

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, 2015  
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. 001-05672

ITT CORPORATION

Incorporated in the State of Indiana

13-5158950

(I.R.S. Employer Identification No.)

1133 Westchester Avenue, 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

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 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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant on June 30, 2015 was approximately \$3.7 billion. As of February 17, 2016, there were outstanding 89.5 million shares of common stock, \$1 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for its 2016 Annual Meeting of Shareholders are incorporated by reference in Part II and Part III of this Form 10-K.

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

## **FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

Some of the information included herein includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our business, future financial results and industry in which we operate, and other legal, regulatory and economic developments. These forward-looking statements include, but are not limited to, future strategic plans and other statements that describe the company's business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance.

We use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "future," "may," "will," "could," "should," "potential," "continue," "guidance" and other similar expressions to identify such forward-looking statements. Forward-looking statements are uncertain and to some extent unpredictable, and involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Where, in any forward-looking statement we express an expectation or belief as to future results or events, such expectation or belief is based on current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will occur or that anticipated results will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included in this Annual Report on Form 10-K under the caption "Risk Factors", and in other documents that we file from time to time with the U.S. Securities and Exchange Commission (SEC).

The forward-looking statements included in this report speak only as of the date of this report. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can inspect, read and copy these reports, proxy statements and other information at the SEC's Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) on which you may access electronic copies of our SEC filings.

We make available free of charge at [www.itt.com/investors](http://www.itt.com/investors) copies of materials we file with, or furnish to, the SEC as well as other important information that we disclose from time to time. Information contained on our website, or that can be accessed through our website, does not constitute a part of this Annual Report on Form 10-K. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website.

Our corporate headquarters are located at 1133 Westchester Avenue, White Plains, NY 10604 and the telephone number of this location is (914) 641-2000.

# PART I

## ITEM 1. DESCRIPTION OF BUSINESS

*(In millions, except per share amounts, unless otherwise stated)*

### COMPANY OVERVIEW

Unless the context otherwise indicates, references herein to "ITT," "the Company," and such words as "we," "us," and "our" include ITT Corporation and its subsidiaries.

ITT is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets. We manufacture components that are integral to the operation of systems and manufacturing processes in these key markets. Our products provide enabling functionality for applications where reliability and performance are critically important to our customers and the users of their products.

We are a global company with approximately 9,700 employees in more than 35 countries and 2015 revenue of \$2.5 billion, which we derived from sales in more than 100 countries. In 2015, 62% of our sales were outside the U.S., including 31% from emerging growth markets. Accordingly, we have located approximately half of our manufacturing facilities outside of the U.S. in order to lower costs, achieve strategic proximity to customers and further increase international sales and market share.

We have a balanced and diversified portfolio of businesses, which are organized in four segments – Industrial Process, Motion Technologies, Interconnect Solutions, and Control Technologies. Our businesses share a common, repeatable operating model centered on our engineering aptitude. Each business applies its technology and engineering expertise to solve some of the most pressing challenges of our customers. Our applied engineering provides a special business fit with our customers given the critical nature of their applications. This in turn provides us with unique insight to our customers' requirements and enables us to develop solutions to better assist our customers achieve their business goals. Our technology and customer intimacy together produce opportunities to capture recurring revenue streams, aftermarket opportunities and long-lived platforms from original equipment manufacturers (OEMs).

We also possess strong leading brands, such as Goulds Pumps, Bornemann, Engineered Valves, Cannon, VEAM, BIW Connector Systems, KONI, Wolverine, Enidine, Hartzell Aerospace, and ITT, in many of our niche markets. These brands are associated with quality, reliability, durability, and engineering excellence. Our brands extend internationally and perform strongly in emerging growth markets including China, Mexico, Brazil, Saudi Arabia, and Russia.

We are committed to creating long-term sustainable value for all of our stakeholders, supported by our balanced operating strategy designed to achieve long-term profitable growth. The elements of this strategy are disciplined organic growth through global market expansion and new product development, combined with operational improvements that focus on the principles of Lean Six Sigma to reduce costs and cycle times while improving overall productivity, quality, and safety on a continuing basis. We have also moved beyond the factory floor to improve the efficiency of other critical processes of the value chain to become a truly lean enterprise. This initiative encompasses not only core lean, problem solving and continuous improvement principles but also leadership, talent and cultural aspects.

Given these dynamics and our technology investments, global reach and vibrant brands, we believe we have the opportunity to continue to expand geographically, broaden our product lines, improve our market position, and increase earnings through organic revenue growth and operational efficiencies and through targeted acquisitions. We continue to prioritize deploying capital for organic growth and then acquisitive growth. Our acquisition strategy generally targets firms in similar businesses and end-markets that have unique and differentiated products, services, and technologies. Effective capital deployment, including resource optimization and a disciplined focus on liquidity and cash management is a major part of how we plan to achieve our financial performance goals.

We aspire to drive long-term average annual organic revenue growth of approximately 5%-7%, with corresponding operating margin expansion of 50-70 basis points, achieve an adjusted free cash flow conversion rate of greater than 105%, deliver adjusted earnings per share growth of 10%-15% per year, and maintain a return on invested capital (ROIC) that is in-line with proxy peers.

## Segment Information

See Note 3, Segment Information, to the Consolidated Financial Statements for financial information about each of our segments.

### Industrial Process

The Industrial Process segment, commonly referred to as IP, is an original equipment manufacturer and service provider offering an extensive portfolio of industrial pumps, valves and plant optimization systems and services. During 2015, this segment aligned around three business units – Industrial Products, Engineered Systems, and Aftermarket Solutions – serving an extensive base of customers from large multi-national companies and engineering, procurement and construction (EPC) firms to regional distributors to end-user customers. IP's customers operate in global infrastructure and natural resource markets such as oil and gas, chemical and petrochemical, general industrial, mining, pulp and paper, and power generation. Brands include Goulds Pumps, Bornemann, Engineered Valves, PRO Services, and C'treat.

#### *Industrial Products Business Unit*

Industrial Products designs and manufactures configured-to-order industrial pumps, valves, and equipment for both original equipment installations and replacement parts and pumps. We serve customers rapidly as products in this business unit typically have shorter lead times. These products include centrifugal process pumps and engineered industrial and sanitary valves.

#### *Engineered Systems Business Unit*

Engineered Systems provides highly engineered and customized pumping systems typically used in severe service conditions via both original equipment installations and replacement parts and pumps. Products include API (American Petroleum Institute) centrifugal pumps, vertical centrifugal pumps, twin screw pumps and water systems. Our pumping systems are generally part of larger capital projects, which have longer lead times and are generally managed by EPCs.

#### *Aftermarket Solutions Business Unit*

Aftermarket Solutions provides customers with parts, services, and solutions that reduce total cost of ownership for pumps and rotating equipment. In addition to providing standard repairs and upgrades, the business also develops engineered solutions for specific customer process issues. Examples include innovative technologies like PumpSmart Controllers and i-ALERT2 Equipment Health Monitoring Devices to monitor and control pumps and other rotating equipment in an industrial environment.

IP goes to market via a global and diversified sales channel structure. End-users are serviced by an extensive network of independent industrial distributors, which account for approximately 30% of revenue, and representatives which complement our customer-focused direct sales and service organization. We also have focused channels dedicated to supporting EPC firms as their needs are often distinct from those of other distributor and end-user customers.

The pump and valve markets served are highly competitive. For most of our products there are hundreds of regional competitors and a limited number of larger global peers. Primary customer purchase decision drivers include price, delivery terms and on-time performance, brand recognition and reputation, perceived quality, breadth of product and service offerings, commercial terms, technical support and localization. Pricing can be very competitive for large projects because of the engineering complexity and increased potential for aftermarket opportunities for the original equipment provider.

## **Motion Technologies**

The Motion Technologies segment, commonly referred to as MT, is a manufacturer of braking pads, shims, shock absorbers, damping, and sealing technologies primarily for the transportation industry, including passenger cars, light- and heavy-duty commercial and military vehicles, buses and rail transportation. MT consists of three business units, Friction Technologies, KONI, and Wolverine.

### *Friction Technologies*

Our Friction Technologies business manufactures a range of brake pads installed as OE pads on cars and light and heavy duty commercial vehicles. Demand for MT's products stem from a variety of end customers and automotive platforms around the world. OE pads are sold either directly to OEMs or to Tier-1 and Tier-2 brake manufacturers. Our OE pads are designed to meet customer specifications and environmental regulations, and to satisfy an array of geographic applications. Most automobile OEM platforms (car model) require specific brake pad formulations and have demanding delivery and volume schedules.

Friction Technologies also manufactures aftermarket brake pads designed for the automotive service and repairs market. This market consists of both OE dealers, also referred to as original equipment spares (OES) networks, and independent aftermarket (AM) networks. Brake pads sold within the OES network generally match the specifications of an original auto platform OE brake pad, while our catalog of AM pads feature technology designed to provide up to a range of braking performance levels. Within the service and repairs market, pads are sold either directly to OE manufacturers or Tier-1 and Tier-2 brake manufacturers (such as Continental or TRW) or indirectly through independent distributor channels.

Combined sales to Continental and TRW, MT's two largest customers, were approximately 40% of 2015 MT revenue, however, approximately 50% of the Continental and TRW derived revenue is directly attributable to OES supply agreements signed directly with automakers. In addition, all OE pad contracts are specified by brake manufacturers even in cases where automakers specify the use of our pads in the braking system.

### *KONI*

The KONI business organizes its various performance shock absorber products into three main product groups: railway rolling stock; car & racing; and bus, truck & trailer.

*Railway Rolling Stock* provides a wide range of equipment for passenger rail, locomotives, freight cars, high speed trains and light rail. Offerings include hydraulic shock absorbers (primary, lateral and inter-car), yaw dampers as well as visco-elastic and hydraulic buffers. Revenue opportunities for our rail damping systems are balanced between OE and AM customers. Sales are either directly to train manufacturers and train operators carrying out scheduled train maintenance programs or indirectly through distributors.

*Car & Racing* features performance shock absorbers often using our Frequency Selective Damping (FSD) technology. FSD products generally have been used by car and racing enthusiasts who desire to modify their cars for increased handling performance and comfort, but are now also being incorporated into OE platform designs. KONI car shock absorbers are sold all over the world, through a distribution network that markets KONI products into specific geographies or customer groups.

*Bus, Truck & Trailer* manufactures shock absorbers and bus dampers, destined to both OE and AM customers.

### *Wolverine*

In October 2015, ITT acquired Wolverine Automotive Holdings Inc., the parent company of Wolverine Advanced Materials LLC (Wolverine). Wolverine is a manufacturer of customized technologies for automotive braking systems and specialized sealing solutions for harsh operating environments across a range of industries. Brake shims are thin metal and rubber adhesive dampeners that fit onto the brake pad and against the brake caliper to prevent excessive noise and vibration. Gaskets are an anti-vibration solution and a sealing solution that prevent fluid spillage with applications to engines, transmissions, exhaust systems, fuel systems and a variety of pneumatic systems.

MT has a market reputation derived from many years of mutual collaboration with major OEMs and is focused on customer satisfaction, quality and on-time delivery. MT has a global manufacturing footprint, with production facilities in Western Europe, Eastern Europe and China.

MT competes in markets primarily served by large, well-established national and global companies. Key competitive drivers within the brake pad business include technical expertise, formulation development capabilities, scale production, product performance, high-quality standards, customer intimacy, reputation and the ability to meet demanding delivery and volume schedules in a reduced amount of time. OE and OES customers usually require long-lasting and well-established relationships, based on mutual trust, local proximity and a wide range of cooperative activities, starting from the design to the sampling, prototyping and testing phases of brake pads. Within the independent AM pads market, MT is a leading European provider in a highly fragmented global market.

Competitive drivers in the rail damping systems business include price, technical expertise and product performance. Rail damping systems are considered critical components because of safety requirements and thus they have to be specifically designed according to many different train applications, and must satisfy strict compliance requirements. MT is a global leader in the rail dampers component of the complete rail damper system.

### **Interconnect Solutions**

The Interconnect Solutions segment, commonly referred to as ICS, designs and manufactures a broad range of highly engineered connectors and cable assemblies for critical applications in harsh environments. ICS' product portfolio includes high performance, military-specification, and commercial electrical connectors of the following types: Circular, Rectangular, Radio Frequency, Fiber Optic, D-sub Miniature, Micro-Miniature and cable assemblies. ICS operates through its brands, Cannon, VEAM and BIW Connector Systems, which deliver solutions to enable the transfer of data, signal, and power into three end-user markets: aerospace and defense, transportation and industrial, and oil and gas. ICS has organized its business around these three end-user markets, with each business unit having a dedicated team that specializes in solutions for their specific market, providing focused customer support and expertise. ICS is considered a leading company in the harsh environment niche markets it participates in, because of its technological capabilities, customer relationships, cost performance and global footprint.

#### *Aerospace and Defense*

ICS Aerospace and Defense products include industry standards-based connectors and customized interconnect solutions for most segments of the commercial aviation and defense industry. These products are designed to withstand the extreme shock, exposure and vibration environments that are typical in aviation and military applications and where reliability and safety are critical factors.

#### *Transportation and Industrial*

ICS Transportation products include connectors for high-speed, mainline, metro and light passenger rail, heavy-duty vehicles, electric vehicle applications, and medical devices. ICS Industrial products include connectors for industrial production equipment, industrial electronics and instruments, and other industrial and medical applications. Both markets are served through the Cannon brand, which celebrated its 100-year anniversary in 2015, and VEAM brand, which celebrated its 60-year anniversary in 2014. These brands are known for high-performance, high-reliability solutions which withstand high vibrations and are resistant to dirt and fluids.

#### *Oil and Gas*

Operating through the BIW Connector Systems brand, ICS Oil and Gas products include connectors that provide power for electric submersible pumps (ESP) in oil and gas wells, reservoir monitoring instruments and electrical downhole heaters. Product applications include electrical power penetrations for wellheads, packers and pods that are able to accommodate any size and provide for multiple sealing strategies and ratings.

ICS has a global production footprint, including major facilities in the United States, Mexico, Germany, and China, which provides geographic proximity and the highest level of customer support to over 2,500 global customers. Products are sold either directly to OEM's, contract manufacturers and cable system operators or indirectly through partnerships with leading distribution companies, creating an extensive global distribution channel. We have long-lasting relationships with our distributor partners, as many have been selling ICS products for over 70 years. Sales to distributors represented approximately 33% of 2015 ICS revenue.

ICS competes with a large number of competitors in a highly fragmented industry. Our products compete to varying degrees on the basis of quality, price, availability, performance and brand recognition. We also compete on the basis of customer service. Our ability to compete also depends on continually providing innovative new product solutions and worldwide support for our customers.

## **Control Technologies**

The Control Technologies segment, commonly referred to as CT, manufactures specialized equipment, including actuation, fuel management, noise and energy absorption, and environmental control system components, for the aerospace and defense, and industrial markets. CT has a broad customer base including end-users, OEM's, and distributors, for which no single customer represents more than 15% of the segment's revenue. Channels to market include direct, commissioned representation and buy-resell distributors. CT consists of two business units, CT Aerospace and CT Industrial.

### *CT Aerospace*

CT Aerospace designs and manufactures products for commercial aerospace, business aviation, defense, and other markets, which are generally part of long-lived platforms that provide for recurring aftermarket opportunities. Aircraft component products consist of fuel and water pumps, valves, electro-mechanical rotary and linear actuators, and pressure, temperature, limit, and flow switches for various aircraft systems. Aircraft interior products include a variety of engineered elastomer isolators to protect equipment and keep the interior of the aircraft quiet, stowage bin rate controls, rotary hinge dampers and actuators, and seat recline locks and control cables. CT Aerospace also provides electromechanical seat actuation for premium seating products. Defense products generally include energy absorption applications and aerospace components. CT's 2015 acquisition of Hartzell Aerospace brings additional product capabilities in environmental control systems including climate control and ice protection heaters, composite conveyance ducting and acoustically engineered inlets and exhausts for Auxiliary Power Units (APU). Most of the products are sold direct to the customer by an in-house sales force. CT Aerospace utilizes a small third-party business for government spare parts distribution.

Competitors range from large multi-national corporations to small privately held firms. CT Aerospace markets are often fragmented and thus there are several types of competitors. Competition in these markets focuses on application expertise with effective solutions, product delivery and performance, previous installation history, quality, price and customer support. CT Aerospace competes by offering a wide portfolio of reliable products, coupled with advanced application expertise and customer support. We believe application expertise and our reputation for quality and operational performance significantly enhance our market position. CT Aerospace's ability to collaborate with customers to deliver a wide range of product offerings has allowed them to compete effectively, to cultivate and maintain customer relationships, and to expand into new markets.

### *CT Industrial*

CT Industrial designs, manufactures, and markets large and small bore shock absorbers, linear and rotary actuators, and process control instrumentation, such as high and low pressure regulators and flow, temperature, and pressure switches. The shock absorbers and actuators serve a wide range of applications in a diverse set of end-markets including automotive production, packaging, and factory automation. The process control products primarily serve the chemical, petrochemical, energy markets. CT Industrial possesses a specialized set of design and application engineering skills and capabilities that enables us to engineer differentiated custom solutions for unique applications. For example, CT Industrial's large bore shock absorbers are custom designed to mitigate the damaging effects of seismic events on critical structures such as buildings and bridges. In addition, CT Industrial has a strong direct and indirect sales channel providing reliable and value added service to our diverse customer base.

Competitors change depending on the product line and global region and range from large multi-national corporations to small privately held firms. CT Industrial's broad product offerings, technical expertise, quality and lead times enable us to collaborate with our customers to deliver comprehensive solutions enabling CT Industrial to compete effectively in existing markets and expand into new markets.

## **Other Company Information**

### **Materials**

All of our businesses require various OEM products, manufactured components and raw materials, the availability and prices of which may fluctuate. The principal OEM products and manufactured components assembled into our products include motors, castings, mechanical seals, machined castings, metal fabrications and miscellaneous metal, plastic, or electronic components. The primary raw materials used in manufacturing our products include steel, gold, copper, nickel, iron, aluminum, and tin, as well as specialty alloys, including titanium. Materials are purchased in various forms, such as sheet, bar, rod and wire stock, pellets and metal powders.

Raw materials, supplies and product subassemblies are purchased from third-party suppliers, contract manufacturers, and commodity dealers. For most of our products, we have existing alternate sources of supply, or such materials are readily available. In some instances we depend on a single source of supply, manufacturing or assembly or participate in commodity markets that may be subject to a limited number of suppliers.



We continually monitor the business conditions of our supply chain to maintain our market position and to avoid potential supply disruptions. There have been no raw materials shortages that have had a material adverse impact on our business as a whole, and we have been able to develop a robust supply chain such that we do not anticipate shortages of such materials in the future.

Although some cost increases may be recovered through increased prices to customers, our operating results are generally exposed to such fluctuations. When practical, we attempt to control such costs through fixed-priced contracts with suppliers. We typically acquire materials and components through a combination of blanket and scheduled purchase orders to support our materials requirements for an average of four to eight weeks, with the exception of some specialty materials. From time to time, we experience price volatility or supply constraints for raw materials based on market supply and demand dynamics. In limited circumstances, we may have to obtain scarce components for higher prices on the spot market, which may have a negative impact on gross margin and can periodically create a disruption to production and delivery. We also acquire certain inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. We evaluate hedging opportunities to mitigate or minimize the risk of operating margin erosion resulting from the volatility of commodity prices.

### **Manufacturing Methods**

We utilize two primary methods of fulfilling demand for products: build-to-order and engineer-to-order. Build-to-order consists of assembling a group of products with the same pre-defined specifications, generally for our OEM customers. Engineer-to-order consists of assembling a customized system for a customer's individual order specifications. In both cases, we offer design, integration, test and other production value-added services. We employ build-to-order capabilities to maximize manufacturing and logistics efficiencies by producing high volumes of basic product configurations. Engineering products to order permits the configuration of units to meet the customized requirements of our customers. Our inventory management and distribution practices in both build-to-order and engineer-to-order seek to minimize inventory holding periods, and improve customer delivery performance.

### **Backlog**

Delivery schedules vary from customer to customer based on their requirements. For example, large complex projects in specialized markets such as oil and gas, chemical, and mining at Industrial Process require longer lead times and production cycles. Delivery delays could arise from supply chain limitations, internal production challenges, changes in the customer's requirements, or technical difficulties. Total backlog, representing firm orders that have been received, acknowledged and entered into our production systems, was \$860.5 and \$1,024.6 at December 31, 2015 and 2014, respectively. Total backlog by segment as of December 31, 2015 and 2014 was: IP - \$410.9 and \$603.4; MT - \$198.2 and \$199.9; ICS - \$102.1 and \$108.5; and CT - \$116.9 and \$94.7. We expect to satisfy nearly all December 31, 2015 backlog commitments during 2016.

### **Intellectual Property**

We generally seek patent protection for those inventions and improvements that are likely to be incorporated into our products or where proprietary rights are expected to improve our competitive position. The highly customized application engineering embedded within our products, our proprietary rights and our knowledge capabilities all contribute to enhancing our competitive position.

While we own and control a significant 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 Company, as a whole, as well as each of our core segments, is not materially dependent on any one intellectual property right or related group of such rights. Patents, patent applications, and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. As the portfolio of our patents, patent applications, and license agreements has evolved over a long period of time, we do not expect the expiration of any specific patent or other intellectual property right to have a material adverse effect on our financial statements.

### **Research and Development**

Research and Development (R&D) is a key element of ITT's engineering culture and is generally focused on the design and development of products and solutions that anticipate customer needs and emerging trends. Our approach to R&D often begins by working with our customers to address a problem, then engineering a solution to the particular customer need. As a result, our R&D is based on taking technology quickly to the tangible phase, increasing the competitive offering, and increasing the customer service experience through engineered application solutions. During 2015, 2014 and 2013, we recognized R&D expenses of \$78.9, \$76.6, and \$67.3, respectively, which were 3.2%, 2.9%, and 2.7%, of revenues, respectively.

## **Cyclicality and Seasonality**

Many of the businesses in which we operate are subject to specific industry and general economic cycles. We consider our connectors business to be an early cycle business, meaning it generally is impacted more in the early portion of an economic cycle, while the automotive and aerospace components businesses tend to be impacted in the middle portion of the cycle and the industrial pump business typically is impacted late in the economic cycle.

Our businesses experience limited seasonal variations, with demand generally lower during summer months (our third quarter) mainly attributable to manufacturing shutdowns and the planned industrial maintenance activities of our customers. Revenue impacts from the limited seasonal variations are typically mitigated by our backlog of orders that allow us to adjust levels of production across the summer months.

## **Environmental Matters**

We are subject to stringent federal, state, local, and foreign environmental laws and regulations concerning air emissions, water discharges and waste disposal. In the U.S., these include, but are not limited to, the Federal Clean Air Act, the Clean Water Act, the Resource, Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Environmental requirements are significant factors affecting our operations. We have established an internal program to assess compliance with applicable environmental requirements for our facilities. The program, which includes periodic audits of many of our locations, including our major operating facilities, is designed to identify problems in a timely manner, correct deficiencies and prevent future noncompliance.

We closely monitor our environmental responsibilities, together with trends in the environmental laws. In addition, we have purchased insurance protection against certain environmental risks arising from our business activities. Environmental laws and regulations are subject to change, however, the nature and timing of such changes, if any, is difficult to predict. As actual costs incurred at identified sites in future periods may vary from our current estimates given the inherent uncertainties in evaluating environmental exposures, management believes it is possible that the outcome of these uncertainties may have a material adverse effect on our financial statements. See "Critical Accounting Estimates" within Item 7, Management's Discussion and Analysis, as well as Note 18, Commitments and Contingencies, to the Consolidated Financial Statements for additional information regarding environmental matters.

## **Employees**

As of December 31, 2015, we had approximately 9,700 employees, of which approximately 3,800 were located in the U.S. Approximately 12% of our U.S. employees are represented by unions. We also have unionized employees in Italy, Germany, and Brazil. No one unionized facility accounts for more than 16% of ITT total revenues. Although our relations with our employees are strong and we have not experienced any material strikes or work stoppages recently, no assurances can be made that we will not experience these or other types of conflicts with labor unions, works councils, other groups representing employees or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in our cost of labor.

## **General Developments of the Business**

ITT Corporation was incorporated as ITT Industries, Inc. on September 5, 1995. On July 1, 2006, ITT Industries, Inc. changed its name to ITT Corporation.

On October 31, 2011, ITT completed the tax-free spin-off (referred to herein as the 2011 spin-off) of its Defense and Information Solutions business, Exelis Inc. (Exelis), and its water-related businesses, Xylem Inc. (Xylem) by way of a distribution of all of the issued and outstanding shares of Exelis common stock and Xylem common stock, on a pro rata basis, to ITT shareholders of record on October 17, 2011. The 2011 spin-off was made pursuant to a Distribution Agreement, dated October 25, 2011, among ITT, Exelis and Xylem (the Distribution Agreement). Following the 2011 spin-off, ITT did not own any shares of common stock of Exelis or Xylem. On May 29, 2015, Exelis was acquired by Harris Corporation (Harris).

