforming manufacturing facility located in Tianjin, China. This facility, which manufactured commodity butterfly valves, accounted for 70.8% of our China segment losses through the sale date. We have also increased our focus in the fast-growing water infrastructure market in China. We are encouraged with the recent progress in our China operations as our 4th quarter results were profitable.

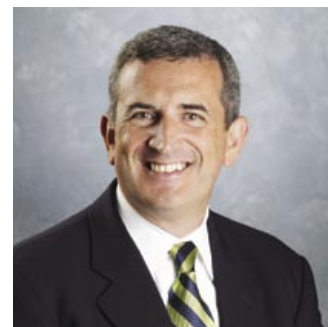
Consistent with our past practices, at December 31, 2008 we continued to maintain our conservative capital structure, with a net debt to capitalization ratio of 22.8%.

| | December 31, 2008 (in millions) |
|---|---------------------------------------|
| Current portion of long-term debt | \$ 4.5 |
| Plus: Long-term debt, net of current portion | 409.8 |
| Less: Cash and cash equivalents | (165.6) |
| Net debt | <u>\$ 248.7</u> |
| Net debt | \$ 248.7 |
| Plus: Total stockholders' equity | 842.4 |
| Capitalization | <u>\$ 1,091.1</u> |
| Net Debt to Capitalization Ratio | <u>22.8%</u> |

Our next scheduled debt repayment is in May 2010, when \$50 million is scheduled to be repaid. At December 31, 2008, we had \$260.0 million of unused and available capital from an existing line of credit. We believe that our capital structure, in conjunction with our cash generating capability, is a critical component for success in the current economic environment.

On June 1, 2008, we acquired Blücher Metals for approximately \$170 million, our largest acquisition to date. Blücher is a manufacturer of stainless steel drainage products based in Denmark. Blücher's 2008 revenues were almost \$90 million. Blücher provides us with a new product platform in Europe. We have a strong position in both the plumbing and heating markets in Europe, and the addition of Blücher gives us a leadership position in the stainless steel drain market. Blücher provides us with a strong brand, solid management team and many growth opportunities.

We are pleased that David Coghlan joined us this year as the President of North America



David J. Coghlan
President of North America and Asia





European Backflow Preventers



Large Diameter Ball Valve



OneFlow® Anti-Scale Systems



Hot Water Recirculating System



Dead Level™ Trench Drain



Kenneth R. Lepage
General Counsel and Secretary

and Asia. David, most recently with Trane, Inc., has spent the majority of his career in multinational manufacturing companies. Kenneth Lepage was promoted to General Counsel in August 2008. Ken joined Watts in 2003 as Assistant General Counsel. We are confident David and Ken will continue to make a meaningful contribution to Watts.

Our long history of providing innovative water solutions to our customers continued in 2008 with the introduction of many promising new products.

- In Europe, we launched a new range of backflow prevention devices and pressure reducing valves;
- In China, we introduced our first large diameter ball valve for the water infrastructure market;
- In North America, we introduced the Dead Level™ trench drain, which is more cost efficient for installers; and
- In North America, we also premiered the Watts OneFlow® anti-scale system, which prevents scale formation, thereby extending the life of pipes, plumbing fixtures and valves.

As we look ahead, we see many growth opportunities:

- We believe the demand for both energy and water conservation products will continue to increase. We currently offer a broad product line to support the use of solar and geothermal power to heat water. We also have an extensive offering of products that conserve water, including water pressure regulating valves that reduce water consumption by up to 30% while supplying a constant comfortable pressure, zero waste point-of-use reverse osmosis water filtration systems that provide better than bottle-quality water while eliminating the water waste of a typical reverse osmosis system, and our hot water recirculating system, which provides instantaneous hot water at any tap or shower.
- We expect to continue to enhance our cash flows by maintaining our focus on operational excellence. We are striving to increase our capabilities in lean manufacturing techniques, improve logistics management with widespread use of sales and operations planning, and increase our emphasis on capacity utilization through manufacturing footprint reductions.
- We intend to maintain our disciplined acquisition program to provide us access to new mar-



Executive Officers

Patrick S. O'Keefe
Chief Executive Officer,
President and Director

William C. McCartney
Chief Financial Officer
and Treasurer

David J. Coghlan
President of North America
and Asia

J. Dennis Cawte
Group Managing Director,
Europe

Ernest E. Elliot
Executive Vice President of Marketing

Michael P. Flanders
Executive Vice President of
Manufacturing Operations,
North America and Asia

Josh C. Fu
President, Asia

Kenneth R. Lepage
General Counsel and Secretary

Gregory J. Michaud
Executive Vice President
of Human Resources

Taylor K. Robinson
Executive Vice President of
Supply Chain Management

Directors

Robert L. Ayers
Director

Kennett F. Burnes
Director

Richard J. Cathcart
Director

Timothy P. Horne
Director

Ralph E. Jackson, Jr.
Director

Kenneth J. McAvoy
Director

John K. McGillicuddy
Director

Gordon W. Moran
Non-Executive Chairman of the Board
and Director

Daniel J. Murphy, III
Director

Patrick S. O'Keefe
Chief Executive Officer,
President and Director

Corporate Information


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Auditors
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Boston, MA 02110

Stock Listing
New York Stock Exchange
Ticker Symbol: WTS



This Annual Report contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements that relate to prospective events or developments are forward-looking statements. Also, words such as “believe,” “anticipate,” “plan,” “expect,” “will” and similar expressions identify forward-looking statements. We cannot assure investors that our assumptions and expectations will prove to have been correct. There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. These factors include, but are not limited to, those set forth in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008 included in this Annual Report. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information on Watts Water Technologies, Inc., visit our web site at www.wattswater.com