## **Acquisitions**

On November 28, 2012, we acquired Joh. Heinr. Bornemann GmbH (Bornemann), a supplier and servicer of multiphase pumping systems in the global oil and gas, industrial, food and pharmaceutical markets. Bornemann is included as part of our Industrial Process segment.

On March 31, 2015, we completed the acquisition of Hartzell (Hartzell) Aerospace, a designer and manufacturer of products to support aerospace applications. Hartzell is included as part of our Control Technologies segment.

On October 5, 2015, we completed the acquisition of Wolverine Automotive Holdings Inc., the parent company of Wolverine Advanced Materials LLC (Wolverine). Wolverine is a manufacturer of customized technologies for automotive braking systems and specialized sealing solutions. Wolverine is included as part of our Motion Technologies segment.

See Note 21, Acquisitions, to the Consolidated Financial Statements for additional information.

## **ITEM 1A. RISK FACTORS**

*We are subject to a wide range of factors that could materially affect future developments and performance. Because of these factors, past performance may not be a reliable indicator of future results. Set forth below and elsewhere in this document are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this document. The most significant factors affecting our business and operations include the following:*

### **Business and Operating Risks**

**Our exposure to pending and future asbestos claims and related liabilities, assets, and cash flows is subject to significant uncertainties.**

ITT, including its subsidiary Goulds Pumps, Inc., has been sued, along with many other companies, in numerous lawsuits in which the plaintiffs claim damages for personal injury arising from exposure to asbestos from component parts of certain products sold or distributed by various defendants, including the Company. We expect to be sued in similar actions in the future. We record an estimated liability related to pending claims and claims estimated to be filed over the next 10 years based on a number of key assumptions, including the plaintiffs' propensity to sue, claim acceptance rates, disease type, settlement values and defense costs. These assumptions are derived from ITT's recent experience and reflect the Company's expectations about future claim activities. These assumptions about the future may or may not prove accurate, and accordingly, the Company may incur additional liabilities in the future. A change in one or more of the inputs used to estimate our asbestos liability could materially change the estimated liability and associated cash flows for pending claims and those estimated to be filed in the next 10 years. Although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe that there is a reasonable basis for estimating those costs at this time.

We record an asset that represents our best estimate of probable recoveries from our insurers for the estimated asbestos liabilities. There are significant assumptions made in developing estimates of asbestos-related recoveries, such as policy triggers, policy or contract interpretation, the methodology for allocating claims to policies, and the continued solvency of the Company's insurers. Certain of our primary coverage-in-place agreements are exhausted which may result in higher net cash outflows until excess carriers begin accepting claims for reimbursement. Performance by our insurers could differ from the assumptions underlying the recognized asset and could result in lower collections of receivables than are currently expected to reduce the Company's asbestos costs.

Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims that may be filed beyond the next 10 years, it is difficult to predict the ultimate outcome of the cost, including potential recoveries, of resolving the pending and all unasserted asbestos claims. Additionally, we believe it is possible that the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial condition and results of operations.

Many uncertainties exist surrounding asbestos litigation. The Company will continue to evaluate its estimated asbestos-related liability and corresponding estimated insurance reimbursement, as well as the underlying assumptions and process used to derive these amounts. Changes in estimates related to these uncertainties may result in increases or decreases to the net asbestos liability, particularly if the quality or number of claims or settlement or defense costs change significantly, if there are significant developments in the trend of case law or court procedures, or if legislation or another alternative solution is implemented; however, the Company is currently unable to predict such future changes or estimate their potential effect on its net asbestos liability. Although the resolution of asbestos claims may take many years, the effect of changes in our estimates related to our pending or estimated future claims in any given period could be material to our financial condition and results of operations.

In addition, as part of the 2011 spin-off, ITT indemnified Exelis and Xylem with respect to asserted and unasserted asbestos claims that relate to the presence or alleged presence of asbestos in products manufactured, repaired or sold prior to the 2011 spin-off, subject to limited exceptions.

**Our operating results and our ability to maintain liquidity or procure capital may be adversely affected by unfavorable economic and capital market conditions associated with global sales and operations and the uncertain geopolitical environment.**

We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles. Important factors impacting our businesses include the overall strength of the global economy and our customers' confidence in local and global macroeconomic conditions, industrial spending, interest rates, availability of commercial financing for our customers and unemployment rates.

We serve a diverse mix of customers in global infrastructure industries which can be volatile. The markets in which our businesses operate include automotive, aerospace, oil and gas, industrial, mining, chemical and defense, each of which is impacted by specific industry and general economic cycles. Our revenues, operating results and profitability have varied in the past and can be negatively impacted by volatility in the end markets we serve. We have undertaken measures to reduce the impact of this volatility through diversification of markets we serve and expansion of geographic regions in which we operate, but we expect volatility to continue to affect our business in the future. We may be adversely affected by disruptions in financial markets or downturns in macroeconomic conditions in specific countries or regions, or in the various industries in which the Company operates or be subject to adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

Our international operations, including U.S. exports, comprise a growing portion of our operations and are a strategic focus for continued future growth. Our strategy calls for increasing sales in overseas markets, including emerging growth markets such as Central and South America, China, Russia, and the Middle East. In 2015, 62% of our total sales were to customers operating outside of the United States. Our sales from international operations and export sales are subject in varying degrees to risks inherent to doing business outside of the United States. These risks include the following:

- possibility of unfavorable circumstances arising from host country laws or regulations;
- restrictions on currency repatriation;
- potential negative consequences from changes to taxation policies;
- the disruption of operations from labor and political disturbances;
- our ability to hire and maintain qualified staff in these regions; and
- changes in tariff and trade barriers and import and export licensing requirements.

Instability in the global credit markets and geopolitical environment in many parts of the world may continue to put pressure on global economic conditions. If global economic and market conditions, or economic conditions in key markets, deteriorate further we may experience material impacts on our financial statements.

Adverse changes to financial conditions could jeopardize certain counterparty obligations, including those of our insurers and customers. Restrictive credit markets may also result in customers extending terms for payment and may result in our having higher customer receivables with increased risk of default. We closely monitor the credit worthiness of our insurers and customers and evaluate their ability to service their obligations to us. A tightening of credit markets may reduce funds available to our customers to pay for or buy our products and services for an unknown, but perhaps lengthy, period.

Should market conditions deteriorate, this may adversely affect our ability to manage inventory levels and maintain current levels of profitability. If, for any reason, we lose access to our currently available lines of credit, or if we are required to raise additional capital, we may be unable to do so or we may be able to do so only on unfavorable terms. Deteriorating market conditions could also indicate an impairment in the value of our goodwill and intangible assets in one or more of our reporting units which would require us to recognize a non-cash charge to our Statement of Operations. We test both goodwill and intangible assets for impairment on an annual basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

In addition to the general risks that we face outside the U.S., we now conduct more of our operations in emerging growth markets than we have in the past, which could involve additional uncertainties, including risks that governments may impose limitations on our ability to repatriate funds, impose or increase withholding or other taxes on remittances and other payments to us, seek to nationalize our assets, or impose or increase investment barriers or other restrictions that may adversely affect our business. In addition, emerging growth markets pose other uncertainties, including challenges to our ability to protect our intellectual property, pressure on the pricing of our products, and risks of political instability.

A substantial portion of our earnings is generated by our foreign subsidiaries and repatriation of those earnings to the U.S. may be inefficient from a tax perspective. Any distributions, loans or advances to us by our foreign subsidiaries

could be subject to taxation under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate.

The cost of compliance with increasingly complex and often conflicting regulations worldwide can also impair our flexibility in modifying product, marketing, pricing, or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable profit margins.

**Significant movements in foreign currency exchange rates may adversely affect our financial statements.**

A significant portion of our sales are to customers operating outside the U.S. We are exposed to fluctuations in foreign currency exchange rates. The primary currencies to which we have exposure are the Euro, Chinese renminbi, Czech koruna, South Korean won, and British pound. We have currently elected not to hedge these foreign currency exposures but we continue to evaluate the need for hedging activities within our business.

As we continue to grow our business internationally, our operating results could be affected by the relative strength of the European, Asian and developing economies and the impact of currency exchange rate fluctuations. Any significant change in the value of currencies of the countries in which we do business relative to the value of the U.S. dollar could affect our ability to sell products competitively and control our cost structure, which could have a material adverse effect on our financial statements. Accordingly, fluctuations in exchange rates may also impact our results when financial statements of non-U.S. operating units are translated into U.S. dollars. Given that the majority of our sales are non-U.S. based, a strengthening of the U.S. dollar against other major foreign currencies could adversely affect our results of operations.

**Our business is impacted by our customer's levels of capital investment and maintenance expenditures, particularly in the oil and gas, chemical, and mining markets.**

Demand for our industrial products and services depend on the level of capital investment and planned maintenance expenditures of our customers. Our customers' levels of capital expenditures depends, in turn, on general economic conditions, availability of credit, economic conditions within their respective industries and expectations of future market behavior. Additionally, volatility in commodity prices can negatively affect the level of these activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. The ability of our customers to finance capital investment and maintenance may also be affected by factors independent of the conditions in their industries, such as the condition of global credit and capital markets.

The businesses of many of our customers, particularly oil and gas companies, chemical companies, mining companies and industrial companies are to varying degrees cyclical and have experienced, or may experience, periodic downturns of varying severity. Our customers in these industries, particularly those whose demand for our products and services is primarily profit-driven, historically have tended to delay large capital projects, including expensive maintenance and upgrades, during economic downturns. Additionally, fluctuating energy demand forecasts and lingering uncertainty concerning commodity pricing can cause our customers to be more conservative in their capital planning, which may reduce demand for our products and services. Reduced demand for our products and services could result in the delay or cancellation of existing orders or lead to excess manufacturing capacity, which unfavorably impacts our absorption of fixed manufacturing costs. This reduced demand may also erode average selling prices in our industry. Any of these results could adversely affect our business and financial results.

Additionally, some of our industrial products customers may choose to delay capital investment and maintenance, even during favorable conditions in their industries or markets. Despite these favorable conditions, the general health of global credit and capital markets and our customers' ability to access such markets may significantly impact investments in large capital projects, as well as necessary maintenance and upgrades. In addition, the liquidity and financial position of our customers, which is typically directly linked to the economies in which they operate, could impact capital investment decisions and their ability to pay in full and/or on a timely basis. Any of these factors, whether individually or in the aggregate, could have a material adverse effect on our customers and, in turn, our business and financial results.

**Failure to compete successfully in our markets could adversely affect our business.**

We provide products and services to competitive markets. We believe the principal points of competition in our markets are product performance, reliability and innovation, application expertise, brand reputation, energy efficiency, product life cycle cost, timeliness of delivery, proximity of service centers, effectiveness of our distribution channels and price.

Maintaining and improving our competitive position will require continued investment by us in manufacturing, research and development, engineering, marketing, customer service and support, and our distribution networks. We may not be successful in maintaining our competitive position. Our competitors may develop products that are superior to our products, or may develop more efficient or effective methods of providing products and services or may adapt more quickly than we do to new technologies or evolving customer requirements. Pricing pressures also could cause us to adjust the prices of certain products to stay competitive. We may not be able to compete successfully with existing or new competitors. Risks such as these are particularly apparent in our ICS business, which relies on innovation to stay competitive.

Our operating costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, energy and related utilities, freight, and cost of labor. In order to remain competitive, we may not be able to recoup all or a portion of these higher costs from our customers through product price increases. Further, our ability to realize financial benefits from Lean Six Sigma activities may not be able to mitigate fully or in part these manufacturing and operating cost increases and, as a result, could negatively impact our profitability.

**Quality problems with our manufacturing processes or finished goods could harm our reputation for producing high-quality products and erode our competitive advantage, sales, and market share.**

We manufacture key components that are integral to the operation of systems and manufacturing processes in the energy, transportation and industrial markets. Our products provide enabling functionality for applications where reliability and performance are critically important to our customers and the users of their products. As such, quality is extremely important to us and our customers due to the serious and costly consequences of product failure. Our quality certifications, including products manufactured to military specifications, are critical to the marketing success of our goods and services. If we fail to meet these standards, our reputation could be damaged, we could lose customers or the ability to sell certain products, and our revenue and results of operations could be materially adversely affected. Aside from specific customer standards, our success in part depends on our ability to manufacture to exact tolerances precision-engineered components, subassemblies, and finished devices from multiple materials. If our components fail to meet these standards or fail to adapt to evolving standards, our reputation as a manufacturer of high-quality components will be harmed, our competitive advantage could be damaged, and we could lose customers, market share or our ability to sell certain products.

**We are subject to risks related to government contracting, including changes in levels of government spending and regulatory and contractual requirements applicable to sales to the U.S. government.**

Our Interconnect Solutions, Control Technologies and Motion Technologies segments derive revenue from sales to U.S. government customers and to higher tier contractors who sell to the U.S. government. Government expenditures are subject to political and budgetary fluctuations and constraints, which may result in significant unexpected changes in levels of demand for our products. In addition, the award, administration and performance of government contracts are subject to regulatory and contractual requirements that differ significantly from the terms and conditions that apply to contracts with our non-governmental customers. We may be subject to audits and investigations to evaluate our compliance with these requirements. If we are found to have failed to comply with requirements applicable to government contractors, we may be subject to various actions, including but not limited to fines or penalties, reductions in the value of our government contracts, suspension and termination. Failure to comply with applicable requirements also could harm our reputation and our ability to compete for future government contracts. Any of these outcomes could have a material adverse effect on our business, results of operations and financial condition.

**Our business could be adversely affected by raw material price volatility and the inability of suppliers to meet quality and delivery requirements.**

Our business relies on third-party suppliers for raw materials, components, and contract manufacturing services to produce our products. The supply of raw materials to the Company and to its component parts suppliers and the supply of castings, motors, and other critical components could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. Due to pricing pressure or other factors, the Company may not be able to pass along increased raw material and components parts prices to its customers in the form of price increases or its ability to do so could be delayed. Consequently, our results of operations and financial condition may be adversely affected.

For most of our products, we have existing alternate sources of supply, or such materials are readily available. In some instances we depend on a single source of supply, manufacturing or assembly or participate in commodity markets that may be subject to a limited number of suppliers. Delays in obtaining supplies may result from a number of factors affecting our suppliers, including production interruptions at suppliers, capacity constraints, labor disputes, the impaired financial condition of a particular supplier, the ability of suppliers to meet regulatory requirements, and suppliers' allocations to other purchasers. Any delay in our suppliers' abilities to provide us with sufficient quality and flow of materials, price increases, or decreased availability of raw materials or commodities could impair our ability to deliver products to our customers and, accordingly, could have an adverse effect on our business, results of operations and financial position.

**Our business could be adversely affected by the inability of suppliers to provide us with certifications relating to conflict minerals.**

Since our supply chain is complex, ultimately we may not be able to sufficiently discover the origin of the conflict minerals (generally defined as the minerals tin, tantalum, titanium and gold which have been extracted from the Democratic Republic of the Congo or adjoining countries) used in our products through the due diligence procedures that we implement, which may adversely affect our reputation with our customers, shareholders, and other stakeholders. In such event, we may also face difficulties in satisfying customers who require that all of our products are certified as conflict mineral free. If we are not able to meet such requirements, customers may choose not to purchase our products, which could adversely affect our sales and the value of portions of our inventory. Further, there may be only a limited number of suppliers offering conflict free minerals and, as a result, we cannot be sure that we will be able to obtain metals, if necessary, from such suppliers in sufficient quantities or at competitive prices. Any one or a combination of these various factors could harm our business, reduce market demand for our products, and adversely affect our financial results.

**If we fail to manage the distribution of our products and services effectively, our revenue, gross margin and profitability could suffer. A significant portion of our revenue is derived from a single customer.**

We use a variety of sales channels to sell our products and services. Successfully managing these sales channels is a complex process as we sell a broad mix of products through a network of over 750 distributors, agents, and value-added resellers. Moreover, since each distribution method has distinct risks and profit margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and profit margins. In addition, changes to the sales channels could introduce additional complexity to the sales and inventory management processes and could cause disruptions to customer service or create channel conflicts.

Further, we must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and potential pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Our reliance on indirect distribution methods may reduce visibility to end-customer demand, generating a time lag to the market trend with potential negative impacts on strategic decisions, including pricing and operational decisions.

Our financial results could be adversely affected by the loss of a distributor, the loss or deterioration of some distribution or reseller arrangements, channel conflicts including the consolidation of third-party distributors, or if the financial conditions of our channel partners were to weaken. It is not unreasonable to suspect that some of our distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness, leading to a slowness or difficulty in the cash collection process.

Approximately 10% of our total revenue is derived from a single customer, Continental ATE, whom we sell to through OE pad contracts and OES supply agreements with automakers and which is also a third-party distributor for us in the independent aftermarket channel. The loss of this customer could have a material adverse effect on our business, results of operations, and financial condition.

**Changes in our effective tax rates as a result of changes in the realizability of our deferred tax assets, the geographic mix of earnings, tax examinations or disputes, tax authority rulings, or changes in the tax laws, may adversely affect our financial results.**

The Company is subject to income taxes in the U.S. and in various foreign jurisdictions. We exercise significant judgment in calculating our provision for income taxes and other tax liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Furthermore, changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain income or the deductibility of certain expenses, thereby affecting our income tax expense and profitability.

Any significant increase in our future effective tax rates could reduce net income for future periods. Given the global nature of our business, a number of factors may increase our future effective tax rates, including:

- decisions to repatriate non-U.S. earnings for which we have not previously provided for U.S. income taxes;
- changes in the geographic mix of our profits among jurisdictions with differing statutory income tax rates;
- sustainability of historical income tax rates in the jurisdictions in which we conduct business;
- changes in tax laws applicable to us;
- expiration, renewal, or application of tax holidays;
- the resolution of issues arising from tax audits with various tax authorities; and
- changes in the valuation of our deferred tax assets, deferred tax liabilities and deferred tax asset valuation allowances.

The amount of income taxes and other taxes we have paid are subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts paid or reserved, future financial results may include unfavorable tax adjustments. We are currently under routine examination by the U.S. Internal Revenue Service and other tax authorities, and we may be subject to additional examinations in the future. The tax authorities may disagree with our tax treatment of certain material items and thereby increase our tax liability. Failure to sustain our position in these matters could result in a material adverse effect on our financial statements.

**Failure to retain our existing senior management, engineering and other key personnel or the inability to attract and retain new qualified personnel could negatively impact our ability to operate or grow our business.**

Our success will continue to depend to a significant extent on our ability to retain or attract a significant number of employees in senior management, engineering and other key personnel. The ability to attract or retain employees will depend on our ability to offer competitive compensation, training and cultural benefits. We will need to continue to develop a roster of qualified talent to support business growth and replace departing employees. A failure to retain or attract highly skilled personnel could adversely affect our operating results or ability to operate or grow our business.

**A material business interruption, particularly at one of our manufacturing facilities, could negatively impact our ability to generate sales and meet customer demand.**

If operations at one of our manufacturing facilities were to be disrupted as a result of a significant equipment failure, natural disaster, power outage, fire, explosion, terrorism, IT system failure, cyber-based attack, adverse weather conditions, labor disputes, relocation of production location, or any other reason, our financial performance could be adversely affected as a result of our inability to meet customer demand for our products. A significant interruption in production capability could require also us to make substantial payments due to non-performance, which could negatively affect our results of operations. We have insurance for certain covered losses which we believe to be adequate to provide for reconstruction of facilities and equipment, as well as certain financial losses resulting from any production interruption or shutdown. However, any recovery under our insurance policies may not offset the lost revenues or increased expenses that may be experienced during the disruption of operations.

Additionally, we have intentions to upgrade or replace existing Enterprise Resource Planning (ERP) systems over the next several years. Implementing new systems may result in unintended changes to the way in which production is performed and transactions are processed. Our ability to execute these ERP systems implementations will directly impact our potential risk exposure during this implementation period.



**Security breaches could adversely affect our business and results of operations.**

The efficient operation of our business is dependent on computer hardware and software systems. While we believe we have taken many steps to protect our information systems, even the most well-protected information systems are vulnerable to internal and external security breaches including those by computer hackers and cyber terrorists. Furthermore, information technology security threats are increasing in sophistication and frequency. While we actively manage the risks to our information systems that are within our control, we can provide no assurance that our actions will be successful in eliminating or mitigating risks to our systems, networks and data. The unavailability of our information systems, the failure of these systems to perform as anticipated for any reason or any significant breach of security could cause significant disruption to our business and could result in decreased performance and increased overhead costs, causing an adverse effect on our reputation, business, financial condition and results of operations. A breach could also result in the loss of our intellectual property, potentially impacting our long-term capability to compete on sales for affected products. In addition, a breach of security of our information systems could result in litigation, regulatory action and potential liability, as well as increased costs to implement further information security measures.

**Portfolio management strategies for growth, including cost-saving initiatives, may not meet expectations.**

We regularly review our portfolio of businesses and pursue growth through the acquisition of other companies, assets and product lines that either complement or expand our existing business. Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, a level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of these business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations. Acquisitions involve a number of risks and present financial, managerial and operational challenges that could have a material adverse effect on our reputation and business, including that an acquired business could under-perform relative to our expectations, the failure to realize expected synergies, integration of technology, operations, personnel and financial and other systems, the possibility that we have acquired substantial undisclosed liabilities, potentially insufficient internal controls over financial activities or financial reporting at an acquired company that could impact us on a consolidated basis, diversion of management attention from other businesses, loss of key employees of the acquired businesses, and customer dissatisfaction or performance.

Our portfolio reviews also include the potential for cost-saving initiatives through restructuring and other initiatives. We strive for and expect to achieve cost savings in connection with certain initiatives, including: (i) manufacturing process and supply chain rationalization; (ii) streamlining redundant administrative overhead and support activities; and (iii) restructuring and repositioning organizations. Cost savings expectations are inherently estimates that are difficult to predict and we cannot provide assurance that we will achieve expected, or any, actual cost savings. Our restructuring activities may place substantial demands on our management, which could lead to the diversion of management's attention from other business priorities and result in a reduced customer focus.

**The level of returns on postretirement benefit plan assets, changes in interest rates and other factors could affect our earnings and cash flows in future periods.**

A portion of our current and retired employee population is covered by pension and other employee-related defined benefit plans (collectively, postretirement benefit plans). We may experience significant fluctuations in costs related to postretirement benefit plans as a result of macroeconomic factors, such as interest rates, that are beyond our control. The cost of our postretirement plans is incurred over long periods of time and involves various factors and uncertainties during those periods, which can be volatile and unpredictable, including the rates of return on postretirement benefit plan assets and discount rates used to calculate liabilities and expenses. Management develops each assumption using relevant Company experience in conjunction with market-related data. Our liquidity, cash flows and financial statements could be materially affected by significant changes in key economic indicators, volatility in the financial markets, future legislation and other governmental regulatory actions.

We make contributions to fund our postretirement benefit plans when considered necessary or advantageous to do so. The macro-economic factors discussed above, including the return on postretirement benefit plan assets and the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future funding requirements. A significant decline in the fair value of our plan assets, or other adverse changes to our overall pension and other employee-related benefit plans could require increased funding contributions and could adversely affect our financial statements. Future minimum funding requirements will depend primarily on the return on plan assets and discount rate. Depending on these factors, the level of future minimum contributions could be material.

#### ***Other Risks, Including Litigation and Regulatory Risk***

##### **Changes in environmental laws or regulations, the discovery of previously unknown or more extensive contamination, or the failure of a potentially responsible party to perform may adversely affect our financial results.**

Environmental laws and regulations allow for the assessment of substantial fines and criminal sanctions as well as facility shutdowns to address violations, and may require the installation of costly pollution control equipment or operational changes to limit emissions or discharges. We also could be affected by changes in environmental laws or regulations, including, for example, those imposed in response to vapor intrusion or climate change concerns.

Accruals for environmental liabilities 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. Our estimated liability is undiscounted and is reduced to reflect the 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 share of the relevant costs. Such estimates are subject to change and may be affected by many factors, such as new information about a site, evolving scientific knowledge about risk associated with any contamination involved, developments affecting remediation technology, and enforcement by regulatory authorities.

Developments such as the adoption of new environmental laws and regulations, violations by us of such laws and regulations, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, the adequacy of insurance policies, our inability to recover costs associated with any such developments, or financial insolvency of other potentially responsible parties could have a material adverse effect on our financial statements.

##### **Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation, as well as export controls and trade sanctions, could result in fines or criminal penalties.**

We operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws. We are subject, however, to the risk that we, our affiliated entities, or the respective officers, directors, employees and agents of ITT, may take action determined to be in violation of such anti-corruption laws, including but not limited to, the U.S. Foreign Corrupt Practices Act of 1977 and the U.K. Bribery Act of 2010, as well as trade sanctions administered by the Office of Foreign Assets Control (OFAC) and the U.S. Department of Commerce. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial position. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

**We are subject to laws, regulations and potential liability relating to claims, complaints and proceedings, including those related to product and other matters.**

We are subject to various laws, ordinances, regulations and other requirements of government authorities in the U.S. and in foreign countries. Any violations or failure to comply with securities laws, trade or tax rules or similar regulations could create a substantial liability for us, and also could cause harm to our reputation. Changes in laws, ordinances, regulations or other government policies, the nature, timing, and effect of which are uncertain, may significantly increase our expenses and liabilities.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, and marketing of products for the markets we serve. In addition, many of the devices we manufacture and sell are designed to be used in harsh environments for long periods of time where the cost of failure is high. Component failures, manufacturing defects, design flaws, or inadequate disclosure of product-related risks or product-related information could result in an unsafe condition or injury to, or death of, an end-user of our products. The occurrence of such a problem could result in product liability claims or a recall of, or safety alert relating to, one or more of our products which could ultimately result, in certain cases, in the removal of such products from the marketplace and claims regarding costs associated therewith. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers for our products.

From time to time we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to personal injury claims, employment and employee benefit matters and commercial or contractual disputes, sometimes related to acquisitions or divestitures. Additionally, we may become subject to significant claims of which we are currently unaware or the claims of which we are aware may result in our incurring a significantly greater liability than we anticipate or can estimate.

**The 2011 Spin-Off may expose us to potential liabilities.**

In connection with the 2011 spin-off, we may be exposed to potential liabilities. As part of the Distribution Agreement, ITT, Exelis, and Xylem indemnified each other with respect to such parties' assumed or retained liabilities pursuant to the Distribution Agreement and breaches of the Distribution Agreement or related spin agreements. There can be no assurance that the indemnity from Exelis and Xylem will be sufficient to protect us against the full amount of these and other liabilities, or that each of Exelis and Xylem will be able to fully satisfy its indemnification obligations. Third-parties could also seek to hold us responsible for any of the liabilities that each of Exelis and Xylem has agreed to assume. Even if we ultimately succeed in recovering from Exelis and/or Xylem any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. In addition, performance on indemnities that we provided Exelis and Xylem may be significant. Each of these risks could negatively affect our business, results of operations and financial position.

**Anti-takeover provisions in our organizational documents and Indiana law could delay or prevent a change in control.**

Certain provisions of our articles of incorporation and by-laws may delay or prevent a merger or acquisition that a shareholder may consider favorable. For example, the articles of incorporation authorize our Board of Directors to issue one or more series of preferred stock. In addition, the articles of incorporation and by-laws, among other things, do not permit action by written consent of the shareholders. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Indiana law also imposes some restrictions on mergers and other business combinations between any holder of 10% or more of our outstanding common stock and us as well as certain restrictions on the voting rights of "control shares" of an "issuing public corporation."

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

We consider the offices, plants, warehouses, and other properties that we own or lease to be in good condition and generally suitable for their intended purpose. We believe these properties are adequate for the Company's needs and will generally allow for expansion of capacity if needed. The following table summarizes the number and area (in thousands of square feet) of our properties by region and business segment.

Location	Number of Facilities - Owned											
	Industrial Process		Motion Technologies		Interconnect Solutions		Control Technologies		Other		Total	
	#	Area	#	Area	#	Area	#	Area	#	Area	#	Area
Manufacturing:												
North America	4	1,155.0	2	226.1	2	722.1	3	182.6	—	—	11	2,285.8
Europe	2	367.5	4	848.5	1	231.3	—	—	—	—	7	1,447.3
Asia	1	189.0	—	—	1	13.4	—	—	—	—	2	202.4
	7	1,711.5	6	1,074.6	4	966.8	3	182.6	—	—	20	3,935.5
Non-Manufacturing:												
North America	2	66.5	—	—	—	—	—	—	—	—	2	66.5
Europe	—	—	1	38.5	—	—	—	—	—	—	1	38.5
South America	1	68.0	—	—	—	—	—	—	—	—	1	68.0
	3	134.5	1	38.5	—	—	—	—	—	—	4	173.0
Location	Number of Facilities - Leased											
	Industrial Process		Motion Technologies		Interconnect Solutions		Control Technologies		Other		Total	
	#	Area	#	Area	#	Area	#	Area	#	Area	#	Area
Manufacturing:												
North America	5	290.4	2	85.6	5	178.6	2	255.5	—	—	14	810.1
Europe	—	—	1	261.4	1	52.8	1	5.5	—	—	3	319.7
Asia	1	211.5	1	341.7	1	294.4	—	—	—	—	3	847.6
South America	1	33.6	—	—	—	—	—	—	—	—	1	33.6
	7	535.5	4	688.7	7	525.8	3	261.0	—	—	21	2,011.0
Non-Manufacturing:												
North America	16	303.9	1	16.0	3	6.5	1	3.0	1	53.7	22	383.1
Europe	12	115.3	1	28.0	2	11.3	—	—	—	—	15	154.6
Middle East	2	12.5	—	—	2	1.0	—	—	—	—	4	13.5
Asia	19	217.8	—	—	4	10.5	—	—	3	18.4	26	246.7
South America	8	199.5	1	0.5	—	—	—	—	—	—	9	200.0
	57	849.0	3	44.5	11	29.3	1	3.0	4	72.1	76	997.9

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to personal injury claims, environmental exposures, intellectual property matters, commercial or contractual disputes, sometimes related to acquisitions or divestitures, and employment and employee benefit matters. We will continue to defend vigorously against all claims.

#### ***Asbestos Proceedings***

ITT, including its subsidiary Goulds Pumps, Inc., has been sued, along with many other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain of our products sold prior to 1985 contained a part manufactured by a third party (e.g., a gasket) that contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. Frequently, the plaintiffs are unable to identify any ITT or Goulds Pumps, Inc. product as a source of asbestos exposure. In addition, a large percentage of claims pending against the Company have been placed on inactive dockets because the plaintiffs cannot demonstrate a significant compensable loss. Our experience to date is that a majority of resolved claims are dismissed without payment by the Company.

We record a liability for pending asbestos claims and asbestos claims estimated to be filed over the next 10 years. While it is probable that we will incur additional costs for future claims to be filed against the Company, the amount of liability for potential future claims beyond the next 10 years is not reasonably estimable due to a number of factors. As of December 31, 2015, we have recorded an undiscounted asbestos-related liability for pending claims and unasserted claims estimated to be filed over the next 10 years of \$1,042.8, including expected legal fees, and an associated asset of \$412.0 which represents estimated recoveries from insurers, resulting in a net exposure of \$630.8. See information provided below and in Note 18, Commitments and Contingencies, to the Consolidated Financial Statements for further information.

#### ***Other Matters***

The Company has received a civil subpoena from the Department of Defense, Office of the Inspector General requesting documents pertaining to certain products manufactured by the Company's Interconnect Solutions segment that are purchased or used by the U.S. government. The Company is cooperating with the request. The Company is unable to estimate the timing or outcome of the matter.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company, as of February 1, 2016, are listed below.

Name	Age	Current Title
Denise L. Ramos	59	Chief Executive Officer and President
Farrokh Batliwala	40	Senior Vice President and President, Control Technologies
Aris C. Chicles	54	Executive Vice President and President, Industrial Process
Victoria L. Creamer	46	Senior Vice President Human Resources
Steven C. Giuliano	46	Vice President and Chief Accounting Officer
Mary Beth Gustafsson	56	Senior Vice President, General Counsel and Chief Compliance Officer
Luca Savi	50	Senior Vice President and President, Motion Technologies
Thomas M. Scaleria	44	Senior Vice President and Chief Financial Officer
Neil W. Yeargin	50	Senior Vice President and President, Interconnect Solutions

*Denise L. Ramos* was appointed Chief Executive Officer, President and a director of the Company in October 2011. She previously served as Senior Vice President and Chief Financial Officer of the Company since 2007. Prior to joining the Company, Ms. Ramos served as Chief Financial Officer for Furniture Brands International from 2005 to 2007. From 2000 to 2005, Ms. Ramos served as Senior Vice President and Corporate Treasurer at Yum! Brands, Inc. and Chief Financial Officer for the U.S. division of KFC Corporation. Ms. Ramos began her career in 1979 at Atlantic Richfield Company (ARCO), where she had more than 20 years of business and financial experience serving in a number of increasingly responsible finance positions, including Corporate General Auditor and Assistant Treasurer. Ms. Ramos has served as a director of Praxair, Inc. since April 2014, where she serves on the Audit Committee and the Governance and Nominating Committee. She serves on the Executive Committee of the Board of Trustees for the Manufacturers Alliance for Productivity and Innovation and is also a member of the Business Roundtable and the Business Council. Ms. Ramos was included in the Top 100 CEO Leaders in Science, Technology, Engineering and Math publication by STEMconnector, she recently received a Distinguished Leadership Award from the New York Hall of Science and she was named to Fortune magazine's 2014 Top People in Business.

*Farrokh Batliwala* has served as our Senior Vice President and President, Control Technologies since October 2015. Prior to joining us, Mr. Batliwala served as Vice President and General Manager, Hydraulics, Power and Motion Control Division for Eaton Corporation (Eaton), a diversified global power management technology company, from 2013 to 2015. Mr. Batliwala held various other positions of increasing levels of responsibility at Eaton since 2004.

*Aris C. Chicles* has served as our Executive Vice President and President, Industrial Process since May 2014 and previously as Executive Vice President since October 2011. Prior to that he served as our Senior Vice President, Strategy and Corporate Development from August 2007 to October 2011 and Vice President, Strategy and Corporate Development from June 2006 to July 2007. Before joining us, Mr. Chicles held various positions of increasing levels of responsibility at American Standard Companies, Inc., a global manufacturer of products and systems in diversified industries, and Owens Corning Inc., a leading provider of building materials systems and composite solutions.

*Victoria L. Creamer* has served as our Senior Vice President, Human Resources since February 2015. Prior to joining ITT, Ms. Creamer served as Vice President, Global Compensation and Recognition of International Business Machines Corporation (IBM), a global technology and consulting company, from April 2013 to January 2015. Ms. Creamer held various other positions of increasing levels of responsibility at IBM since 1991.

*Steven C. Giuliano* has served as our Vice President and Chief Accounting Officer since January 2014. Prior to joining us, Mr. Giuliano served as Senior Vice President and Chief Financial Officer from 2009 to 2011 and was Vice President and Chief Financial Officer from 2007 to 2009 of Arch Chemicals, Inc. Mr. Giuliano was Controller of Arch Chemicals from 1999 through 2007, while assuming increasing levels of responsibility.

*Mary Beth Gustafsson* has served as our Senior Vice President and General Counsel since February 2014 and as our Chief Compliance Officer since August 2014. Prior to joining us, Ms. Gustafsson served as Executive Vice President, General Counsel and Corporate Secretary of First Solar Inc., a global provider of comprehensive photovoltaic solar systems, from 2009 to 2013 and from 2008 to 2009 as Vice President, General Counsel. Ms. Gustafsson was previously Senior Vice President, General Counsel and Secretary of American Standard Companies, Inc.

*Luca Savi* has served as our Senior Vice President and President, Motion Technologies since November 2011. Prior to joining us, Mr. Savi served as Chief Operating Officer, Comau Body Welding at Comau, a subsidiary of the Fiat Group responsible for producing and serving advanced manufacturing systems, from 2009 to 2011 and prior to that as Chief Executive Officer, Comau North America from 2007 to 2009 and Chief Executive Officer, Comau China from 2004 to 2007. Mr. Savi previously held senior leadership roles at Honeywell International, Royal Dutch Shell and Ferruzzi-Montedison Group.

*Thomas M. Scalera* has served as our Senior Vice President, Chief Financial Officer and Strategy and IT Leader since August 2014 and prior to that as Senior Vice President and Chief Financial Officer since October 2011. He previously served as Vice President, Corporate Finance from 2010 to 2011 and Director, Investor Relations from 2008 to 2010. Prior to joining ITT in 2006, Mr. Scalera held senior financial roles with R.R. Donnelley, Dover Corp., and PricewaterhouseCoopers, LLP.

*Neil W. Yeargin* has served as our Senior Vice President and President, Interconnect Solutions since February 2013. Prior to joining us, Mr. Yeargin held several leadership roles at Invensys plc, a global maker of software, systems and controls, most recently serving as Senior Vice President, Global Commercial Business from 2011 to 2013 and prior to that as Vice President and General Manager, Americas/APAC from 2008 to 2011. Mr. Yeargin previously held leadership roles in operations, supply chain and process improvement with Cooper Industries and Honeywell Inc. (formerly Allied Signal).

## 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

The table below reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange (NYSE), the principal market in which this security is traded (under the trading symbol "ITT").

	2015		2014	
	High	Low	High	Low
Three Months Ended:				
March 31	\$ 42.97	\$ 35.30	\$ 44.87	\$ 37.87
June 30	43.96	39.01	48.24	41.48
September 30	42.43	32.86	49.42	44.93
December 31	40.52	32.70	45.34	36.74

We declared dividends of \$0.1183 and \$0.11 per share of common stock in each of the four quarters of 2015 and 2014, respectively. In the first quarter of 2016, we declared a dividend of \$0.124 per share for shareholders of record on March 11, 2016. The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors and will be based on, and affected by, a number of factors, including our financial position and results of operations, available cash, expected capital spending plans, prevailing business conditions, and other factors the Board deems relevant. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future.

There were approximately 10,687 holders of record of our common stock on February 17, 2016.

#### EQUITY COMPENSATION PLAN INFORMATION

The equity compensation plan information called for by Item 5(a) is set forth under the caption "Equity Compensation Plan Information" in our Proxy Statement for the 2016 Annual Meeting of Shareholders.

During the fiscal year ended December 31, 2015, no equity securities of the Company were sold by the Company that were not registered under the Securities Act.

#### ISSUER PURCHASES OF EQUITY SECURITIES

The following table summarizes our purchases of our common stock for the quarter ended December 31, 2015.

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE <sup>(1)</sup>	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS <sup>(2)</sup>	MAXIMUM DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS <sup>(2)</sup>
PERIOD				
10/1/2015 - 10/31/2015	—	—	—	\$ 240.7
11/1/2015 - 11/30/2015	—	—	—	\$ 240.7
12/1/2015 - 12/31/2015	—	—	—	\$ 240.7

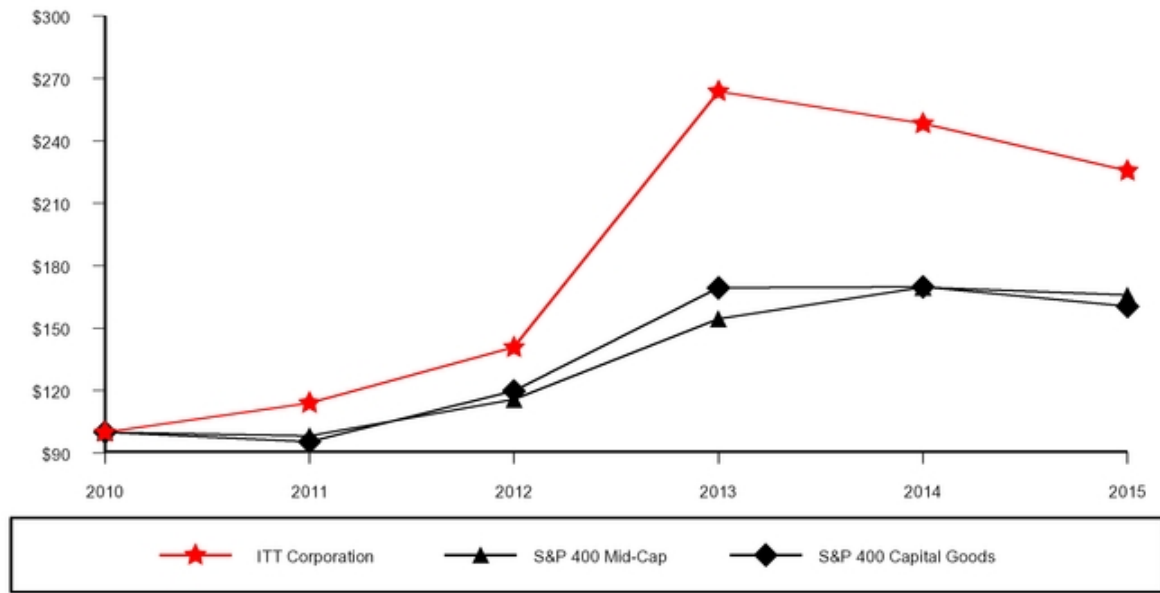
(1) Average price paid per share is calculated on a settlement basis and includes commissions.

(2) On October 27, 2006, our Board of Directors approved a three-year \$1 billion share repurchase program (2006 Share Repurchase Program). On December 16, 2008, our Board of Directors modified the provisions of the 2006 Share Repurchase Program to replace the original three-year term with an indefinite term. As of December 31, 2015, we had repurchased 18.4 shares for \$759.3, including commissions, under the 2006 Share Repurchase Program. The program is consistent with our capital allocation process, which has centered on those investments necessary to grow our businesses organically and through acquisitions, while also providing cash returns to shareholders. Our strategy for cash flow utilization is to invest in our business, execute strategic acquisitions, pay dividends and repurchase common stock.



## PERFORMANCE GRAPH CUMULATIVE TOTAL RETURN

Based upon an initial investment on December 31, 2010 of \$100 with dividends reinvested



	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
ITT Corporation	\$ 100.00	\$ 114.01	\$ 140.76	\$ 263.75	\$ 248.26	\$ 225.59
S&P 400 Mid-Cap	\$ 100.00	\$ 98.27	\$ 115.76	\$ 154.50	\$ 169.54	\$ 165.85
S&P 400 Capital Goods	\$ 100.00	\$ 95.45	\$ 119.81	\$ 169.36	\$ 169.79	\$ 160.43

This graph is not, and is not intended to be, indicative of future performance of our common stock. This graph shall not be deemed "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected historical financial data derived from the Consolidated Financial Statements for each of the five years presented. The selected financial data should be read in conjunction with, and is qualified in its entirety by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the Notes thereto.

(In Millions, except per share amounts)	2015	2014	2013 <sup>(a)</sup>	2012	2011
<b>Results of Operations</b>					
Revenue	\$ 2,485.6	\$ 2,654.6	\$ 2,496.9	\$ 2,227.8	\$ 2,085.6
Gross profit	809.1	866.4	799.8	680.2	645.0
<i>Gross margin</i>	32.6%	32.6%	32.0%	30.5%	30.9%
Asbestos-related (benefit) costs, net <sup>(b)</sup>	(91.4)	3.9	32.8	50.9	100.4
Other operating costs <sup>(c)</sup>	520.4	596.1	583.4	477.8	789.5
Operating income (loss)	380.1	266.4	183.6	151.5	(244.9)
<i>Operating margin</i>	15.3%	10.0%	7.4%	6.8%	(11.7)%
Income tax expense (benefit) <sup>(d)</sup>	70.1	71.3	(309.6)	39.6	260.6
Income (loss) from continuing operations attributable to ITT Corporation	312.4	188.4	487.7	109.5	(576.5)
Income (loss) from discontinued operations, net of tax <sup>(e)</sup>	39.4	(3.9)	0.8	15.9	447.0
Net income (loss) attributable to ITT Corporation	\$ 351.8	\$ 184.5	\$ 488.5	\$ 125.4	\$ (129.5)
Income (loss) from continuing operations per basic share	\$ 3.48	\$ 2.06	\$ 5.36	\$ 1.18	\$ (6.22)
Income (loss) from discontinued operations per basic share	\$ 0.44	\$ (0.04)	\$ 0.01	\$ 0.17	\$ 4.82
Net income (loss) per basic share	\$ 3.92	\$ 2.02	\$ 5.37	\$ 1.35	\$ (1.40)
Income (loss) from continuing operations per diluted share	\$ 3.44	\$ 2.03	\$ 5.28	\$ 1.16	\$ (6.22)
Income (loss) from discontinued operations per diluted share	\$ 0.44	\$ (0.04)	\$ 0.01	\$ 0.17	\$ 4.82
Net income (loss) per diluted share	\$ 3.88	\$ 1.99	\$ 5.29	\$ 1.33	\$ (1.40)
Dividends declared	\$ 0.4732	\$ 0.44	\$ 0.40	\$ 0.364	\$ 1.591
<b>Financial Position</b>					
Cash and cash equivalents <sup>(f)</sup>	\$ 415.7	\$ 584.0	\$ 507.3	\$ 544.5	\$ 689.8
Total assets <sup>(g)</sup>	3,723.6	3,631.5	3,740.2	3,386.1	3,671.5
Total debt and capital leases	248.5	8.5	48.9	26.9	6.5

(a) On November 28, 2012, we acquired Bornemann GmbH, therefore our 2013 Consolidated Financial Statements include an additional eleven months of operations.

(b) The asbestos-related benefit in 2015 primarily reflects a \$100.7 benefit recognized related to a new single firm strategy and streamlined case management that is expected to significantly reduce asbestos defense costs. See Note 18, Commitments and Contingencies, to the Consolidated Financial Statements for further information.

- (c) The decrease in other operating costs from 2011 to 2012 was primarily due to the 2011 spin-off of Exelis and Xylem. In connection with activities taken to create the revised organizational structure and to complete the 2011 spin-off (referred to herein as transformation costs) we recognized total transformation costs of \$636.2 during 2011, of which \$396.1 are presented within income from continuing operations. Transformation costs incurred during 2011 primarily relate to losses on the extinguishment of debt, asset impairments, and employee retention and severance.
- (d) The 2011 tax expense of \$260.6 includes a \$340.7 valuation allowance for U.S. federal and state deferred tax assets as it became more likely than not that these deferred tax assets would not be realized, a \$69.3 tax expense for undistributed foreign earnings that were no longer considered indefinitely reinvested, and a \$30.9 tax benefit from an increase in state deferred tax assets which were re-measured based on enacted tax rates using different state apportionment factors as a result of the 2011 spin-off. The 2013 tax benefit of \$309.6 includes the release of a U.S. deferred tax valuation allowance of \$374.6 that was initially established in 2011. See Note 5, Income Taxes, to the Consolidated Financial Statements for further information.
- (e) During 2015, the Company recognized income from discontinued operations of \$39.4, principally related to the settlement of the U.S. income tax audit. Discontinued operations include the results of the Shape Cutting Businesses (disposed of in 2012), Exelis (disposed of in 2011), Xylem (disposed of in 2011) and transformation costs of \$240.1 recorded during 2011. Transformation costs presented within discontinued operations are costs directly related to the 2011 spin-off, primarily advisory fees and information technology costs, which provide no future benefit to the Company.
- (f) The decline in cash and cash equivalents from 2014 to 2015 was primarily due to the acquisitions of Wolverine in October of 2015 and Hartzell Aerospace in March of 2015 and an increase of \$59.5 in short-term investment deposits. The decline in cash and cash equivalents from 2011 to 2012 was primarily due to the acquisition of Bornemann for \$193.2 net of cash acquired.
- (g) The increase in total assets from 2012 to 2013 is primarily due to the release of a U.S. deferred tax valuation allowance of \$374.6. The decline in total assets from 2011 to 2012 is primarily due to a reduction in asbestos-related assets and liabilities resulting from a Settlement Agreement executed during the third quarter of 2012. See Note 18, Commitments and Contingencies, to the Consolidated Financial Statements for further information.

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

The following discussion should be read in conjunction with the consolidated financial statements and the notes related thereto. As we noted earlier in the Forward-Looking and Cautionary Statements of this Annual Report on Form 10-K, this Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" (along with other sections of this Annual Report), may contain forward-looking statements. The risks discussed in Part I, Item 1A, "Risk Factors," and other risks identified in this Annual Report on Form 10-K could cause our actual results to differ materially from those expressed by such forward-looking statements.

### **OVERVIEW**

ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets. We refer you to Part I, Item 1, "Description of Business" for a further overview of our company, segments, products and services offerings, and other information about our business.

See the section titled "Key Performance Indicators and Non-GAAP Measures" for a definition and reconciliation of organic revenue, adjusted segment operating income, and adjusted income from continuing operations.

### **EXECUTIVE SUMMARY**

During 2015, we continued to face an ongoing difficult external environment including a declining global oil and gas market, weaker than expected general industrial markets, and negative impacts from a strengthening U.S. dollar. Despite these persistent external challenges, our ITT team focused on key strategic areas including Optimizing Execution, Market Expansion, and Balanced and Effective Capital Deployment. The progress we made in these strategic growth areas helped propel our strategy forward and create sustainable benefits, which are keenly focused on long-term growth and value creation for all of our stakeholders.

Our 2015 results include:

- A 6% decline in revenue (1% decline organic revenue) driven by a \$193.8 unfavorable impact from foreign currency translation and the declines we experienced in oil & gas and general industrial markets, which were collectively down 6% on an organic basis. The impact of these headwinds was partially offset by top-line growth of 4% on an organic basis in the transportation markets, led by Automotive.
- Despite the overall topline decline, operating income and margin increased \$113.7 and 530 basis points, respectively, which includes a \$100.7 benefit from our estimate of future asbestos-related legal costs as we drove productivity and efficiencies across ITT.
- Income from continuing operations was \$3.44 per diluted share, or \$2.55 per diluted share on an adjusted EPS basis. The adjusted EPS non-GAAP metric reflects a 3.2% increase over the same prior year metric.

Our attention to controlling what we had the ability to control drove progress across our three strategic areas of focus. The following highlights a few examples of our value-creating activities this year.

- We advanced the reorganization and streamlining of our Industrial Process segment leading to improved operational effectiveness and productivity savings to address the current realities of the global oil & gas market and slowing project activity.
- We continued to identify additional opportunities to improve efficiency and reduce both operational and corporate costs in areas ranging from footprint optimization and a more focused supplier base to in-sourcing more functional activities.
- We also reduced our net asbestos liability by 16%, by aggressively driving our strategy focused on reducing the volatility and uncertainty associated with the assets and liabilities.

Despite experiencing market pressures throughout the year, we continued to focus on our long-term strategic markets.

- Motion Technologies continued their track record of outpacing the global automotive friction market with organic revenue growth of 9%, with all major geographies contributing to the results.
- We remained focused on new product launches and innovation across the organization. For example, our i-ALERT 2 Equipment Health Monitor, was named Processing magazine's 2015 Breakthrough Product of the Year.

The year of 2015 also marked the highest deployment of capital since the 2011 spin-off, topping out at close to \$600 million.

- We advanced our portfolio by acquiring two businesses this year - Wolverine Advanced Materials and Hartzell Aerospace.
- We continued our phased investments to further expand our friction facilities in Europe and China to meet the growing customer demand.
- We completed \$80 of share repurchases during the year, in addition to maintaining a solid dividend.

As we enter 2016, we are continuing to recalibrate our cost structure to improve efficiency and costs, while building our strategic path for the future. As a result, we expect to take an additional restructuring and realignment actions during 2016. These actions will largely take place within our Industrial Process segment, as we further align with the current realities of the oil and gas market and will help to solidify the foundation and position the business for long-term growth. We will also be maintaining our focus on gross productivity savings during 2016 by advancing our Lean Transformation and realizing supply chain and restructuring benefits.

From a capital allocation standpoint, we will continue our track record of balanced and effective capital deployment by funding major organic investments that extend our global reach and capabilities and drive future organic growth. In 2016, we will be expanding our global auto brake pad footprint by adding a new production facility in Mexico that will supply the North American market. We will take a standardized and modular approach, just as we did with our Wuxi, China facility, where we will only add enough production capacity for the known platform wins. We expect to begin production in this new facility by the end of 2017. Acquisitions are also a critical component of our long-term capital deployment priorities.

Our success in 2016 will rely heavily on the effective execution of our strategic plan, however there are certain macro-trends that are out of our control, such as the impacts from lower oil prices, industrial production declines, and foreign exchange volatility, which create uncertainty with regard to our overall business and financial performance.

Demand for our products that serve the oil and gas market, primarily pumps and connectors that represent approximately 20% of 2015 revenue, depend substantially on the level of expenditures by the oil and gas industry for exploration, development and production. These expenditures are generally dependent on the industry's view of future oil and natural gas prices and are sensitive to the industry's view of future economic growth and the resulting impact on demand for oil and natural gas. Since 2014, oil and gas prices have declined significantly, resulting in lower expenditures by the oil and gas industry. As a result, many of our customers have reduced or delayed spending, thus reducing the demand for our products and exerting downward pressure on the prices that we charge. These conditions have had, and may continue to have, an adverse impact on our financial condition.

## DISCUSSION OF FINANCIAL RESULTS 2015 VERSUS 2014

	2015	2014	Change
Revenue	\$ 2,485.6	\$ 2,654.6	(6.4)%
Gross profit	809.1	866.4	(6.6)%
<i>Gross margin</i>	32.6%	32.6%	—
Operating expenses	429.0	600.0	(28.5)%
<i>Operating expense to revenue ratio</i>	17.3%	22.6%	(530)bp
Operating income	380.1	266.4	42.7 %
<i>Operating margin</i>	15.3%	10.0%	530bp
Interest and non-operating (income) expenses, net	(2.2)	4.4	(150.0)%
Income tax expense	70.1	71.3	(1.7)%
<i>Effective tax rate</i>	18.3%	27.2%	(890)bp
Income from continuing operations attributable to ITT Corporation	312.4	188.4	65.8 %
Income (loss) from discontinued operations, net of tax	39.4	(3.9)	**
Net income attributable to ITT Corporation	\$ 351.8	\$ 184.5	90.7 %

\*\* Resulting percentage not considered meaningful.

All comparisons included with the Discussion of Financial Results 2015 versus 2014 refer to results for the year ended December 31, 2015 compared to the year ended December 31, 2014, unless stated otherwise.

### REVENUE

The following table illustrates the year-over-year revenue results from each of our segments for the years ended December 31, 2015 and 2014.

	2015	2014	Change	Organic Revenue Growth <sup>(a)</sup>
Industrial Process	\$ 1,113.8	\$ 1,208.3	(7.8)%	(2.4)%
Motion Technologies	767.2	769.4	(0.3)%	9.1 %
Interconnect Solutions	328.1	392.8	(16.5)%	(11.3)%
Control Technologies	281.2	290.5	(3.2)%	(10.4)%
Eliminations	(4.7)	(6.4)	(26.6)%	—
Total Revenue	\$ 2,485.6	\$ 2,654.6	(6.4)%	(1.2)%

(a) See the section titled "Key Performance Indicators and Non-GAAP Measures" for a definition and reconciliation of organic revenue and organic orders.

Our 2015 revenue was significantly impacted by an unfavorable foreign currency translation impact of \$193.8, primarily due to the strengthening of the U.S. dollar versus the Euro. The decline in revenue during 2015 also reflects the impact of reduced capital spending levels from the softness in the global general industrial markets, which were partially offset by the increased sales volumes at our Motion Technologies segment from market share gains and geographical expansion within North America and China. Additional details regarding revenue and orders are provided by segment below.

## **Industrial Process**

Industrial Process revenue for the year ended December 31, 2015 was \$1,113.8, reflecting a decrease of \$94.5, or 7.8%. Unfavorable foreign currency fluctuations negatively impacted revenue growth by \$65.0, or 5.4%. Organic revenue decreased 2.4%, from the prior year, reflecting the challenging oil and gas and industrial market conditions which have impacted customers' capital spending levels and led to project delays in 2015. However, a large portion of the impact was offset by shipments from strong prior year bookings despite the difficult market conditions. These were the primary drivers that impacted our results within the oil and gas market resulting in a revenue decline of approximately 2%. Revenue stemming from the chemical market declined approximately 10% globally, which reflects significant impacts within the Asia Pacific region driven by a decline in large projects. Revenue from the mining market was down approximately 3% as strength in Latin America, primarily due to large project pumps, was more than offset by the impact of soft market conditions in North America.

Orders for the year ended December 31, 2015 were \$936.7, reflecting a decrease of \$277.5, or 22.9%. Unfavorable foreign currency fluctuations negatively impacted order growth by \$57.8, or 4.8%. Organic orders decreased 18.1%, from the prior year, primarily reflecting the impact from lower oil prices which has decreased the level of capital investment in the oil and gas markets and created difficult prior year comparisons which included multiple large-scale highly engineered pump project wins. Soft market conditions also drove lower orders to both the chemical and mining markets, primarily within North America and Asia. We did experience some modest order improvement in the other general industrial markets, primarily the pulp and paper and power markets within North America and Latin America.

## ***Backlog***

The level of order and shipment activity related to engineered pumps can vary significantly from period to period. Backlog as of December 31, 2015 was \$410.9, reflecting a decrease of \$192.5, or 31.9%, and includes a \$25.3 unfavorable foreign currency translation impact. The decrease reflects a delinquency reduction through improved operational performance combined with a lower project order in-take due to global capital project delays and lower oil and gas, chemical, and general industrial orders due to market uncertainty and volatility.

## **Motion Technologies**

Motion Technologies revenue for the year ended December 31, 2015 was \$767.2, reflecting a decrease of \$2.2, or 0.3%. The decrease was due to an unfavorable foreign currency translation impact of \$106.8, offset by organic revenue growth of \$69.7, or 9.1%, and revenue of \$34.9 from the acquisition of Wolverine which was completed in the beginning of fourth quarter of 2015. Organic revenue growth reflected strength in global automotive brake pads of approximately 12% in Friction Technologies reflecting increases in the OEM, OES and independent aftermarket sales channels due to market share gains and geographical expansion within North America and China. Sales from our KONI business were flat as growth in the European automotive and U.S. defense markets were partially offset by a decline in the global rail market.

Orders for the year ended December 31, 2015 were \$780.0, reflecting a decrease of \$17.0, or 2.1%. The unfavorable foreign currency translation impact of \$110.0 was partially offset by organic order growth of \$52.9, or 6.6%, and orders of \$40.1 from the acquisition of Wolverine. Organic orders for 2015 increased due to overall strength in Friction Technologies as our past automotive platform wins began to enter the production cycle but were partially offset by a year-over-year decline in KONI orders related to the rail market.

## Interconnect Solutions

Interconnect Solutions revenue for the year ended December 31, 2015 was \$328.1, reflecting a decrease of \$64.7, or 16.5%, which includes unfavorable foreign currency translation impact of \$20.3. Organic revenue decreased \$44.4, or 11.3%, as compared to prior year, reflecting a decline in all market categories. Organic revenue derived from the transportation and industrial market category declined approximately 12%, primarily due to weak demand in the heavy vehicle and industrial markets. Organic revenue stemming from the oil and gas market decreased approximately 25% due primarily to the decline in oil prices and related decline in North American rig counts. Organic revenue within the aerospace and defense market declined approximately 6% primarily due to shipment delays from operational disruptions related to the relocation of certain North American operations.

Orders for the year ended December 31, 2015 were \$324.3, reflecting a decrease of \$64.1, or 16.5%, primarily due to a decline in organic orders driven by challenging industrial market conditions combined with a decline in market share, end-of-life connector platforms, and including an unfavorable foreign currency translation impact of \$20.0.

## Control Technologies

Control Technologies revenue for the year ended December 31, 2015 was \$281.2, reflecting a decrease of \$9.3, or 3.2%, which includes an unfavorable foreign currency translation impact of \$1.7, as well as revenues of \$5.0 from the prior year associated with an industrial product line that was sold in May 2015. These decreases were offset by additional revenues of \$27.7 from the Hartzell Aerospace acquisition in March 2015. Organic revenue for 2015 decreased \$30.3, or 10.4%, driven by declines at the CT Aerospace and CT Industrial divisions of 8% and 15%, respectively. At CT Aerospace, the declines were driven by weakness in our automated seat product line, as well as soft market conditions in the aerospace aftermarket channel. Weakness in our CT Aerospace division was partially offset by a 6% increase in revenue related to our Defense products. At CT Industrial, weakness in energy absorption products in Europe and China as well as the impact from the oil and gas markets and overall weakness in the industrial markets caused the decline.

Orders received during the year ended December 31, 2015 were \$294.3, reflecting an increase of \$5.1, or 1.8%, including unfavorable foreign currency translation impact of \$1.8 and an impact of \$4.0 from an industrial product line that was sold in May 2015. These items were offset by orders of \$31.2 from the acquisition of Hartzell Aerospace in March 2015. On an organic basis, orders declined \$20.3, or 7.0% for the same reasons as discussed above regarding revenue, and were, partially offset by a 36% increase in orders for Defense products in the CT Aerospace division.

## GROSS PROFIT

Gross profit for the year ended December 31, 2015 was \$809.1, a decrease of \$57.3, or 6.6%. The table below provides gross profit and gross margin by segment for the years ended December 31, 2015 and 2014.

	2015	2014	Change
Industrial Process	\$ 362.8	\$ 385.4	(5.9)%
Motion Technologies	227.9	219.5	3.8 %
Interconnect Solutions	105.6	136.8	(22.8)%
Control Technologies	111.8	123.9	(9.8)%
Corporate and Other	1.0	0.8	25.0 %
Total gross profit	\$ 809.1	\$ 866.4	(6.6)%
Gross margin:			
Industrial Process	32.6%	31.9%	70bp
Motion Technologies	29.7%	28.5%	120bp
Interconnect Solutions	32.2%	34.8%	(260)bp
Control Technologies	39.8%	42.7%	(290)bp
Consolidated	32.6%	32.6%	—



## OPERATING EXPENSES

Operating expenses for the year ended December 31, 2015 decreased \$171.0, primarily due to lower net asbestos-related costs as well as from additional cost savings generated by recent restructuring and Lean initiative actions. The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

	2015	2014	Change
Sales and marketing expenses	\$ 183.2	\$ 219.4	(16.5)%
General and administrative expenses	258.3	300.1	(13.9)%
Research and development expenses	78.9	76.6	3.0 %
Asbestos-related (benefit) costs, net	(91.4)	3.9	**
Total operating expenses	\$ 429.0	\$ 600.0	(28.5)%
By Segment:			
Industrial Process	\$ 221.6	\$ 261.5	(15.3)%
Motion Technologies	101.5	88.6	14.6 %
Interconnect Solutions	93.4	114.6	(18.5)%
Control Technologies	69.4	60.4	14.9 %
Corporate & Other	(56.9)	74.9	**

\*\* Resulting percentage not considered meaningful.

Sales and marketing expenses for the year ended December 31, 2015 were \$183.2, reflecting a decrease of \$36.2, or 16.5%, mainly due to lower commission expenses and other selling and marketing expenses primarily associated with lower sale volumes and cost reduction actions.

G&A expenses were \$258.3 for the year ended December 31, 2015, reflecting a decrease of \$41.8, or 13.9%. The decrease was primarily driven by a decline in corporate costs of \$36.7 (excluding asbestos) reflecting lower environmental-related costs of \$12, and a decline in human resource and culture-related investment spending of approximately \$10. G&A expense also benefited by favorable foreign currency and year-over-year savings from past restructuring and Lean initiatives, as well as focused cost control efforts across the entire company. G&A expenses associated with the operations of our 2015 acquisitions were approximately \$12, which includes \$4.5 of restructuring charges.

R&D expenses for the year ended December 31, 2015 were \$78.9, reflecting an increase of \$2.3, or 3.0%. As a percentage of revenue, R&D expenses increased to 3.2% in 2015 from 2.9% in 2014, as we continued to invest in new product development activities at Control Technologies and Motion Technologies combined with consistent levels of investment spending at the other two business segments.

During 2015, we recognized a net asbestos-related benefit of \$91.4, compared to a net asbestos-related cost of \$3.9 in the prior year. The decrease of \$95.3 was primarily due to a \$100.7 benefit recognized during the second quarter of 2015, reflecting a change in our asbestos defense strategy to retain a single firm to defend the Company in asbestos litigation. This new long-term strategy streamlines the management of cases and significantly reduces defense costs. See Note 18, Commitments and Contingencies, in our Notes to the Consolidated Financial Statements for further information on our asbestos-related liabilities and assets.

## OPERATING INCOME

Operating income for 2015 was \$380.1, reflecting an increase of \$113.7, or 42.7%. The change was primarily driven by a \$100.7 benefit recognized in the second quarter of 2015 resulting in a net asbestos-related benefit of \$91.4 in 2015. The following table illustrates the 2015 and 2014 operating income and operating margin by segments and at the consolidated level.

	2015	2014	Change
Industrial Process	\$ 141.2	\$ 123.9	14.0 %
Motion Technologies	126.4	130.9	(3.4)%
Interconnect Solutions	12.2	22.2	(45.0)%
Control Technologies	42.4	63.5	(33.2)%
Segment operating income	322.2	340.5	(5.4)%
Asbestos-related benefit (cost), net	91.4	(3.9)	**
Other corporate costs	(33.5)	(70.2)	(52.3)%
Total corporate and other benefit (costs), net	57.9	(74.1)	(178.1)%
Total operating income	\$ 380.1	\$ 266.4	42.7 %
Operating margin:			
Industrial Process	12.7%	10.3%	240bp
Motion Technologies	16.5%	17.0%	(50)bp
Interconnect Solutions	3.7%	5.7%	(200)bp
Control Technologies	15.1%	21.9%	(680)bp
Segment operating margin	13.0%	12.8%	20bp
Consolidated operating margin	15.3%	10.0%	530bp

\*\* Resulting percentage not considered meaningful.

Industrial Process operating income for the year ended December 31, 2015 increased \$17.3, or 14.0%, to \$141.2 and resulted in an operating margin of 12.7%, reflecting growth of 240 basis points. The increase in operating income and margin was primarily the result of net savings from restructuring, Lean, sourcing, and cost control initiatives of approximately \$29, an adjustment to reserves established in purchase accounting for a prior acquisition, and a favorable product warranty resolution during 2015, as well as lower commission and postretirement costs. The favorability of these items was partially offset by negative pricing and sales mix impacts of approximately \$25 and higher restructuring costs of \$8.

Motion Technologies operating income for the year ended December 31, 2015 decreased \$4.5, or 3.4%, to \$126.4 and resulted in an operating margin of 16.5%, reflecting a decline of 50 basis points. The operating income result was primarily driven by costs of \$13.1 related to the acquisition of Wolverine. Excluding these acquisition costs, operating income increased \$8.6, or 6.6%, driven by higher sales volume growth, coupled with continued press efficiency improvements and net savings from Lean, sourcing, and cost control initiatives resulting in a benefit of approximately \$48. Also included in the 2015 operating income is a \$3 gain from an insurance recovery. These items were partially offset by unfavorable foreign currency impacts of approximately \$24, as well as unfavorable pricing and sales mix impacts, higher strategic investment costs, and legal settlement favorability in 2014 that totaled an unfavorable impact of approximately \$20.

Interconnect Solutions operating income for the year ended December 31, 2015 decreased \$10.0, or 45.0%, to \$12.2 and resulted in an operating margin of 3.7%, reflecting a decline of 200 basis points. The result reflects declines in sales volume of approximately \$18 and incremental costs of approximately \$25 related to operational disruptions from the relocation of certain North American operations. Foreign currency unfavorably impacted operating income results by approximately \$3. The decline in operating income was partially offset by lower restructuring costs of \$14, incremental savings from past restructuring initiatives that provided a benefit of approximately \$14, and lower postretirement-related costs of \$5 primarily due to a benefit from a plan curtailment.

Control Technologies operating income for the year ended December 31, 2015 decreased \$21.1, or 33.2%, to \$42.4 and resulted in an operating margin of 15.1%, reflecting a decline of 680 basis points. The decrease in operating income and margin primarily relates to an unfavorable impact of approximately \$19 due to lower sales volume and sales mix. In addition, 2015 included higher restructuring costs of \$5 and R&D expenses of \$3, as well as an unfavorable legal settlement impact of \$2 and an impairment charge of \$2 both associated with a non-core product line. These

expenses were partially offset by the 2015 operating income generated by the Hartzell Aerospace acquisition. These items were further offset by net savings from Lean and sourcing initiatives and cost control management actions of approximately \$9 and lower compensation costs.

Other corporate costs for the year ended December 31, 2015 decreased \$36.7, or 52.3%, to \$33.5, primarily reflecting lower environmental-related costs of \$12 (see Note 18, Commitments and Contingencies, for additional information) and a decline in human resource and culture related investment spending of approximately \$10 and generally lower departmental spending due to a focus on cost control. Other corporate costs also reflect lower insurance-related costs of approximately \$6 and employee incentive costs of approximately \$4.

#### **INTEREST AND NON-OPERATING (INCOME) EXPENSES, NET**

	2015	2014	Change
Interest (income) expense, net	\$ (2.5)	\$ 1.5	(266.7)%
Miscellaneous expense (income), net	0.3	2.9	(89.7)%
Total interest and non-operating (income) expenses, net	\$ (2.2)	\$ 4.4	(150.0)%

Interest (income) expense, net reflects a \$5.0 favorable change for 2015, primarily due to the reversal of accrued interest in the third quarter of 2015 related to unrecognized tax benefits, partially offset by additional interest expense associated with higher annual average outstanding borrowings from our revolving credit and commercial paper facilities during 2015. In addition, earned interest income declined \$1.0 due to lower average interest rates primarily in Europe and a lower average balance of short-term investments during 2015.

Miscellaneous expenses (income), net decreased \$2.6 during 2015, primarily due to a \$1.6 receivable with Xylem and Exelis related to the settlement of the U.S. income tax audit in the third quarter of 2015, as well as higher income from equity method investments.

#### **INCOME TAX EXPENSE**

For the year ended December 31, 2015, the Company recognized income tax expense of \$70.1 representing an effective tax rate of 18.3%, compared to income tax expense of \$71.3, and an effective tax rate of 27.2% for 2014. Our effective tax rate in 2015 is lower than the statutory tax rate primarily resulting from a larger mix of foreign income taxed more favorably than the U.S., including a tax holiday in South Korea, the recognition of previously unrecognized tax benefits upon the completion of tax examinations and lapses in the statute of limitations.

After considering all available evidence, including cumulative income and the absence of any significant negative evidence, the Company released the valuation allowance against certain foreign net deferred tax assets in China. The Company continues to maintain a valuation allowance against certain deferred tax assets attributable to state net operating losses and tax credits, and certain foreign net deferred tax assets primarily in Luxembourg, Germany and India which are not expected to be realized. Overall, the current year decrease in the valuation allowance of \$11.4 is primarily attributable to the release of valuation allowance in China.

The Company operates in various tax jurisdictions and is subject to examination by tax authorities in these jurisdictions. The Company is currently under examination in several jurisdictions including Canada, Germany, Hong Kong, Mexico, South Korea, the U.S. and Venezuela. The estimated tax liability calculation for unrecognized tax benefits includes dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. Due to the complexity of some uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the unrecognized tax benefit. Over the next 12 months, the net amount of the tax liability for unrecognized tax benefits in foreign and domestic jurisdictions could change by approximately \$16 due to changes in audit status, expiration of statutes of limitations and other events. The settlement of any future examinations could result in changes in amounts attributable to the Company under its existing Tax Matters Agreement with Exelis and Xylem.

See Note 5, Income Taxes, to the Consolidated Financial Statements for further information on tax-related matters.

#### **INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX**

During 2015, the Company recognized income from discontinued operations of \$39.4, principally related to the settlement of the U.S. income tax audit during the third quarter of 2015. This includes a tax benefit of \$38.3 from the recognition of previously unrecognized tax positions, related net interest income of \$3.2, and a \$13.2 receivable due from Exelis and Xylem, partially offset by net tax expense of \$17.4 from unfavorable audit adjustments. During 2014, the Company incurred a loss from discontinued operations of \$3.9, net of tax, primarily related to a settlement payment to a former ITT entity.

## DISCUSSION OF FINANCIAL RESULTS 2014 VERSUS 2013

	2014	2013	Change
Revenue	\$ 2,654.6	\$ 2,496.9	6.3 %
Gross profit	866.4	799.8	8.3 %
<i>Gross margin</i>	32.6%	32.0 %	60bp
Operating expenses	600.0	616.2	(2.6)%
<i>Operating expense to revenue ratio</i>	22.6%	24.7 %	(210)bp
Operating income	266.4	183.6	45.1 %
<i>Operating margin</i>	10.0%	7.4 %	260bp
Interest and non-operating expenses, net	4.4	3.1	41.9 %
Income tax expense (benefit)	71.3	(309.6)	(123.0)%
<i>Effective tax rate</i>	27.2%	(171.5)%	19,870bp
Income from continuing operations attributable to ITT Corporation	188.4	487.7	(61.4)%
(Loss) income from discontinued operations, net of tax	(3.9)	0.8	(587.5)%
Net income attributable to ITT Corporation	\$ 184.5	\$ 488.5	(62.2)%

All comparisons included with the Discussion of Financial Results 2014 versus 2013 refer to results for the year ended December 31, 2014 compared to the year ended December 31, 2013, unless stated otherwise.

### REVENUE

Revenue for the year ended December 31, 2014 was \$2,654.6, reflecting an increase of \$157.7, or 6.3%. The Industrial Process segment generated revenue growth of \$100.9, or 9.1%, primarily from long-term industrial pump projects serving the oil and gas, mining, and chemical markets in North America and Latin America. The Motion Technologies segment experienced revenue growth of \$47.6, or 6.6%, driven by strength in both automotive OE and aftermarket, as well as in the global rail markets. The Interconnect Solutions segment revenue declined \$2.7, or 0.7%, primarily due to weakness in the defense and communication market connectors, as well as from the expected decline in our non-strategic connector product lines, offset by growth from oil and gas in the North American market. The Control Technologies segment revenue grew \$12.3, or 4.4%, reflecting strength in both our industrial and commercial aerospace markets.

The following table illustrates the year-over-year revenue results from each of our segments for the years ended December 31, 2014 and 2013.

	2014	2013	Change	Organic Revenue Growth <sup>(a)</sup>
Industrial Process	\$ 1,208.3	\$ 1,107.4	9.1 %	10.7 %
Motion Technologies	769.4	721.8	6.6 %	6.1 %
Interconnect Solutions	392.8	395.5	(0.7)%	(0.4)%
Control Technologies	290.5	278.2	4.4 %	4.6 %
Eliminations	(6.4)	(6.0)	6.7 %	—
Total Revenue	\$ 2,654.6	\$ 2,496.9	6.3 %	6.9 %

(a) See the section titled "Key Performance Indicators and Non-GAAP Measures" for a definition and reconciliation of organic revenue.

## **Industrial Process**

Industrial Process revenue for the year ended December 31, 2014 was \$1,208.3, reflecting an increase of \$100.9, or 9.1%. Unfavorable foreign currency fluctuations negatively impacted revenue growth by \$20.6, or 1.9%. Organic revenue increased 10.7%, over the prior year, primarily reflecting market share gains in the large, highly engineered project pump business, driven by our growth in the oil and gas market of approximately 21%. The project pump business also contributed to revenue growth in the mining market of approximately 16% and in the chemical market of approximately 9%. The growth of our project pump business was partially offset by a decline in our Asia Pacific general chemical and mining markets.

Orders for the year ended December 31, 2014 were \$1,214.2, reflecting an increase of \$52.2, or 4.5%. Unfavorable foreign currency fluctuations negatively impacted order growth by \$20.7, or 1.8%. Organic orders increased 6.0% primarily reflecting a strong fourth quarter of large engineered project business, mainly in the downstream oil and gas markets in Canada, which led to full year-over-year growth of approximately \$60 in the global oil and gas market. We also experienced strong fourth quarter 2014 orders of pumps and parts for the mining market, primarily to the Latin America region, which contributed to our full year 2014 order growth in the mining market of approximately \$10. The level of order and shipment activity related to engineered pumps can vary from period to period, which may impact year-over-year comparisons.

## **Motion Technologies**

Motion Technologies revenue for the year ended December 31, 2014 was \$769.4, reflecting an increase of \$47.6, or 6.6%, due to approximately 5% growth in Friction Technologies and 19.0% growth in KONI. Growth in Friction Technologies came from both the aftermarket and OE channels. Growth in aftermarket channels benefited from the addition of a new production line, as well as improved production press efficiency rates coming from specific Lean initiatives to meet increased demand. The year-over-year increase in OE was driven by growth in China which corresponded with our investments and strategic focus to gain market share in the Asia Pacific region. Higher year-over-year revenues in KONI related to growth in the global rail market as well as growth in the North American automotive market. Foreign currency translation favorably impacted revenue growth by \$3.4, resulting in organic revenue growth of 6.1%.

Orders for the year ended December 31, 2014 were \$797.0, reflecting an increase of 7.1% driven by order growth at KONI of approximately 23% from strong order intake within the global rail market, along with strong North American aftermarket orders. Orders at our Friction Technologies business increased 4% during 2014, due to key automotive platform wins in Europe and China. Organic orders increased \$49.8, or 6.7%.

## **Interconnect Solutions**

Interconnect Solutions revenue for the year ended December 31, 2014 was \$392.8, reflecting a decrease of \$2.7, or 0.7%. The decline in revenue was mainly due to the phase-out of certain non-strategic connector product lines in the communications market and weakness in the defense market, which was partially offset by year-over-year growth in our other market areas. Revenue from the oil and gas market increased during 2014 by approximately \$7, primarily within North America. Revenue from the transportation and industrial market increased by approximately \$6, due primarily to growth in heavy equipment and electric vehicle connector products. Revenue from the commercial aircraft market increased approximately 11% over the prior year. Revenue from the medical technologies market was relatively consistent with the prior year.

Orders decreased during 2014 by 3.0%, to \$388.4, primarily reflecting year-over-year declines from the U.S. defense market, and the Asia Pacific medical market. These declines were partially offset by an increase in North America oil and gas orders.

## Control Technologies

Control Technologies revenue for the year ended December 31, 2014 was \$290.5, reflecting an increase of \$12.3, or 4.4%. The increase in revenue was primarily driven by growth of 6% in our CT Industrial division and 4% in the CT Aerospace division. The CT Industrial growth was due to gains in energy absorption products, which experienced growth across all major markets, and from higher sales of natural gas valves due to the continued conversion of commercial vehicles to a natural gas fuel source.

The aerospace growth was due to both higher commercial OE sales of approximately 15%, stemming from increased aircraft production rates, as well as increased sales of aftermarket spares of 38%. Total aftermarket sales grew 2%, as the growth in spares was offset by a decline in revenue from an aftermarket program that ended. In addition, the overall CT aerospace revenue growth was reduced by lower year-over-year sales from our seat actuation product line and a 7% decline in sales to the defense market.

Orders received during the year ended December 31, 2014 were \$289.2, reflecting an increase of \$13.2, or 4.8%, primarily driven by growth in commercial aerospace OEM components due to production rate increases and share gains, as well as order growth in the aerospace aftermarket spares business.

## GROSS PROFIT

Gross profit for the year ended December 31, 2014 was \$866.4, an increase of \$66.6, or 8.3%. The table below provides gross profit and gross margin by segment for the year ended December 31, 2014 and 2013.

	2014	2013	Change
Industrial Process	\$ 385.4	\$ 361.7	6.6 %
Motion Technologies	219.5	193.4	13.5 %
Interconnect Solutions	136.8	129.7	5.5 %
Control Technologies	123.9	113.7	9.0 %
Corporate and Other	0.8	1.3	(38.5)%
Total gross profit	\$ 866.4	\$ 799.8	8.3 %
Gross margin:			
Industrial Process	31.9%	32.7%	(80)bp
Motion Technologies	28.5%	26.8%	170bp
Interconnect Solutions	34.8%	32.8%	200bp
Control Technologies	42.7%	40.9%	180bp
Consolidated	32.6%	32.0%	60bp

## OPERATING EXPENSES

Operating expenses for the year ended December 31, 2014 decreased \$16.2 primarily due to lower net asbestos-related costs as well as from additional cost savings generated by recent restructuring and Lean initiative actions, which were partially offset by higher R&D costs and strategic investment costs. The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

	2014	2013	Change
Sales and marketing expenses	\$ 219.4	\$ 216.2	1.5 %
General and administrative expenses	300.1	299.9	0.1 %
Research and development expenses	76.6	67.3	13.8 %
Asbestos-related costs, net	3.9	32.8	(88.1)%
Total operating expenses	\$ 600.0	\$ 616.2	(2.6)%
By Segment:			
Industrial Process	\$ 261.5	\$ 249.7	4.7 %
Motion Technologies	88.6	93.1	(4.8)%
Interconnect Solutions	114.6	115.5	(0.8)%
Control Technologies	60.4	58.4	3.4 %
Corporate & Other	74.9	99.5	(24.7)%

Sales and marketing expenses for the year ended December 31, 2014 were \$219.4, reflecting an increase of \$3.2, or 1.5%, mainly due to increased selling costs associated with higher sales volume. Sales and marketing expenses as a percentage of revenue decreased 40 basis points to 8.3%, primarily due to a decline in marketing expenses of approximately 6% combined with the year-over-year revenue growth.

G&A expenses were \$300.1 for the year ended December 31, 2014, which were consistent with the prior year. During 2014 we incurred lower transformation and repositioning costs of \$16.1 and received a favorable legal settlement; however these items were offset by an increase in strategic investment costs, charges related to our operations in Venezuela, as well as higher spending on various corporate initiatives, such as Human Resource (HR) capability improvements and our culture initiative.

R&D expenses for the year ended December 31, 2014 were \$76.6, reflecting an increase of \$9.3, or 13.8%. As a percentage of revenue, R&D expenses increased to 2.9% in 2014 from 2.7% in 2013, as we continued to invest in new product developments for use in new automotive platforms and expanding multiphase pump technology, as well as in various other targeted growth markets.

During 2014, we recognized net asbestos-related costs of \$3.9, reflecting a decrease of \$28.9. The decrease was primarily due to our 2014 asbestos remeasurement that resulted in a year-over-year benefit of \$58.8, which was partially offset by a settlement agreement entered into in the prior year with an insurer that resulted in a \$31.0 gain. Based on the results of our 2014 remeasurement, we decreased our estimated undiscounted asbestos liability, including legal fees, by \$42.8, reflecting a decrease in costs the company estimates will be incurred to resolve all pending claims, as well as unasserted claims estimated to be filed over the next 10 years. The decrease in our estimated liability is a result of several developments, including an expectation of lower defense costs relative to indemnities paid over the projection period and favorable experience in the ratio of dismissed claims versus settled claims. These favorable factors were offset in part by an increasing number of cases expected to be adjudicated. Further, in 2014, the Company increased its estimated asbestos-related assets by \$16.0, principally due to the estimated probable recoveries of certain liabilities resulting from the annual study. See Note 18, "Commitments and Contingencies," in our Notes to the Consolidated Financial Statements for further information on our asbestos-related liabilities and assets.



## OPERATING INCOME

Operating income for 2014 was \$266.4, reflecting an increase of \$82.8, or 45.1% primarily due to segment operating income growth of \$58.7 and lower asbestos-related of \$28.9. The following table illustrates the 2014 and 2013 operating income and operating margin by segments and at the consolidated level.

	2014	2013	Change
Industrial Process	\$ 123.9	\$ 112.0	10.6 %
Motion Technologies	130.9	100.3	30.5 %
Interconnect Solutions	22.2	14.2	56.3 %
Control Technologies	63.5	55.3	14.8 %
Segment operating income	340.5	281.8	20.8 %
Asbestos-related costs, net	(3.9)	(32.8)	(88.1)%
Other corporate costs	(70.2)	(65.4)	7.3 %
Total corporate and other costs	(74.1)	(98.2)	(24.5)%
Total operating income	\$ 266.4	\$ 183.6	45.1 %
Operating margin:			
Industrial Process	10.3%	10.1%	20bp
Motion Technologies	17.0%	13.9%	310bp
Interconnect Solutions	5.7%	3.6%	210bp
Control Technologies	21.9%	19.9%	200bp
Segment operating margin	12.8%	11.3%	150bp
Consolidated operating margin	10.0%	7.4%	260bp

Industrial Process operating income for the year ended December 31, 2014 increased \$11.9, or 10.6%, to \$123.9 and resulted in an operating margin of 10.3%, reflecting growth of 20 basis points. The benefit from increased sales volume, particularly large engineered project pumps, of approximately \$20, and a similar benefit from net savings from Lean, productivity, and global sourcing initiatives taken during 2014 were partially offset by an unfavorable shift of sales mix and continued project pricing pressures, resulting in an approximate 40 basis point increase to operating margin. Acquisition-related costs related to Bornemann, incurred during 2013, and a reduction in postretirement plan costs and repositioning-related expenses provided a year-over-year operating income benefit of \$15.3, resulting in a 120 basis point improvement to operating margin, which were offset by higher strategic investment spending, charges of approximately \$10 associated with our operations in Venezuela, corporate expense allocations, and operational impacts from certain complex engineering projects.

Motion Technologies operating income for the year ended December 31, 2014 increased \$30.6, or 30.5%, to \$130.9 and resulted in an operating margin of 17.0%, reflecting growth of 310 basis points. The primary growth driver was higher sales volumes which provided approximately \$24 of additional operating income and a 200 basis point operating margin improvement. Motion Technologies' results also reflected year-over-year operating income and margin growth from the KONI business which are due to strong sales volume growth, fixed cost reductions, and manufacturing improvements. In addition, net savings from Lean, productivity, and global sourcing initiatives and a favorable legal settlement during 2014, as well as lower year-over-year restructuring costs provided approximately \$29 of additional operating income, and approximately 380 basis point increase to operating margin. The total year-over-year growth in operating income was partially offset by unfavorable OE pricing, as well as higher R&D and other costs related to capacity expansion and start-up costs.

Interconnect Solutions operating income for the year ended December 31, 2014 increased \$8.0, or 56.3%, to \$22.2 and resulted in an operating margin of 5.7%, reflecting growth of 210 basis points. The increase in operating income and margin was primarily driven by the cost savings from our restructuring actions taken over the last 2 years, as well as from additional net savings from Lean and sourcing initiatives and lower year-over-year postretirement employee benefit costs, resulting from a plan modification to reduce future participant benefits, that improved operating income and margin by approximately \$27 and 710 basis points, respectively. The favorability of these items was partially offset by costs incurred associated with an action to move certain production lines from one location to another existing lower cost manufacturing site, costs incurred related to the design of an enterprise resource planning system, higher restructuring costs, and a negative change in sales mix that reduced operating income and margin by approximately \$20 and 500 basis points, respectively.



Control Technologies operating income for the year ended December 31, 2014 increased \$8.2, or 14.8%, to \$63.5 and resulted in an operating margin of 21.9%, reflecting growth of 200 basis points. The growth in operating income stemmed from net productivity savings generated by Lean and sourcing initiatives, increased sales volume and benefits from pricing initiatives, and lower pension, repositioning and restructuring costs which provided approximately \$14 of additional operating income and 400 basis points to operating margin for 2014. However, the benefit provided by these items was partially offset by an unfavorable shift in sales mix related to the decline in sales to the defense market and from an aerospace aftermarket program that was nearing its end of life and higher year-over-year strategic investment-related costs and corporate expense allocations which reduced operating income and margin by approximately \$6 and 200 basis points, respectively.

Other corporate costs for the year ended December 31, 2014 increased \$4.8, or 7.3%, to \$70.2. The increase was due to higher compensation and benefit-related costs, including severance, bonus and stock compensation expenses, combined with a favorable worker's disability insurance adjustment in 2013 that did not occur in 2014. Additionally, other corporate expenses for 2014 were impacted by higher investment spending on various corporate initiatives, such as Human Resource capabilities and our culture initiative. These costs were partially offset by a decline in transformation and repositioning costs of \$10.3.

#### **INTEREST AND NON-OPERATING EXPENSES, NET**

	2014	2013	Change
Interest expense (income), net	\$ 1.5	\$ 1.3	15.4%
Miscellaneous expense (income), net	2.9	1.8	61.1%
<b>Total interest and non-operating expenses, net</b>	<b>\$ 4.4</b>	<b>\$ 3.1</b>	<b>41.9%</b>

Interest expense (income), net increased by \$0.2 during 2014, as a favorable movement in accrued interest associated expense related to unrecognized tax benefits and lower average outstanding debt and commercial paper during 2014 were almost entirely offset by a \$2.5 decline in interest income primarily related to a 2013 interest-related benefit associated with the settlement of legacy receivables and payables with a former ITT entity.

Miscellaneous expenses (income), net increased \$1.1 during 2014, primarily due to income earned during 2013 in connection with transition services arrangements pertaining to the 2011 spin-off of Exelis and Xylem.

#### **INCOME TAX EXPENSE**

For the year ended December 31, 2014, the Company recognized an income tax expense of \$71.3 representing an effective tax rate of 27.2%, compared to an income tax benefit of \$309.6, and an effective tax rate of (171.5)% for 2013. Excluding the impact of the release of the valuation allowance (described further in Note 5, Income Taxes, to the Consolidated Financial Statements) the effective tax rate was 36.0% in 2013. The 2014 effective tax rate included tax benefits resulting from a tax basis step-up election in Italy and additional income that was eligible for a tax holiday in Korea. These were partially offset by changes in the New York State income tax law during the year which resulted in an increase in tax expense of \$3.2.

After considering all available evidence, including a cumulative loss and the absence of any significant positive evidence, the Company recorded a valuation allowance against certain foreign net deferred tax assets in Germany and Venezuela. In addition, a portion of the deferred tax assets in Italy were no longer realizable. The Company continued to maintain a valuation allowance against certain deferred tax assets attributable to state net operating losses and tax credits and certain foreign net deferred tax assets primarily in Luxembourg, Germany, India and China which were not expected to be realized. Overall, the increase in the valuation allowance of \$11.8 was primarily attributable to foreign net operating loss carryforwards in Luxembourg.

#### **(LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX**

During 2014, the Company incurred a loss from discontinued operations of \$3.9, net of tax, primarily related to a settlement payment to a former ITT entity. During 2013, ITT had income from discontinued operations primarily related to a reversal of warranty reserves and legal-related contingencies associated with previously disposed businesses that were partially offset by a net after-tax loss of \$1.3 related to a settlement of legacy receivables and payables with a former ITT entity.

## LIQUIDITY AND CAPITAL RESOURCES

### *Funding and Liquidity Strategy*

Our funding needs are monitored and strategies are executed to meet overall liquidity requirements, including the management of our capital structure on both a short- and long-term basis. We expect to fund our ongoing working capital, capital expenditures, dividends, and financing requirements through cash flows from operations and cash on hand or by accessing the commercial paper market. If our access to the commercial paper market were adversely affected, we believe that alternative sources of liquidity, including our 2014 Revolving Credit Agreement, described below, would be sufficient to meet our short-term funding requirements.

We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We have identified and continue to look for opportunities to access cash balances in excess of local operating requirements to meet global liquidity needs in a cost-efficient manner. A majority of our cash and cash equivalents is held by our international subsidiaries. We have and plan to transfer cash between certain international subsidiaries and the U.S. and other international subsidiaries when it is cost effective to do so. Our intent is generally to indefinitely reinvest these funds outside of the U.S., consistent with our overall intention to support growth and expand in markets outside of the U.S. through the development of products, increased non-U.S. capital spending, and potentially the acquisition of foreign businesses. However, we have determined that certain undistributed foreign earnings generated in Luxembourg, Japan, Hong Kong and South Korea should not be considered permanently reinvested outside of the U.S. Net cash distributions from foreign countries amounted to \$235.0 and \$138.5 during 2015 and 2014, respectively. The timing and amount of future remittances, if any, remains under evaluation.

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors and will be based on, and affected by, a number of factors, including our financial position and results of operations, available cash, expected capital spending plans, prevailing business conditions, and other factors the Board deems relevant. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future. Aggregate dividends paid in 2015 were \$42.8, compared to \$40.7 in 2014 and \$36.4 in 2013, reflecting per share amounts of \$0.4732, \$0.44, and \$0.40, respectively. In the first quarter of 2016, we declared a quarterly dividend of \$0.124 per share for shareholders of record on March 11, 2016.

We repurchased 2.0 and 1.1 shares of ITT common stock at a cost of \$80.0 and \$50.0 in 2015 and 2014, respectively, through our share repurchase program.

Significant factors that affect our overall management of liquidity include our credit ratings, the adequacy of commercial paper and supporting bank lines of credit, and the ability to attract long-term capital on satisfactory terms. We assess these factors along with current market conditions on a continuous basis, and as a result, may alter the mix of our short- and long-term financing when it is advantageous to do so.

We access the commercial paper market to supplement the cash flows generated internally to provide additional short-term funding for strategic investments and other funding requirements. We manage our short-term liquidity through the use of our commercial paper program by adjusting the level of commercial paper borrowings as opportunities to deploy additional capital arise and when it is cost effective to do so. We had \$94.5 of commercial paper outstanding as of December 31, 2015 and we had an average outstanding commercial paper balance of \$73.1 during the year.

### Credit Facilities

On November 25, 2014, we replaced the four-year revolving \$500 credit agreement (the 2011 Revolving Credit Agreement) with a new five-year revolving \$500 credit agreement (the 2014 Revolving Credit Agreement). The 2014 Revolving Credit Agreement provides for increases of up to \$200 for a possible maximum total of \$700 in aggregate principal amount, at the request of the Company and with the consent of the institutions providing such increased commitments. The 2014 Revolving Credit Agreement is intended to provide access to additional liquidity and be a source of alternate funding to the commercial paper program, if needed. Our policy is to maintain unused committed bank lines of credit in an amount greater than outstanding commercial paper balances. Two borrowing options are available under the 2014 Credit Agreement: (i) a competitive advance option and (ii) a revolving credit option. The interest rates for the competitive advance option will be obtained from bids in accordance with competitive auction procedures. The interest rates under the revolving credit option will be based either on LIBOR plus spreads reflecting the Company's credit ratings, or on the Administrative Agent's Alternate Base Rate. The provisions of the 2014 Revolving Credit Agreement require that we maintain an interest coverage ratio, as defined, of at least 3.0 times and a leverage ratio, as defined, of not more than 3.0 times. At December 31, 2015, we had \$150 outstanding under the 2014 Revolving Credit Agreement. Our interest coverage ratio and leverage ratio were within the prescribed thresholds as of December 31, 2015. In the event of certain ratings downgrades of the Company, to a level below investment grade, the direct and indirect significant U.S. subsidiaries of the Company would be required to guarantee the obligations under the credit facility.

Our credit ratings as of December 31, 2015 were as follows:

Rating Agency	Short-Term Ratings	Long-Term Ratings
Standard & Poor's	A-3	BBB-
Moody's Investors Service	P-3	Baa3
Fitch Ratings	F2	BBB+

Please refer to the rating agency websites and press releases for more information.

### Sources and Uses of Liquidity

Our principal source of liquidity is our cash flow generated from operating activities, which provides us with the ability to meet the majority of our short-term funding requirements. The following table summarizes net cash derived from operating, investing, and financing activities for the three years ended December 31, 2015, 2014, and 2013.

	2015	2014	2013
Operating activities	\$ 229.7	\$ 244.7	\$ 226.6
Investing activities	(485.5)	(14.5)	(188.8)
Financing activities	120.4	(116.6)	(58.3)
Foreign exchange	(31.6)	(31.2)	(0.4)
Total net cash flow (used in) from continuing operations	\$ (167.0)	\$ 82.4	\$ (20.9)
Net cash used in discontinued operations	(1.3)	(5.7)	(16.3)
Net change in cash and cash equivalents	\$ (168.3)	\$ 76.7	\$ (37.2)

Net cash provided by operating activities was \$229.7 for the year ended December 31, 2015, representing a decrease of \$15.0, or 6.1%, from 2014. This decline was primarily driven by higher asbestos-related payments of \$20.7, higher postretirement benefit contributions of \$6.0, and additional restructuring-related payments of \$5.8, and payments associated with the completion and related integration of acquisitions. In addition, cash provided by segment operating income declined by \$17.1, after adjustments for non-cash items such as depreciation and amortization. The decrease in net cash provided by operating activities was partially offset by lower income tax payments, net of refunds, of \$21.5 and fluctuations in working capital, primarily related to inventory, that resulted in a favorable year-over-year impact of \$24.5.

Net cash provided by operating activities was \$244.7 for the year ended December 31, 2014, representing an increase of \$18.1, or 8.0%, from 2013. This growth was primarily driven by increased segment operating income, which increased \$60.5 after adjustments for non-cash items such as depreciation and amortization. A decline in cash payments related to transformation and repositioning activities of \$18.0 and lower net asbestos-related payments of \$21.5, also contributed to the year-over-year increase in cash from operating activities. However, these items were partially offset by higher net tax payments of \$48.1 and unfavorable changes in accrued expenses of \$30.2 and customer advances of \$10.6. In addition, during 2014 we made payments of \$7.7 associated with an action to move certain production lines from one location to another existing lower cost manufacturing site and develop an ERP global template design. The year-over-year change in working capital balances resulted in lower cash usage of \$12.9 during 2014, primarily related to improved cash collections and lower year-end inventory balances due to the timing of certain large, long-term industrial pump projects and inventory reduction plans.

Net cash used in investing activities increased from \$14.5 in 2014 to \$485.5 in 2015 over 2014, primarily due to our acquisitions of Wolverine for \$298.1 and Hartzell Aerospace for \$52.9 during 2015. In addition, net purchases of short-term investments (net of maturities) exceeded the 2014 amount by \$165.2. Capital expenditure spending decreased \$32.1 year-over-year with spending for both years focused on capacity expansion projects and system upgrades. In addition, during the second quarter of 2015 we sold an industrial product line within our Control Technologies segment resulting in proceeds of \$8.9.

Net cash used in investing activities declined from \$188.8 in 2013 to \$14.5 in 2014, primarily due to maturities of short-term time deposits that exceeded purchases by \$103.6 during 2014. In contrast, during 2013, purchases of short-term time deposits exceeded maturities by \$72.0. In addition, capital expenditures were lower by \$4.1, or 3.3%, year-over-year, primarily related to our production capacity investments during 2013 and 2014. Capital expenditures during 2014 primarily relate to the production capacity investments in the Motion Technologies segment and the construction of an additional testing and production facility in Seneca Falls, New York for our Industrial Process segment.

Net cash provided by financing activities was \$120.4 for the year ended December 31, 2015, reflecting an increase of \$237.0 as compared to 2014. The increase reflects 2015 net borrowings of \$150 from our revolving credit facility and commercial paper issuances of \$94.5, partially offset by a \$23.8 increase in repurchases of ITT common stock.

Net cash used in financing activities increased by \$58.3 in the year ended December 31, 2014 as compared to 2013 primarily due to the repayment of all outstanding commercial paper during 2014, compared to net commercial paper borrowings during 2013. This led to a year-over-year outflow from short-term debt activity of \$63.4. Cash from financing activities was also unfavorably impacted by a reduction of \$18.0 in proceeds associated with employee stock issuance activity, net of excess tax benefits. However, these items were partially offset by a \$27.7 decline in the amount of common stock repurchased during 2014 compared to 2013. In addition, we made dividend payments of \$40.7 and \$36.4 during the years ended December 31, 2014 and 2013, respectively.

Our average daily outstanding commercial paper balance for the years ended 2015, 2014, and 2013 was \$73.1, \$41.2, and \$47.7, respectively. The maximum outstanding commercial paper during each of those respective years was \$180.0, \$100.5, and \$103.5, respectively. We had \$94.5 of commercial paper outstanding as of December 31, 2015.

Net cash used related to discontinued operations for the year ended December 31, 2015 of \$1.3 is primarily related to environmental-related payments for sites formerly owned by ITT. Net cash used related to discontinued operations for the year ended December 31, 2014 is primarily related to a settlement payment to a former ITT entity. Net cash used related to discontinued operations for the year ended December 31, 2013 is primarily due to the settlement of legacy receivables and payables with a former ITT entity, resulting in a net cash payment by ITT of \$15.3.

## **Asbestos**

Based on the estimated undiscounted asbestos liability as of December 31, 2015 for claims filed or estimated to be filed over the next 10 years, we have estimated that we will be able to recover approximately 40% of the asbestos indemnity and defense costs from our insurers. Actual insurance reimbursements may vary significantly from period to period and the anticipated recovery rate is expected to decline over time due to gaps in our insurance coverage, reflecting uninsured periods, the insolvency of certain insurers, prior settlements with our insurers, and our expectation that certain insurance policies will exhaust within the next 10 years. In the 10th year of our estimate, our insurance recoveries are currently projected to be 15%. Additionally, future recovery rates may be impacted by other factors, such as future insurance settlements, insolvencies, and judicial determinations relevant to our coverage program, which are difficult to predict and subject to a high degree of uncertainty.

The Company has negotiated with certain of its excess insurers to reimburse the Company for a portion of its settlement and/or defense costs as incurred, frequently referred to as "coverage-in-place" agreements. Under coverage-in-place agreements, an insurer's policies remain in force and the insurer undertakes to provide coverage for the Company's present and future asbestos claims on specified terms and conditions that address, among other things, the share of asbestos claims costs to be paid by the insurer, payment terms, claims handling procedures and the expiration of the insurer's obligations. The Company has entered into policy buyout agreements with certain insurers confirming the aggregate amount of available coverage under the subject policies and setting forth a schedule for future payments to a Qualified Settlement Fund, to be disbursed for future asbestos costs. Collectively, these agreements are designed to facilitate an orderly resolution and collection of ITT's insurance and to mitigate issues that insurers may raise regarding their responsibility to respond to claims.

As of December 31, 2015, the Company has entered into coverage-in-place agreements and policy buyout agreements representing approximately 53% of our recorded asset. Certain of our primary coverage-in-place agreements are exhausted which may result in higher net cash outflows until excess carriers begin accepting claims for reimbursement. While there are overall limits on the aggregate amount of insurance available to the Company with respect to asbestos claims, with respect to ITT coverage, those overall limits were not reached by the estimated liability recorded by the Company at December 31, 2015.

Further, there is uncertainty in estimating when cash payments related to the recorded asbestos liability will be fully expended and such cash payments will continue for a number of years beyond the next 10 years due to the significant proportion of future claims included in the estimated asbestos liability and the delay between the date a claim is filed and when it is resolved. Subject to these inherent uncertainties, it is expected that cash payments related to pending claims and claims to be filed in the next 10 years will extend through approximately 2029.

Although asbestos cash outflows can vary significantly from year to year, our current net cash outflows, net of tax benefits, averaged \$12 over the past three annual periods and are projected to average \$15 to \$25 over the next five years, increasing to an average of approximately \$35 to \$45 per year over the remainder of the projection period.

In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures and potential recoveries, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe that there is a reasonable basis for estimating the number of future claims, the nature of future claims, or the cost to resolve future claims for years beyond the next 10 years at this time. Accordingly, no liability or related asset has been recorded for any costs that may be incurred for claims asserted subsequent to 2025.

Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims that may be filed beyond the next 10 years, it is difficult to predict the ultimate outcome of the cost of resolving the pending and estimated unasserted asbestos claims. We believe it is possible that the future events affecting the key factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

## Funding of Postretirement Plans

The following table provides a summary of the funded status of our postretirement benefit plans as of December 31, 2015 and 2014.

	2015				2014			
	U.S. Pension	Non-U.S. Pension	Other Benefits	Total	U.S. Pension	Non-U.S. Pension	Other Benefits	Total
Fair value of plan assets	\$ 278.1	\$ 0.9	\$ 7.9	\$ 286.9	\$ 272.9	\$ 1.0	\$ 9.5	\$ 283.4
Projected benefit obligation	339.9	78.0	143.4	561.3	324.1	87.5	134.5	546.1
Funded status	\$ (61.8)	\$ (77.1)	\$ (135.5)	\$ (274.4)	\$ (51.2)	\$ (86.5)	\$ (125.0)	\$ (262.7)

The funded status of our U.S. pension plans declined by \$10.6 during 2015 primarily due to our assumption of two plans in connection with our fourth quarter 2015 acquisition of Wolverine. In addition, lower than expected asset returns reduced the funded status but were offset by a change in the discount rate and discretionary company contributions. Our non-U.S. pension plans, which are typically not funded due to local regulations, had an improvement in funded status of \$9.4 during 2015 due to an increase in the discount rate used to measure the benefit obligation.

While the Company has significant discretion in making voluntary contributions, the Employee Retirement Income Security Act of 1974, and applicable Internal Revenue Code regulations mandate minimum funding thresholds. Failure to satisfy the minimum funding thresholds could result in restrictions on our ability to amend a plan or make benefit payments. In general, certain benefit restrictions apply when the Adjusted Funding Target Attainment Percentage (AFTAP) of a plan is less than 80%. When the AFTAP is between 80% and 60%, there is a restriction on plan amendments and a partial restriction on accelerated benefit payments (i.e., lump sum payments cannot exceed 50% of the value of the participants total benefit). Full benefit restrictions apply if the plan's AFTAP falls below 60%. As of December 31, 2015, the funding percentages of all ITT U.S. Qualified pension plans exceeded 80% as calculated using the AFTAP approach.

While we make contributions to our postretirement benefit plans when considered necessary or advantageous to do so, the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future contributions. Funding requirements under IRS rules are a major consideration in making contributions to our U.S. pension plans. Future minimum funding requirements will depend primarily on the return on plan assets and discount rate, both determined using AFTAP guidelines. Depending on these factors, and the resulting funded status of our U.S. pension plans, the level of future minimum contributions could be material. During 2015 and 2014, we contributed \$12.4 and \$4.4 to our global pension plans, respectively. The 2015 contribution included a \$7.5 discretionary contribution to our U.S. pension plans. We currently estimate that the 2016 contributions to our global pension plans will be approximately \$5.0.

The funded status of our other employee-related defined benefit plans declined \$10.5 during 2015 primarily due to our assumption of the Wolverine other employee-related defined benefit plan. We contributed \$6.2 and \$8.2 to our other employee-related defined benefit plans during 2015 and 2014. We currently estimate that the 2016 contributions to our other employee-related defined benefit plans will be approximately \$10.0. See Note 15, Postretirement Benefit Plans, for additional financial information related to our postretirement obligations.

### Capital Resources

Long-term debt is generally defined as any debt with an original maturity greater than 12 months. As of December 31, 2015, we have sources of long- and short-term funding including access to the capital markets through a commercial paper program and available unused credit lines of \$350, as well as general market access to longer-term markets. Our commercial paper program is supported by the 2014 Revolving Credit Agreement and our policy is to maintain unused committed bank lines of credit in an amount greater than outstanding commercial paper balances.

The table below provides long-term debt outstanding and capital lease obligations at December 31, 2015 and 2014.

	2015	2014
Current portion of long-term debt and capital leases	\$ 1.2	\$ 1.5
Non-current portion of long-term debt and capital leases	2.8	7.0
Total long-term debt and capital leases	\$ 4.0	\$ 8.5

### Contractual Obligations

ITT's commitment to make future payments under long-term contractual obligations was as follows, as of December 31, 2015:

Contractual Obligations	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt, including interest and capital leases	\$ 4.7	\$ 1.4	\$ 1.6	\$ 0.9	\$ 0.8
Operating leases	156.9	21.7	35.9	26.8	72.5
Purchase obligations <sup>(a)</sup>	64.2	63.1	0.9	0.2	—
Other long-term obligations <sup>(b)</sup>	116.9	16.2	31.1	30.7	38.9
Total	\$ 342.7	\$ 102.4	\$ 69.5	\$ 58.6	\$ 112.2

In addition to the amounts presented in the table above, we have recorded liabilities for pending asbestos claims and asbestos claims estimated to be filed over the next 10 years and uncertain tax positions of \$1,042.8 and \$51.7, respectively, in our Consolidated Balance Sheet at December 31, 2015. These amounts have been excluded from the contractual obligations table due to an inability to reasonably estimate the timing of payments in individual years. In addition, while we make contributions to our postretirement benefit plans when considered necessary or advantageous to do so, the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future contributions. As such, expected contributions to our postretirement benefit plans have been excluded from the table above.

- (a) Represents unconditional purchase agreements that are enforceable and legally binding and that specify all significant terms to purchase goods or services, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase agreements that are cancellable without penalty have been excluded.
- (b) Other long-term obligations include amounts recorded on our December 31, 2015 Consolidated Balance Sheet, including estimated environmental payments and employee compensation agreements. We estimate based on historical experience that we will spend between \$10 and \$15 per year on environmental investigation and remediation, a portion of which we are legally mandated to perform investigation and/or remediation through various orders and agreements with state and federal oversight agencies. At December 31, 2015, our recorded environmental liability was \$82.6.

## **Off-Balance Sheet Arrangements**

Off-balance sheet arrangements represent transactions, agreements or other contractual arrangements with unconsolidated entities, where an obligation or contingent interest exists. Our off-balance sheet arrangements, as of December 31, 2015, consist of indemnities related to acquisition and disposition agreements and certain third-party guarantees.

### *Indemnities*

Since ITT's incorporation in 1920, we have 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. We do not have a liability recorded for these expired indemnifications and are not aware of any claims or other information that would give rise to material payments under such indemnities.

As part of the 2011 spin-off, ITT agreed to provide certain indemnifications and cross-indemnifications among ITT, Exelis and Xylem, subject to limited exceptions with respect to employee claims. The indemnifications address a variety of subjects, including asserted and unasserted product liability matters (e.g., asbestos claims, product warranties) which relate to products manufactured, repaired and/or sold prior to the date of the 2011 spin-off. These indemnifications last indefinitely and are not affected by Harris' acquisition of Exelis. In addition, ITT, Exelis and Xylem agreed to certain cross-indemnifications with respect to other liabilities and obligations. ITT expects Exelis and Xylem to fully perform under the terms of the Distribution Agreement and therefore has not recorded a liability for matters for which we have been indemnified. In addition, both Exelis and Xylem have made asbestos indemnity claims that could give rise to material payments under the indemnity provided by ITT; such claims are included in our estimate of asbestos liabilities.

### *Guarantees*

We have \$167.1 of guarantees, letters of credit and similar arrangements outstanding at December 31, 2015, primarily pertaining to commercial or performance guarantees and insurance matters. We have not recorded any material loss contingencies under these guarantees, letters of credit and similar arrangements as of December 31, 2015 as the likelihood of nonperformance by the underlying obligors is considered remote. From time to time, we may provide certain third-party guarantees that may be affected by various conditions and external factors, some of which could require that payments be made under such guarantees. We do not consider the maximum exposure or current recorded liabilities under our third-party guarantees to be material either individually or in the aggregate. We do not believe such payments would have a material adverse impact on our financial statements.



## KEY PERFORMANCE INDICATORS AND NON-GAAP MEASURES

Management reviews key performance indicators including revenue, segment operating income and margins, earnings per share, orders growth, and backlog, among others. In addition, we consider certain supplemental measures to be useful to management and investors when evaluating our operating performance for the periods presented. These supplemental measures provide a tool for evaluating our on-going operations and management of assets from period to period. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including, but not limited to, dividends, acquisitions and share repurchases. These metrics, however, are not measures of financial performance under accounting principles generally accepted in the United States of America (GAAP) and should not be considered a substitute for measures determined in accordance with GAAP. Our non-GAAP measures exclude from reported results those items that management believes are not indicative of our ongoing performance and reflect how management evaluates our operating results and trends. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

- "organic revenue" and "organic orders" are defined as revenue and orders, excluding the impacts of foreign currency fluctuations and acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for presentation as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations is estimated using a fixed exchange rate for both the current and prior periods.

Reconciliations of organic revenue for the years ended December 31, 2015 and 2014 are provided below.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT
2015 Revenue	\$ 1,113.8	\$ 767.2	\$ 328.1	\$ 281.2	\$ (4.7)	\$ 2,485.6
(Acquisitions)/divestitures, net	(0.1)	(34.9)	—	(22.7)	—	(57.7)
Foreign currency translation	65.0	106.8	20.3	1.7	—	193.8
2015 Organic revenue	\$ 1,178.7	\$ 839.1	\$ 348.4	\$ 260.2	\$ (4.7)	\$ 2,621.7
Organic (decline)/growth	(2.4)%	9.1%	(11.3)%	(10.4)%		(1.2)%
2014 Revenue	\$ 1,208.3	\$ 769.4	\$ 392.8	\$ 290.5	\$ (6.4)	\$ 2,654.6
(Acquisitions)/divestitures, net	(3.0)	—	—	—	—	(3.0)
Foreign currency translation	20.6	(3.4)	1.0	0.5	—	18.7
2014 Organic revenue	\$ 1,225.9	\$ 766.0	\$ 393.8	\$ 291.0	\$ (6.4)	\$ 2,670.3
Organic growth/(decline)	10.7 %	6.1%	(0.4)%	4.6 %		6.9 %

Reconciliations of organic orders for the years ended December 31, 2015 and 2014 are provided below.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT
2015 Orders	\$ 936.7	\$ 780.0	\$ 324.3	\$ 294.3	\$ (4.7)	\$ 2,330.6
(Acquisitions)/divestitures, net	(0.1)	(40.1)	—	(27.2)	—	(67.4)
Foreign currency translation	57.8	110.0	20.0	1.8	—	189.6
2015 Organic orders	\$ 994.4	\$ 849.9	\$ 344.3	\$ 268.9	\$ (4.7)	\$ 2,452.8
Organic (decline)/growth	(18.1)%	6.6%	(11.4)%	(7.0)%		(8.6)%
2014 Orders	\$ 1,214.2	\$ 797.0	\$ 388.4	\$ 289.2	\$ (5.8)	\$ 2,683.0
(Acquisitions)/divestitures, net	(3.0)	—	—	—	—	(3.0)
Foreign currency translation	20.7	(3.3)	0.7	0.6	—	18.7
2014 Organic orders	\$ 1,231.9	\$ 793.7	\$ 389.1	\$ 289.8	\$ (5.8)	\$ 2,698.7
Organic growth/(decline)	6.0 %	6.7%	(2.8)%	5.0 %		4.8 %

- "adjusted segment operating income" is defined as operating income, adjusted to exclude special items that include, but are not limited to, restructuring costs and realignment costs, certain asset impairment charges, repositioning costs, certain acquisition-related expenses, and other unusual or infrequent operating items. Special items represent significant charges or credits that impact current results, which management views as unrelated to the Company's ongoing operations and performance.

Reconciliations of segment operating income to adjusted segment operating income for the years ended December 31, 2015, 2014 and 2013 are provided in the tables below.

Year Ended December 31, 2015	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total Segment
Segment operating income	\$ 141.2	\$ 126.4	\$ 12.2	\$ 42.4	\$ 322.2
Restructuring costs	12.2	—	6.3	5.3	23.8
Acquisition-related expenses	—	13.1	—	1.4	14.5
Other unusual or infrequent items <sup>(a)</sup>	(7.5)	—	0.4	0.8	(6.3)
Adjusted segment operating income	\$ 145.9	\$ 139.5	\$ 18.9	\$ 49.9	\$ 354.2

Year Ended December 31, 2014	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total Segment
Segment operating income	\$ 123.9	\$ 130.9	\$ 22.2	\$ 63.5	\$ 340.5
Restructuring costs	4.2	2.1	20.5	—	26.8
Other unusual or infrequent items <sup>(b)</sup>	2.3	—	9.5	—	11.8
Adjusted segment operating income	\$ 130.4	\$ 133.0	\$ 52.2	\$ 63.5	\$ 379.1

Year Ended December 31, 2013	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total Segment
Segment operating income	\$ 112.0	\$ 100.3	\$ 14.2	\$ 55.3	\$ 281.8
Restructuring costs	4.5	5.1	17.2	0.4	27.2
Bornemann acquisition-related expenses	8.6	—	—	—	8.6
Other unusual or infrequent items <sup>(c)</sup>	3.2	1.9	—	1.1	6.2
Adjusted segment operating income	\$ 128.3	\$ 107.3	\$ 31.4	\$ 56.8	\$ 323.8

(a) The adjustments for unusual or infrequent items during 2015 primarily reflect the reversal of a customer-related liability related to the 2012 acquisition of Bornemann.

(b) The adjustments for unusual or infrequent items during 2014 include costs associated with an action to move certain production lines from one location to another existing lower cost manufacturing site, enterprise resource planning (ERP) global template design costs, and foreign exchange-related impacts associated with our operations in Venezuela.

(c) The adjustments for unusual or infrequent items during 2013 primarily consist of costs to exit transition services agreements, IT infrastructure modifications, and other various actions, pursuant to the 2011 spin-off, referred to as Repositioning Costs.

- "adjusted income from continuing operations" and "adjusted income from continuing operations per diluted share" are defined as income from continuing operations attributable to ITT Corporation and income from continuing operations attributable to ITT Corporation per diluted share, adjusted to exclude special items that include, but are not limited to, asbestos-related costs, repositioning costs, restructuring and realignment costs, certain asset impairment charges, certain acquisition-related expenses, income tax settlements or adjustments, and other unusual or infrequent non-operating items. Special items represent significant charges or credits, on an after-tax basis, that impact current results which management views as unrelated to the Company's ongoing operations and performance. A reconciliation of adjusted income from continuing operations, including adjusted earnings per diluted share, to income from continuing operations and income from continuing operations per diluted share for the years ended December 31, 2015, 2014 and 2013 are provided in the table below.

	2015	2014	2013
Income from continuing operations attributable to ITT Corporation	\$ 312.4	\$ 188.4	\$ 487.7
Restructuring costs, net of tax benefit of \$5.5, \$8.6, and \$6.2, respectively	18.5	19.5	22.2
Repositioning costs, net of tax benefit of \$0.1, \$2.5, and \$8.9, respectively	0.1	6.4	16.3
Net asbestos-related costs, net of tax (expense) benefit of \$(33.8), \$1.4, and \$11.5, respectively	(57.6)	2.5	21.3
Tax-related special items <sup>(a)</sup>	(37.1)	3.8	(363.7)
Other unusual or infrequent items, net of tax of benefit of \$4.0, \$3.9, and \$0.5, respectively <sup>(b)</sup>	(4.6)	8.2	2.5
Adjusted income from continuing operations	\$ 231.7	\$ 228.8	\$ 186.3
Income from continuing operations attributable to ITT Corporation per diluted share	\$ 3.44	\$ 2.03	\$ 5.28
Adjusted income from continuing operations per diluted share	\$ 2.55	\$ 2.47	\$ 2.02

- (a) The following table details significant components of the tax-related special items. See Note 5, "Income Taxes," to our Consolidated Financial Statements for further information.

	2015	2014	2013
Change in uncertain tax positions	\$ (15.1)	\$ 0.4	\$ (0.4)
Charge on undistributed foreign earnings	(7.4)	0.8	11.0
Change in deferred tax asset valuation allowance	(7.3)	2.5	(375.3)
Impacts of tax audit closure	(7.0)	0.7	1.4
Other	(0.3)	(0.6)	(0.4)
Net tax-related special items	\$ (37.1)	\$ 3.8	\$ (363.7)

- (b) Other unusual or infrequent non-operating items, net of tax, for 2015 reflect a benefit from the reversal of a customer-related liability related to the acquisition of Bornemann and the reversal of accrued interest associated with a change in uncertain tax positions, partially offset by costs associated with the acquisitions of Wolverine and Hartzell.

Other unusual or infrequent non-operating items, net of tax, for 2014 include costs associated with an action to move certain production lines from one location to another existing lower cost manufacturing site, the Venezuela currency devaluation, and ERP global template design costs.

Other unusual or infrequent non-operating items, net of tax, for 2013 include Bornemann integration-related expenses of \$5.7, partially offset by a reduction of accrued interest due to tax audits of \$3.2.

- "adjusted free cash flow" is defined as net cash provided by operating activities less capital expenditures, adjusted for cash payments for restructuring and realignment actions, repositioning costs, net asbestos cash flows and other significant items that impact current results which management views as unrelated to the Company's ongoing operations and performance. Due to other financial obligations and commitments, including asbestos, the entire free cash flow may not be available for discretionary purposes. A reconciliation of adjusted free cash flow is provided below.
- "adjusted free cash flow conversion" is defined as adjusted free cash flow divided by adjusted income from continuing operations.

	2015	2014	2013
Net cash from continuing operations	\$ 229.7	\$ 244.7	\$ 226.6
Capital expenditures <sup>(a)</sup>	(86.3)	(114.5)	(118.1)
Restructuring cash payments	24.4	18.6	17.1
Net asbestos cash flows	24.6	3.9	25.4
Other cash payments <sup>(b)</sup>	7.2	20.3	30.6
Adjusted free cash flow	\$ 199.6	\$ 173.0	\$ 181.6
Adjusted income from continuing operations	231.7	228.8	186.3
Adjusted free cash flow conversion	86.1%	75.6%	97.5%

(a) Capital expenditures represent capital expenditures as reported in the Consolidated Statement of Cash Flows, less capital expenditures associated with repositioning activities of \$0.4, \$4.3 and \$4.8 for the years ended December 31, 2015, 2014, and 2013, respectively.

(b) Other cash payments during 2015 include discretionary pension contributions, net of tax. Other cash payments during 2014 include payments associated with an action to move certain production lines from one location to another existing lower cost manufacturing site and develop an ERP global template design. Other cash payments during 2013 primarily reflect payments associated with repositioning activities.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in accordance with GAAP requires us to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant accounting policies used in the preparation of the financial statements are discussed in Note 1, "Description of Business, Basis of Presentation and Summary of Significant Accounting Policies," to the Consolidated Financial Statements. An accounting policy is deemed critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes to the estimate that are reasonably possible could materially affect the financial statements. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of ITT's Board of Directors.

The accounting estimates and assumptions discussed below are those that we consider most critical to fully understanding our financial statements and evaluating our results as they are inherently uncertain, involve the most subjective or complex judgments, include areas where different estimates reasonably could have been used, and the use of an alternative estimate that is reasonably possible could materially affect the financial statements. We base our estimates on historical experience and other data and assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management believes that the accounting estimates employed and the resulting balances reported in the Consolidated Financial Statements are reasonable; however, actual results could differ materially from our estimates and assumptions.

## Asbestos Matters

ITT, including its subsidiary Goulds Pumps, Inc., has been sued along with many other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain products sold by us or our subsidiaries prior to 1985 contained a part manufactured by a third party (e.g., a gasket) that contained asbestos. To the extent that these third-party parts may have contained asbestos, it 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.

Estimating our exposure to pending asbestos claims and those that may be filed in the future is subject to significant uncertainty and risk as there are multiple variables that can affect the timing, severity, quality, quantity and resolution of claims. The methodology used to project future asbestos costs is based largely on the Company's experience in a reference period, including the last few years, for claims filed, settled and dismissed, and is supplemented by management's expectations of the future. This experience is compared to the results of previously conducted epidemiological studies by estimating the number of individuals likely to develop asbestos-related diseases. Those studies were undertaken in connection with an independent analysis of the population of U.S. workers across eleven different industry and occupation categories believed to have been exposed to asbestos. Using information for the industry and occupation categories relevant to the Company, an estimate is developed of the number of claims estimated to be filed against the Company over the next 10 years, as well as the aggregate settlement costs that would be incurred to resolve both pending and estimated future claims based on the average settlement costs by disease during the reference period. In addition, the estimate is augmented for the costs of defending asbestos claims in the tort system using a forecast based on recent experience, as well as agreements with the Company's external defense counsel. The asbestos liability has not been discounted to present value due to the inability to reliably forecast the timing of future cash flows. The Company retains a consulting firm to assist management in estimating our potential exposure to pending asbestos claims and for claims estimated to be filed over the next 10 years. The methodology to project future asbestos costs is one in which the underlying assumptions are separately assessed for their reasonableness and then each is used as an input to the liability estimate. Our assessment of the underlying assumptions concludes on one value for each assumption.

The liability estimate is most sensitive to assumptions surrounding mesothelioma and lung cancer claims, as together, the estimated costs to resolve pending and estimated future mesothelioma and lung cancer claims represent approximately 95% of the estimated asbestos exposure, but only 25% of pending claims. The assumptions related to mesothelioma and lung cancer that are most significant include the number of new claims forecast to be filed against the Company in the future, the projected average settlement costs (including the rate of inflation assumed), the percentage of claims against the Company that are dismissed without a settlement payment, and the cost to defend against filed claims.

These assumptions are interdependent, and no one factor predominates in estimating the asbestos liability. While there are other potential inputs to the model used to estimate our asbestos exposures for pending and estimated future claims, our methodology relies on the best input available in the circumstances for each individual assumption and, due to the interdependencies, does not create a range of reasonably possible outcomes. Projecting future asbestos costs is subject to numerous variables and uncertainties that are inherently difficult to predict. In addition to the uncertainties surrounding the key assumptions, additional uncertainty related to asbestos claims arises from the long latency period prior to the manifestation of an asbestos-related disease, changes in available medical treatments and changes in medical costs, changes in plaintiff behavior resulting from bankruptcies of other companies that are potential defendants or co-defendants, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential legislative or judicial changes.

The forecast period used to estimate our potential exposure to pending and projected asbestos claims is a judgment based on a number of factors, including the number and type of claims filed, recent experience with pending claims activity and whether that experience is expected to continue into the future, the jurisdictions where claims are filed, the effect of any legislative or judicial developments, and the likelihood of any comprehensive asbestos legislation at the federal level. These factors have both positive and negative effects on the dynamics of asbestos litigation and, accordingly, on our estimate of the asbestos exposure. Developments related to asbestos tend to be long-cycle, changing over multi-year periods. We closely monitor these and other factors and periodically assess whether an alternative forecast period is appropriate.

We record a corresponding asbestos-related asset that represents our best estimate of probable recoveries related to the recorded asbestos liability. In developing this estimate, the Company considers coverage-in-place and other settlement agreements with its insurers, as well as a number of additional factors, including expected levels of future cost recovery, the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, the extent to which settlement and defense costs

will be reimbursed by the insurance policies, and interpretation of the various policy and contract terms and limits and their interrelationships. The asbestos-related asset has not been discounted to present value, consistent with the asbestos liability as the timing of the insurance recoveries, including those under coverage-in-place and other settlement agreements, is dependent on the timing of payments of the asbestos liability.

The Company retains a consulting firm to assist management in estimating probable recoveries for pending asbestos claims and for claims estimated to be filed over the next 10 years based on the analysis of policy terms, the likelihood of recovery provided by external legal counsel assuming the continued viability of those insurance carriers that are currently solvent, incorporating risk mitigation judgments where policy terms or other factors are not certain, and allocating asbestos settlement and defense costs between our insurers.

Based on the estimated undiscounted asbestos liability as of December 31, 2015 (for claims filed or estimated to be filed over the next 10 years), we have estimated that we will be able to recover approximately 40% of asbestos indemnity and defense costs from our insurers. However, there is uncertainty in estimating when cash payments related to the recorded asbestos liability will be fully expended and such cash payments will continue for a number of years beyond the next 10 years due to the significant proportion of future claims included in the estimated asbestos liability and the lag time between the date a claim is filed and when it is resolved. Actual insurance reimbursements may vary significantly from period to period and the anticipated recovery rate is expected to decline over time due exhaustion of policies and the insolvency of certain insurers. In the 10th year of our estimate, our insurance recoveries are currently projected to be approximately 15%. Future recovery rates may be impacted by other factors, such as future insurance settlements, unforeseen insolvencies and judicial determinations relevant to our coverage program, which are difficult to predict and subject to a high degree of uncertainty.

Our estimated asbestos liability and related receivables are based on management's best estimate of future events largely based on past experience; however, past experience may not prove a reliable predictor of the future. Future events affecting the key assumptions and other variables for either the asbestos liability or the related receivables could cause actual costs and recoveries to be materially higher or lower than currently estimated. For example, a significant upward or downward trend in the number of claims filed, depending on the nature of the alleged injury, the jurisdiction where filed and the quality of the product identification could change the estimated liability, as would substantial adverse verdicts at trial that withstand appeal. A legislative solution, structured settlement transaction, or significant change in relevant case law could also change the estimated liability. Further, the bankruptcy of an insurer or settlements with our insurers, whether through coverage-in-place agreements or policy buyouts, could change the estimated amount of recoveries.

Furthermore, any predictions with respect to the variables impacting our estimate of the asbestos liability and related asset are subject to even greater uncertainty as the projection period lengthens. In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures and potential recoveries, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe there is a reasonable basis for estimating the number of future claims, the nature of future claims, or the cost to resolve future claims for years beyond the next 10 years at this time. Accordingly, no accrual or receivable has been recorded for any costs which may be incurred for claims asserted subsequent to 2025.

Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims which may be filed beyond the next 10 years, it is difficult to predict the ultimate cost of resolving all pending and estimated unasserted asbestos claims. We believe it is possible that the future events affecting the key factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

## Revenue Recognition

Revenue is derived from the sale of products and services to customers. We recognize revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, collectability is reasonably assured and delivery has occurred. For product sales, other than long-term construction and production-type contracts (referred to as design and build arrangements), we recognize revenue at the time title and risks and rewards of ownership pass to the customer, which is generally when products are shipped, and the contractual terms have been fulfilled. Certain contracts with customers require delivery, installation, testing, certification or other acceptance provisions to be satisfied before revenue is recognized. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) we have previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria or (ii) on formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria.

We recognize revenue for certain long-term design and build projects using the percentage-of-completion method, based upon the percentage of costs incurred to total projected costs. Revenue and profit recognized under the percentage-of-completion method are based on management's estimates such as total contract revenues, contract costs and the extent of progress toward completion. Due to the long-term nature of the contracts, these estimates are subject to uncertainties and require significant judgment. Estimates of contract costs include labor hours and rates, and material costs. These estimates consider historical performance, the complexity of the work to be performed, the estimated time to complete the project, and other economic factors such as inflation and market rates. We update our estimates on a periodic basis and any revisions to such estimates are recorded in earnings in the period in which they are determined. Provisions for estimated losses, if any, on uncompleted long-term contracts, are made in the period in which such losses are determined.

We recognize revenue on smaller design and build projects, including those of short-term duration, using the completed contract method. Provisions for estimated losses, if any, on uncompleted design and build arrangements, are recognized in the period in which such losses are determined. Due to the long-term nature of the contracts, these estimates are subject to uncertainties and require significant judgment and may consider historical performance, the complexity of the work to be performed, the estimated time to complete the project, and other economic factors such as inflation.

Additionally, accruals for estimated expenses related to sales returns and warranties are made at the time products are sold. Reserves for sales returns, rebates and other allowances are established using historical information on the frequency of returns for a particular product and period over which products can be returned. For distributors and resellers, our typical return period is less than 180 days. Future market conditions and product transitions may require us to take actions to increase customer incentive offerings, possibly resulting in a reduction in revenue at the time the incentive is offered.

Warranty accruals are established using historical information on the nature, frequency and average cost of warranty claims and estimates of future costs. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. While we engage in extensive product quality programs and processes, we base our estimated warranty obligation on product warranty terms offered to customers, ongoing product failure rates, materials usage, service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of our baseline experience and associated overhead costs. If actual product failure rates, repair rates or any other post-sales support costs differ from these estimates, revisions to the estimated warranty liability would be required.

## Income Taxes

Deferred income tax assets and liabilities are determined based on the estimated future tax effects of differences between the financial reporting and tax bases of assets and liabilities, applying currently enacted tax rates in effect for the year in which we expect the differences will reverse. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes to our estimate of the amount we are more likely than not to realize as a valuation allowance, with a corresponding adjustment to earnings or other comprehensive income (loss), as appropriate. The ultimate realization of deferred tax assets depends on the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible.

The Company assesses all available positive and negative evidence regarding the realizability of its deferred tax assets. Significant judgment is required in assessing the need for any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, both positive and negative, including the future reversal of existing taxable temporary differences, taxable income in carryback periods, prudent and feasible tax planning strategies, estimated future taxable income, and whether we have a recent history of losses. The valuation allowance can be affected by changes to tax regulations, interpretations and rulings, changes to enacted statutory tax rates, and changes to future taxable income estimates.

Our effective tax rate reflects the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside of the U.S. We plan foreign earnings remittance amounts based on projected cash flow needs, as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we will distribute to the U.S. and accrue U.S. federal taxes on these planned foreign remittance amounts. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate. Our provision for income taxes could be adversely impacted by changes in our geographic mix of earnings or changes in the enacted tax rates in the jurisdictions in which we conduct our business.

The calculation of our deferred and other tax balances involves significant management judgment when dealing with uncertainties in the application of complex tax regulations and rulings in a multitude of taxing jurisdictions across our global operations. The Company is routinely audited by U.S. federal, state and foreign tax authorities, the results of which could result in proposed assessments against the Company. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues based on our estimate of whether, and to the extent to which, additional taxes will be due. Furthermore, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position in consideration of applicable tax statutes and related interpretations and precedents and the expected outcome of the proceedings (or negotiations) with the taxing authorities. Tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized on ultimate settlement.

We adjust our liability for uncertain tax positions in light of changing facts and circumstances; however, the ultimate resolution of a tax examination may differ from the amounts recorded in the financial statements for a number of reasons, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters, and the Company's success in supporting its filing positions with the tax authorities. If our estimate of tax liabilities proves different than the ultimate outcome, such differences will affect the provision for income taxes in the period in which such determination is made.



## **Postretirement Plans**

ITT sponsors numerous defined benefit pension and other postretirement benefit plans for employees around the world (collectively, postretirement benefit plans). Postretirement benefit obligations for domestic plans are generally determined on a flat dollar benefit formula and years of service. Foreign plan benefit obligations are primarily determined based on participant years of service, future compensation, and age at retirement or termination. The determination of projected benefit obligations and the recognition of expenses related to postretirement benefit plans are dependent on various assumptions that are judgmental and developed in consultation with our actuaries and other advisors. The assumptions involved in the measurement of our postretirement benefit plan obligations and net periodic postretirement costs primarily relate to discount rates, long-term expected rates of return on plan assets, and mortality and termination rates. Actual results that differ from our assumptions are accumulated and are amortized over the estimated future working life, or remaining lifetime, of the plan participants depending on the nature of the retirement plan. See Note 15, Postretirement Benefit Plans, to the Consolidated Financial Statements for detailed information regarding our postretirement plan assumptions.

### *Assumption Sensitivity*

We estimate that every twenty-five basis point change in the discount rate impacts net periodic postretirement costs by approximately \$0.4 and the funded status of our postretirement benefit plans by approximately \$15.3. We estimate that every twenty-five basis point change in the expected rate of return on plan assets impacts net periodic postretirement costs by approximately \$0.7.

## **Goodwill and Other Intangible Assets**

We review goodwill and indefinite-lived intangible assets for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We also review the carrying value of our finite-lived intangible assets for potential impairment when impairment indicators arise. We conduct our annual impairment tests as of the first day of the fourth quarter. When reviewing for impairment, we may opt to make an initial qualitative evaluation, which considers present events and circumstances, to determine the likelihood of impairment. Our decision to perform a qualitative impairment assessment for an individual reporting unit in a given year is influenced by a number of factors, including the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, changes in macroeconomic, industry and reporting-unit specific conditions and the amount of time in between quantitative fair value measurements. If the likelihood of impairment is not considered to be more likely than not, then no further testing is performed.

In cases when we opt not to perform a qualitative evaluation or the qualitative evaluation indicates that the likelihood of impairment is more likely than not, we then perform a two-step impairment test for goodwill. In the first step, we compare the estimated fair value of each reporting unit to its carrying value. If the estimated fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds its fair value, then we must perform the second step of the impairment test in order to measure the impairment loss to be recorded, if any. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. In our annual impairment test for indefinite-lived intangible assets, we compare the fair value of those assets to their carrying value. We recognize an impairment loss when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value.

We estimate the fair value of our reporting units using an income approach. Under the income approach, we calculate fair value based on the present value of estimated future cash flows. We estimate the fair value of our indefinite-lived intangible assets using the relief from royalty method. The relief from royalty method estimates the portion of a company's earnings attributable to an intellectual property asset based on an assumed royalty rate that the company would have paid had the asset not been owned.

Determining the fair value of a reporting unit or an indefinite-lived intangible asset is judgmental in nature and involves the use of significant estimates and assumptions, particularly related to future operating results and cash flows. These estimates and assumptions include, but are not limited to, revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions and the identification of appropriate market comparable data. In addition, the identification of reporting units and the allocation of assets and liabilities to the reporting units when determining the carrying value of each reporting unit also requires judgment. Goodwill is tested for impairment at the reporting unit level, which, based on the applicable accounting guidance, is either the operating segment or one level below (e.g., the divisions of our Control Technology segment). The fair value of our reporting units and indefinite-lived intangible assets are based on estimates and assumptions that are believed to be reasonable. Significant changes to these estimates and assumptions could adversely impact our conclusions. Actual future results may differ from those estimates. Further, had different reporting units been identified or had different valuation techniques or assumptions been utilized, the results of our impairment tests could have resulted in an impairment loss, which could have been material.

In 2015, a qualitative assessment was performed for all reporting units and it was determined that it was not more likely than not that the fair value of each reporting unit was less than its carrying amount.

### **Environmental Liabilities**

We are subject to various federal, state, local and foreign environmental laws and regulations that require environmental assessment or remediation efforts. Accruals for environmental exposures 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. Significant judgment is required to determine both the likelihood of a loss and the estimated amount of loss. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in estimating our reserve for environmental liabilities. Our environmental reserve of \$82.6 at December 31, 2015, represents management's estimate of undiscounted costs expected to be incurred related to environmental assessment or remediation efforts, as well as related legal fees, without regard to potential recoveries from insurance companies or other third parties. Our estimated liability is reduced to reflect the 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 share of the relevant costs. Our environmental accruals are reviewed and adjusted for progress of investigation and remediation efforts and as additional technical or legal information become available, such as the impact of negotiations with regulators and other potentially responsible parties, settlements, rulings, advice of legal counsel, and other current information.

We closely monitor our environmental responsibilities, together with trends in the environmental laws. Environmental remediation reserves are subject to numerous inherent uncertainties that affect our ability to estimate our share of the costs. Such uncertainties involve incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the nature and extent of contamination at each site, the extent of remediation required under existing regulations, our share of any remediation liability, if any, widely varying cost estimates associated with potential alternative remedial approaches, the length of time required to remediate a particular site, the potential effects of continuing improvements in remediation technology, and changes in environmental standards and regulatory requirements. While environmental laws and regulations are subject to change, the nature of such change is inherently unpredictable and the timing of potential changes is uncertain. The effect of legislative or regulatory changes on environmental standards could be material to the Company's financial statements. Additionally, violations by us of such laws and regulations, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our inability to recover costs associated with any such developments, or financial insolvency of other potentially responsible parties could have a material adverse effect on our financial statements.

Although it is not possible to predict with certainty the ultimate costs of environmental remediation, the reasonably possible high-end range of our estimated environmental liability at December 31, 2015 was \$140.6.

### **Recent Accounting Pronouncements**

See Note 2, "Recent Accounting Pronouncements," in the Notes to the Consolidated Financial Statements for a complete discussion of recent accounting pronouncements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a result of our global operating and financing activities, we are exposed to market risks from changes in foreign currency exchange rates, interest rates, and commodity prices, which may adversely affect our operating results and financial position. The impact from changes in market conditions is generally minimized through our normal operating and financing activities. However, we may use derivative instruments, primarily forward contracts, interest rate swaps and futures contracts, to manage some of these exposures. We do not use derivative financial instruments for trading or other speculative purposes. To minimize the risk of counterparty non-performance, derivative instruments are entered into with major financial institutions and there is no significant concentration with any one counterparty. A summary of our accounting policies for derivatives is included in Note 1, "Description of Business, Basis of Presentation and Summary of Significant Accounting Policies," to the Consolidated Financial Statements.

### **Foreign Currency Exchange Rate Exposures**

Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and intercompany transactions denominated in foreign currencies. Our principal currency exposures relate to the Euro, Chinese renminbi, Czech koruna, South Korean won, and British pound. Based on a sensitivity analysis at December 31, 2015, a hypothetical 10% change in the foreign currency exchange rates for the year ended December 31, 2015 would have resulted in translation impact to our pre-tax earnings of approximately \$20, due primarily to the Euro. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices. This calculation does not take into account the impact of the foreign currency forward exchange contracts discussed above.

### **Interest Rate Exposures**

As of December 31, 2015, our outstanding variable rate debt was \$244.5. We estimate that a hypothetical increase in interest rates of 100 basis points would result in approximately \$2.5 of additional annual interest expense based on current borrowing levels.

As of December 31, 2015, we had one interest rate swap outstanding with an aggregate notional amount of \$1.6 and a fair value of \$0.2. These interest rate swap agreements modify our exposure to interest rate risk by converting a portion of the floating-rate debt to a fixed rate. Changes in the fair value of the interest rate swaps are recorded in earnings as the interest rate swaps do not qualify for hedge accounting.

### **Commodity Price Exposures**

Portions of our business are exposed to volatility in the prices of certain commodities, such as steel, gold, copper, nickel, iron, aluminum and tin, as well as specialty alloys, including titanium. Our primary exposure to commodity price volatility resides with the use of these materials in purchased component parts. We generally maintain long-term fixed price contracts on raw materials and component parts; however, we are prone to exposure as these contracts expire. We evaluate hedging opportunities to mitigate or minimize the risk of operating margin erosion resulting from the volatility of commodity prices. We estimate that a hypothetical 10% adverse movement in prices for raw metal commodities would not be material to the financial statements.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to Consolidated Financial Statements 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 under the Exchange Act, as amended.

### **(a) 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 defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2015. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

The Company's Disclosure Committee has the responsibility of considering and evaluating the materiality of information and reviewing disclosure obligations on a timely basis. The Disclosure Committee meets regularly and assists the CEO and the CFO in designing, establishing, reviewing and evaluating the Company's disclosure controls and procedures.

### **(b) Management's 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 Exchange 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, and (iv) 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 any identified deficiencies.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. The Company adopted the updated internal control framework released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework is referred to as the COSO 2013 Internal Control Framework (COSO 2013), and is a replacement of the 1992 "Internal Control - Integrated Framework" issued previously by COSO and utilized by most companies, including ITT, up to December 31, 2013. Management's assessment under COSO 2013 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.

For purposes of evaluating internal controls over financial reporting, management determined that the internal controls of Wolverine Automotive Holdings Inc., the parent company of Wolverine Advanced Materials LLC (Wolverine), which the Company acquired on October 5, 2015, would be excluded from the internal control assessment as of December 31, 2015, due to the timing of the closing of the acquisition and as permitted by the rules and regulations of the U.S. Securities and Exchange Commission. For the year ended December 31, 2015, Wolverine constituted 9.0% of total assets and 1.4% of total revenues of the Company.

Based on this assessment, management determined that, as of December 31, 2015, the Company maintained effective internal control over financial reporting.

The Company's management, including the CEO and the CFO, does not expect that our internal controls over financial reporting, because of inherent limitations, will prevent or detect all errors 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.

Management's assessment, included herein, should be read in conjunction with the certifications and the report issued by Deloitte & Touche LLP (Deloitte & Touche), an independent registered public accounting firm, as stated in their report, which appears subsequent to Item 9B in this Annual Report on Form 10-K.

### **(c) Changes in Internal Control over Financial Reporting**

During the three months ended December 31, 2015, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

### **Disclosure pursuant to Section 219 of the Iran Threat Reduction & Syria Human Rights Act (ITRA)**

This disclosure is made pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, codified as Section 13(r) of the Exchange Act, which requires a reporting company to disclose in its annual and quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions relating to Iran, including activities conducted outside of the United States by non-U.S. affiliates in compliance with local law.

In its 2012 Annual Report, ITT described its acquisition of all the shares of Bornemann in November 2012, as well as certain activities of Bornemann in Iran and the wind down of those activities in accordance with a General License issued on December 26, 2012 (the General License) by OFAC. As permitted by the General License, on or before March 8, 2013, Bornemann completed the wind-down activities and ceased all activities in Iran. As required to be disclosed by Section 13(r), the gross revenues and operating income to Bornemann from its Iranian activities subsequent to its acquisition by ITT were Euros 2.2 million and Euros 1.5 million, respectively. Prior to its acquisition by ITT, Bornemann issued a performance bond to its Iranian customer in the amount of Euros 1.3 million (the Bond). Bornemann requested that the Bond be canceled prior to March 8, 2013; however, the former customer refused this request and as a result the Bond remains outstanding. Bornemann did not receive gross revenues or operating income, or pay interest, with respect to the performance bond in either 2015, 2014 or 2013, however, Bornemann did pay fees of approximately 11 thousand Euros in 2015 and 2014 and fees of approximately 43 thousand Euros in 2013 to the German financial institution which is maintaining the performance bond.

In connection with certain activities that could not be finalized on or before March 8, 2013, ITT received a Special License from OFAC in June 2014 in order to conclude a settlement with an agent associated with Bornemann's Iranian activities. The settlement agreement has been finalized and payments totaling Euro 770 thousand were made to the agent in 2014.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
ITT Corporation  
White Plains, New York

We have audited the internal control over financial reporting of ITT Corporation and subsidiaries (the "Company") as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Wolverine Automotive Holdings Inc. ("Wolverine"), the parent company of Wolverine Advanced Materials LLC, which was acquired on October 5, 2015 and whose financial statements constitute 9.0% of total assets and 1.4% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2015. Accordingly, our audit did not include the internal control over financial reporting at Wolverine. 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, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) 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 financial statements as of and for the year ended December 31, 2015 of the Company and our report dated February 19, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

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Stamford, Connecticut

February 19, 2016

## PART III

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this Item 10 is incorporated by reference from the information provided under the sections entitled "Information about Voting," "Proposals to be voted on at the Annual Meeting-Item 1. Election of Directors," "Corporate Governance and Related Matters-Board and Committee Membership-Audit Committee," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Audit Committee Report" in our Proxy Statement for the 2016 Annual Meeting of Shareholders (2016 Proxy Statement).

Information required by this Item 10 with respect to executive officers of the Company is contained under the heading "Executive Officers of the Company" in Part I of this Form 10-K.

ITT has adopted corporate governance principles and charters for each of its standing committees. The principles address director qualification standards, election and selection of an independent presiding director, as well as 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 [www.itt.com/investors/governance/](http://www.itt.com/investors/governance/). A copy of the corporate governance principles and charters is also available to any shareholder who requests a copy from the Company's secretary.

ITT has also adopted a written code of ethics, the "Code of Conduct," which is applicable to all directors, employees and officers (including the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions). The Company's Code of Conduct is available on our website at [www.itt.com](http://www.itt.com). We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Conduct by posting such information on our website at [www.itt.com](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 2015. The Company also filed with the SEC, as exhibits to the Company's current Annual Report on 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**

Information required by this Item 11 is incorporated by reference to the discussion under the headings "2015 Non-Management Director Compensation," "Compensation Tables," "Compensation Discussion and Analysis," "Compensation and Personnel Committee Report" and "Corporate Governance and Related Matters-Compensation Committee Interlocks and Insider Participation" in our 2016 Proxy Statement.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this Item 12 is incorporated by reference to the discussion under the caption "Stock Ownership of Directors, Executive Officers, and Certain Shareholders" "Section 16(a) Beneficial Ownership Reporting Compliance" and "Equity Compensation Plan Information" in our 2016 Proxy Statement.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information required by this item is incorporated by reference to the discussions under the captions "Corporate Governance and Related Matters-Policies for Approving Related Party Transactions" and "Corporate Governance and Related Matters-Director Independence," in our 2016 Proxy Statement.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information about the fees for 2015 and 2014 for professional services rendered by our independent registered public accounting firm is incorporated by reference to the discussion under the heading "Proposal 2. Ratification of Appointment of the Independent Registered Public Accounting Firm" of our 2016 Proxy Statement. Our Audit Committee's policy on pre-approval of audit and permissible non-audit services of our independent registered public accounting firm is also incorporated by reference to the discussion under the heading "Proposal 2. Ratification of Appointment of the Independent Registered Public Accounting Firm" of our 2016 Proxy Statement.

## PART IV

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as a part of this report:

1. See Index to Consolidated Financial Statements appearing on page 62 for a list of the financial statements filed as a part of this report.
2. See Exhibit Index beginning on pages II-3 for a list of the exhibits filed or incorporated herein as a part of this report.

(b) Financial Statement Schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements filed as part of this report.



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
ITT Corporation  
White Plains, New York

We have audited the accompanying consolidated balance sheets of ITT Corporation and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Stamford, Connecticut

February 19, 2016

## CONSOLIDATED STATEMENTS OF OPERATIONS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)  
YEARS ENDED DECEMBER 31

	2015	2014	2013
Revenue	\$ 2,485.6	\$ 2,654.6	\$ 2,496.9
Costs of revenue	1,676.5	1,788.2	1,697.1
Gross profit	809.1	866.4	799.8
Sales and marketing expenses	183.2	219.4	216.2
General and administrative expenses	258.3	300.1	299.9
Research and development expenses	78.9	76.6	67.3
Asbestos-related (benefit) costs, net	(91.4)	3.9	32.8
Operating income	380.1	266.4	183.6
Interest and non-operating (income) expenses, net	(2.2)	4.4	3.1
Income from continuing operations before income tax	382.3	262.0	180.5
Income tax expense (benefit)	70.1	71.3	(309.6)
Income from continuing operations	312.2	190.7	490.1
Income (loss) from discontinued operations, including tax benefit of \$24.5, \$4.8, and \$0.2, respectively	39.4	(3.9)	0.8
Net income	351.6	186.8	490.9
Less: (Loss) income attributable to noncontrolling interests	(0.2)	2.3	2.4
Net income attributable to ITT Corporation	\$ 351.8	\$ 184.5	\$ 488.5
<b>Amounts attributable to ITT Corporation:</b>			
Income from continuing operations, net of tax	\$ 312.4	\$ 188.4	\$ 487.7
Income (loss) from discontinued operations, net of tax	39.4	(3.9)	0.8
Net income	\$ 351.8	\$ 184.5	\$ 488.5
<b>Earnings (loss) per share attributable to ITT Corporation:</b>			
Basic Earnings Per Share:			
Continuing operations	\$ 3.48	\$ 2.06	\$ 5.36
Discontinued operations	0.44	(0.04)	0.01
Net income	\$ 3.92	\$ 2.02	\$ 5.37
Diluted Earnings Per Share:			
Continuing operations	\$ 3.44	\$ 2.03	\$ 5.28
Discontinued operations	0.44	(0.04)	0.01
Net income	\$ 3.88	\$ 1.99	\$ 5.29
Weighted average common shares – basic	89.8	91.5	91.0
Weighted average common shares – diluted	90.7	92.8	92.3
Cash dividends declared per common share	\$ 0.4732	\$ 0.44	\$ 0.40

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN MILLIONS)

YEARS ENDED DECEMBER 31

	2015	2014	2013
Net income	\$ 351.6	\$ 186.8	\$ 490.9
Other comprehensive (loss) income:			
Net foreign currency translation adjustment	(93.4)	(95.9)	10.9
Net change in postretirement benefit plans, net of tax impacts of \$9.8, \$2.6, and \$(38.8), respectively	(9.5)	(15.0)	66.3
Other comprehensive (loss) income	(102.9)	(110.9)	77.2
Comprehensive income	248.7	75.9	568.1
Less: Comprehensive (loss) income attributable to noncontrolling interests	(0.2)	2.3	2.4
Comprehensive income attributable to ITT Corporation	\$ 248.9	\$ 73.6	\$ 565.7
<b>Disclosure of reclassification adjustments and other adjustments to postretirement benefit plans</b>			
Reclassification adjustments:			
Amortization of prior service (benefit) costs, net of tax expense (benefit) of \$3.8, \$2.2, and \$(0.1), respectively (See Note 15)	(6.2)	(3.8)	0.3
Amortization of net actuarial loss, net of tax benefit of \$(4.5), \$(3.1), and \$(4.8), respectively (See Note 15)	8.6	6.3	8.5
Gain on plan curtailment, net of tax expense of \$1.6, \$0.0, and \$0.0, respectively	(2.6)	—	—
Other adjustments:			
Prior service (cost) credit, net of tax benefit (expense) of \$0.7, \$(19.7), and \$(7.1), respectively	(1.3)	34.5	11.9
Net actuarial (loss) gain, net of tax benefit (expense) of \$8.2, \$23.2, and \$(26.8), respectively	(10.5)	(53.8)	46.1
Unrealized change from foreign currency translation	2.5	1.8	(0.5)
Net change in postretirement benefit plans, net of tax	\$ (9.5)	\$ (15.0)	\$ 66.3

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

## CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)  
DECEMBER 31

	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 415.7	\$ 584.0
Receivables, net	584.9	500.1
Inventories, net	292.7	302.3
Other current assets	204.4	249.8
<b>Total current assets</b>	<b>1,497.7</b>	<b>1,636.2</b>
Plant, property and equipment, net	443.5	443.9
Goodwill	778.3	632.1
Other intangible assets, net	187.2	91.4
Asbestos-related assets	337.5	374.0
Deferred income taxes	326.1	304.1
Other non-current assets	153.3	149.8
<b>Total non-current assets</b>	<b>2,225.9</b>	<b>1,995.3</b>
<b>Total assets</b>	<b>\$ 3,723.6</b>	<b>\$ 3,631.5</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term loans and current maturities of long-term debt	\$ 245.7	\$ 1.5
Accounts payable	314.7	309.6
Accrued liabilities	392.7	464.3
<b>Total current liabilities</b>	<b>953.1</b>	<b>775.4</b>
Asbestos-related liabilities	954.8	1,116.6
Postretirement benefits	260.4	249.7
Other non-current liabilities	189.9	269.5
<b>Total non-current liabilities</b>	<b>1,405.1</b>	<b>1,635.8</b>
<b>Total liabilities</b>	<b>2,358.2</b>	<b>2,411.2</b>
Shareholders' Equity:		
Common stock:		
Authorized - 250 shares, \$1 par value per share (104.5 and 104.3 shares issued, respectively)		
Outstanding - 89.5 and 91.0 shares, respectively	89.5	91.0
Retained earnings	1,696.7	1,445.1
Accumulated other comprehensive loss:		
Postretirement benefit plans	(153.7)	(144.2)
Cumulative translation adjustments	(270.1)	(176.7)
Unrealized loss on investment securities	(0.3)	(0.3)
<b>Total ITT Corporation shareholders' equity</b>	<b>1,362.1</b>	<b>1,214.9</b>
Noncontrolling interests	3.3	5.4
<b>Total shareholders' equity</b>	<b>1,365.4</b>	<b>1,220.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,723.6</b>	<b>\$ 3,631.5</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

YEARS ENDED DECEMBER 31

	2015	2014	2013
<b>Operating Activities</b>			
Net income	\$ 351.6	\$ 186.8	\$ 490.9
Less: Income (loss) from discontinued operations	39.4	(3.9)	0.8
Less: (Loss) income attributable to noncontrolling interests	(0.2)	2.3	2.4
Income from continuing operations attributable to ITT Corporation	312.4	188.4	487.7
Adjustments to income from continuing operations			
Depreciation and amortization	90.0	88.3	86.9
Equity-based compensation	15.7	14.0	13.1
Asbestos-related (benefit) costs, net	(91.4)	3.9	32.8
Deferred income taxes	25.6	(0.2)	(364.0)
Asbestos-related payments, net	(24.6)	(3.9)	(25.4)
Contributions to postretirement plans	(18.6)	(12.6)	(11.9)
Changes in assets and liabilities:			
Change in receivables	(72.0)	(45.1)	(60.7)
Change in inventories	31.5	(3.1)	(10.7)
Change in accounts payable	11.0	(5.8)	4.5
Change in accrued expenses	(45.8)	(5.2)	35.6
Change in accrued income taxes	(7.4)	(10.4)	28.6
Other, net	3.3	36.4	10.1
Net Cash – Operating activities	229.7	244.7	226.6
<b>Investing Activities</b>			
Capital expenditures	(86.7)	(118.8)	(122.9)
Acquisitions, net of cash acquired	(351.0)	(2.8)	0.7
Purchases of investments	(140.1)	(165.4)	(240.2)
Maturities of investments	78.5	269.0	168.2
Proceeds from sale of businesses and other assets	9.5	3.7	2.3
Proceeds from insurance recovery	4.2	—	—
Other, net	0.1	(0.2)	3.1
Net Cash – Investing activities	(485.5)	(14.5)	(188.8)
<b>Financing Activities</b>			
Commercial paper, net borrowings (repayments)	94.5	(38.0)	25.4
Short-term revolving loans, borrowings	200.0	—	—
Short-term revolving loans, repayments	(50.0)	—	—
Long-term debt, repaid	(3.6)	(1.7)	(6.4)
Repurchase of common stock	(84.0)	(60.2)	(87.9)
Dividends paid	(42.8)	(40.7)	(36.4)
Proceeds from issuance of common stock	6.2	15.1	34.8
Excess tax benefit from equity compensation activity	3.4	10.4	8.7
Other, net	(3.3)	(1.5)	3.5
Net Cash – Financing activities	120.4	(116.6)	(58.3)
Exchange rate effects on cash and cash equivalents	(31.6)	(31.2)	(0.4)
Net Cash – Discontinued operations	(1.3)	(5.7)	(16.3)
Net change in cash and cash equivalents	(168.3)	76.7	(37.2)
Cash and cash equivalents – beginning of year	584.0	507.3	544.5
Cash and Cash Equivalents – End of Period	\$ 415.7	\$ 584.0	\$ 507.3
<b>Supplemental Cash Flow Disclosures</b>			
Cash paid (received) during the year for:			
Interest	\$ 4.3	\$ 1.1	\$ 0.9
Income taxes, net of refunds received	48.5	70.0	21.9

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN MILLIONS)

YEARS ENDED DECEMBER 31	SHARES			DOLLARS		
	2015	2014	2013	2015	2014	2013
<b>Common Stock</b>						
Common stock, beginning balance	91.0	91.0	91.9	\$ 91.0	\$ 91.0	\$ 91.9
Activity from stock incentive plans	0.6	1.4	2.3	0.6	1.4	2.3
Share repurchases	(2.1)	(1.4)	(3.2)	(2.1)	(1.4)	(3.2)
Common stock, ending balance	89.5	91.0	91.0	\$ 89.5	\$ 91.0	\$ 91.0
<b>Retained Earnings</b>						
Retained earnings, beginning balance				\$ 1,445.1	\$ 1,320.3	\$ 898.8
Net income attributable to ITT Corporation				351.8	184.5	488.5
Dividends declared				(42.8)	(40.6)	(36.7)
Activity from stock incentive plans				24.5	38.2	54.4
Share repurchases				(81.9)	(58.8)	(84.7)
Purchase of noncontrolling interest				—	1.5	—
Retained earnings, ending balance				\$ 1,696.7	\$ 1,445.1	\$ 1,320.3
<b>Accumulated Other Comprehensive Loss</b>						
Postretirement benefit plans, beginning balance				\$ (144.2)	\$ (129.2)	\$ (195.5)
Net change in postretirement benefit plans				(9.5)	(15.0)	66.3
Postretirement benefit plans, ending balance				\$ (153.7)	\$ (144.2)	\$ (129.2)
Cumulative translation adjustment, beginning balance				\$ (176.7)	\$ (80.8)	\$ (91.7)
Net cumulative translation adjustment				(93.4)	(95.9)	10.9
Cumulative translation adjustments, ending balance				\$ (270.1)	\$ (176.7)	\$ (80.8)
Unrealized (loss) gain on investment securities, beginning balance				\$ (0.3)	\$ (0.3)	\$ (0.3)
Unrealized (loss) gain on investment securities, ending balance				\$ (0.3)	\$ (0.3)	\$ (0.3)
Total accumulated other comprehensive loss				\$ (424.1)	\$ (321.2)	\$ (210.3)
<b>Noncontrolling Interests</b>						
Noncontrolling interests, beginning balance				\$ 5.4	\$ 5.9	\$ —
(Loss) income attributable to noncontrolling interests				(0.2)	2.3	2.4
Dividend to noncontrolling interest shareholders				(3.3)	—	—
Noncontrolling interest acquired				1.4	—	—
Purchase of noncontrolling interests				—	(2.9)	—
Reclassification of noncontrolling interests				—	—	3.9
Other				—	0.1	(0.4)
Noncontrolling interests, ending balance				\$ 3.3	\$ 5.4	\$ 5.9
<b>Total Shareholders' Equity</b>						
Total shareholders' equity, beginning balance				\$ 1,220.3	\$ 1,206.9	\$ 703.2
Net change in common stock				(1.5)	—	(0.9)
Net change in retained earnings				251.6	124.8	421.5
Net change in accumulated other comprehensive loss				(102.9)	(110.9)	77.2
Net change in noncontrolling interests				(2.1)	(0.5)	5.9
Total shareholders' equity, ending balance				\$ 1,365.4	\$ 1,220.3	\$ 1,206.9

The accompanying Notes to Consolidated Financial Statements are an integral part of the above statements of changes in shareholders' equity.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(DOLLARS AND SHARE AMOUNTS IN MILLIONS, UNLESS OTHERWISE STATED)

**NOTE 1**  
**DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Description of Business***

ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation, and industrial markets. Unless the context otherwise indicates, references herein to "ITT," "the Company," and such words as "we," "us," and "our" include ITT Corporation and its subsidiaries. ITT operates through four segments: Industrial Process, consisting of industrial pumping and complementary equipment; Motion Technologies, consisting of friction and shock & vibration equipment; Interconnect Solutions, consisting of electronic connectors; and Control Technologies, consisting of fluid handling, motion control, and noise and energy absorption products. Financial information for our segments is presented in Note 3, "Segment Information."

On October 31, 2011, ITT completed the tax-free spin-off of its Defense and Information Solutions business, Exelis Inc. (Exelis), and its water-related businesses, Xylem Inc. (Xylem) by way of a distribution of all of the issued and outstanding shares of Exelis common stock and Xylem common stock, on a pro rata basis, to ITT shareholders of record on October 17, 2011. This transaction is referred to in this Report as the "2011 spin-off." On May 29, 2015, Harris Corporation acquired Exelis.

***Basis of Presentation***

The Consolidated Financial Statements and Notes thereto were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Estimates are revised as additional information becomes available. Estimates and assumptions are used for, but not limited to, asbestos-related liabilities and recoveries from insurers, revenue recognition, unrecognized tax benefits, deferred tax valuation allowances, projected benefit obligations for postretirement plans, accounting for business combinations, goodwill and other intangible asset impairment testing, environmental liabilities and recoveries from insurers, allowance for doubtful accounts and inventory valuation. Actual results could differ from these estimates.

Certain prior year amounts have been reclassified to conform to the current year presentation.

***Significant Accounting Policies***

***Principles of Consolidation***

Our consolidated financial statements include the accounts of all majority-owned subsidiaries. ITT consolidates companies in which it has a controlling financial interest or when ITT is considered the primary beneficiary of a variable interest entity. We account for investments in companies over which we have the ability to exercise significant influence, but do not hold a controlling interest under the equity method, and we record our proportionate share of income or losses in the Consolidated Statements of Operations. 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 or distribution. All intercompany transactions have been eliminated.



### *Revenue Recognition*

Revenue is derived from the sale of products and services to customers. The following revenue recognition policies describe the manner in which we account for different classes of revenue transactions.

Revenue is recognized when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, collectability is reasonably assured and delivery has occurred or services have been rendered. For product sales, other than long-term construction and production-type contracts (referred to as design and build arrangements), we recognize revenue at the time title and risks and rewards of ownership pass to the customer, which is generally when products are shipped, and the contractual terms have been fulfilled. Certain contracts with customers require delivery, installation, testing, certification or other acceptance provisions to be satisfied before revenue is recognized. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) we have previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria or (ii) on formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria.

We recognize revenue on product sales to channel partners, including resellers, distributors or value-added solution providers at the time of sale when the channel partners have economic substance apart from ITT and ITT has completed its obligations related to the sale. Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered or over the service period.

For multiple deliverable arrangements, we recognize revenue based on the relative selling price if the deliverable has stand-alone value to the customer and, in arrangements that include a general right of return relative to the delivered element, performance of the undelivered element is considered probable and substantially in the Company's control. The selling price for a deliverable is based on vendor-specific objective evidence of selling price (VSOE), if available, third-party evidence of selling price (TPE), if VSOE is not available, or best estimated selling price (BESP), if neither VSOE nor TPE is available.

The deliverables in our arrangements with multiple elements include various products and may include related services, such as installation and start-up services. We allocate arrangement consideration based on the relative selling prices of the separate units of accounting determined in accordance with the hierarchy described above. For deliverables that are sold separately, we establish VSOE based on the price when the deliverable is sold separately. We establish TPE, generally for services, based on prices similarly situated customers pay for similar services from third party vendors. For those deliverables for which we are unable to establish VSOE or TPE, we estimate the selling price considering various factors including market and pricing trends, geography, product customization, and profit objectives. Revenue for multiple element arrangements is recognized when the appropriate revenue recognition criteria for the individual deliverable have been satisfied.

We recognize revenue for certain long-term design and build projects using the percentage-of-completion method, based upon the percentage of costs incurred to total projected costs. Revenue and profit recognized under the percentage-of-completion method are based on management's estimates. Amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue, until the revenue recognition criteria are satisfied. Revenue that is earned and recognized in excess of amounts invoiced is recorded as a component of receivables, net. During the performance of long-term sales contracts, estimated final contract prices and costs are reviewed quarterly and revisions are made as required and recorded in income in the period in which they are determined.

We apply the completed-contract method of accounting for smaller design and build contracts, including those of short-term duration. Amounts invoiced to customers in excess of revenue recognized are recorded as a reduction of inventory to the extent project costs have accumulated within inventory or as deferred revenue, within accrued liabilities, until the revenue recognition criteria are satisfied. Our results of operations and financial position would not vary materially had we used the percentage-of-completion method for these types of contracts.

Provisions for estimated losses on uncompleted design and build arrangements are recognized in the period in which such losses are determined. Provisions for estimated losses are recorded as a component of costs of revenue.

We record a reduction in revenue at the time of sale for estimated product returns, rebates and other allowances, based on historical experience and known trends.

Revenue is reported net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

### *Shipping and Handling Costs*

Shipping and handling costs are recorded as a component of costs of revenue.

### *Product Warranties*

Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. Accruals for estimated expenses related to product warranties are made at the time revenue is recognized and are recorded as a component of costs of revenue. We estimate the liability for warranty claims based on our standard warranties, the historical frequency of claims and the cost to replace or repair our products under warranty. Factors that influence our warranty liability include the number of units sold, the length of warranty term, historical and anticipated rates of warranty claims and the cost per claim.

### *Asbestos-Related Liabilities and Assets*

ITT has been named as a defendant in numerous product liability lawsuits alleging personal injury due to asbestos exposure. We accrue the estimated value of pending claims and unasserted claims estimated to be filed over the next 10 years, including legal fees, on an undiscounted basis, due to the inability to reliably forecast the timing of future cash flows. Assumptions utilized in estimating the liability for both pending and unasserted claims include: disease type, average settlement costs, percentage of claims settled or dismissed, the number of claims estimated to be filed against the Company in the future and the costs to defend such claims.

The Company has also recorded an asbestos-related asset, composed of insurance receivables. The asbestos-related asset represents our best estimate of probable recoveries from third parties for pending claims, as well as unasserted claims estimated to be filed over the next 10 years. In developing this estimate, the Company considers coverage-in-place and other settlement agreements with its insurers, as well as a review of expected levels of future cost recovery, the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, and interpretation of the various policy and contract terms and limits and their interrelationships. Consistent with the asbestos liability, the asbestos-related asset has not been discounted to present value due to the inability to reliably forecast the timing of future cash flows. Under coverage-in-place agreements, an insurer's policies remain in force and the insurer undertakes to provide coverage for the Company's pending and future asbestos claims on specified terms and conditions. Insurance payments under coverage-in-place agreements are made to the Company as asbestos claims are settled or adjudicated. The Company's buyout agreements provide an agreed upon amount of available coverage for future asbestos claims under the subject policies to be paid to a Qualified Settlement Fund (QSF) on a specific schedule as agreed upon by the Company and its insurer. However, assets in the QSF are only available and distributed when qualifying asbestos expenditures are submitted for reimbursement as defined in the QSF agreement. Therefore, recovery of insurance reimbursements under these types of agreements is dependent on the timing of the payment of the liability and, consistent with the asbestos liability, have not been discounted to present value.

In the third quarter each year we conduct an asbestos remeasurement with the assistance of outside consultants to review and update, as appropriate, the underlying assumptions used to estimate our asbestos liability and related assets, including a reassessment of the time horizon over which a reasonable estimate of unasserted claims can be projected. In addition, as part of our ongoing review of our net asbestos exposure, each quarter we assess the most recent data available for the key inputs and assumptions, comparing the data to the expectations on which the most recent annual liability and asset estimates were based. Provided the quarterly review does not indicate a more detailed evaluation of our asbestos exposure is required, each quarter we record a net asbestos expense to maintain a rolling 10-year time horizon.

### *Postretirement Benefit Plans*

ITT sponsors pension and other employee-related defined benefit plans (collectively, postretirement benefit plans) for employees around the world. Postretirement benefit obligations are generally determined, where applicable, based on participant years of service, future compensation, and age at retirement or termination. The determination of projected benefit obligations and the recognition of expenses related to postretirement benefit plans are dependent on various assumptions that are judgmental. The assumptions involved in the measurement of our postretirement benefit plan obligations and net periodic postretirement costs primarily relate to discount rates, long-term expected rates of return on plan assets, mortality and termination rates, and other factors. Management develops each assumption using relevant Company experience in conjunction with market-related data for each individual country in which such plans exist. Actual results that differ from our assumptions are accumulated and are amortized over the estimated future working life, or remaining lifetime, of the plan participants depending on the nature of the retirement plan. For the recognition of net periodic postretirement cost, the calculation of the long-term expected return on plan assets is generally derived using a market-related value of plan assets based on yearly average asset values at the measurement date over the last 5 years.

The fair value of plan assets is estimated based on market prices or estimated fair value at the measurement date.

The funded status of each plan is recorded on our balance sheet. Actuarial gains and losses and prior service costs or credits that have not yet been recognized through net income are recorded in accumulated other comprehensive income within shareholders' equity, net of taxes, until they are amortized as a component of net periodic postretirement cost.

### *Research & Development*

Research and development activities are charged to expense as incurred.

### *Income Taxes*

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income tax assets and liabilities are determined based on the estimated future tax effects of differences between the financial reporting and tax bases of assets and liabilities, applying currently enacted tax rates in effect for the year in which we expect the differences will reverse. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible.

We record a valuation allowance against our deferred tax assets when it is more likely than not that all or a portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, the Company considers all available positive and negative evidence regarding the realizability of its deferred tax assets, including the future reversal of existing taxable temporary differences, taxable income in carryback periods, prudent and feasible tax planning strategies, estimated future taxable income, and whether we have a recent history of losses. The valuation allowance can be affected by changes to tax regulations, interpretations and rulings, changes to enacted statutory tax rates, and changes to future taxable income estimates.

We have not provided deferred tax liabilities for the impact of U.S. income taxes on undistributed foreign earnings which we plan to reinvest indefinitely outside the U.S. We plan foreign earnings remittance amounts based on projected cash flow needs, as well as the working capital and long-term investment requirements of foreign subsidiaries and our domestic operations.

Furthermore, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position in consideration of applicable tax statutes and related interpretations and precedents and the expected outcome of the proceedings (or negotiations) with the taxing authorities. Tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized on ultimate settlement.

### *Earnings Per Share*

Basic earnings per common share considers the weighted average number of common shares outstanding. Diluted earnings per share considers the outstanding shares utilized in the basic earnings per share calculation as well as the dilutive effect of outstanding stock options and restricted stock that do not contain rights to nonforfeitable dividends. Diluted shares outstanding include the dilutive effect of in-the-money options, unvested restricted stock units and unvested performance stock units. The dilutive effect of such equity awards is calculated based on the average share price for each reporting period using the treasury stock method. Common stock equivalents are excluded from the computation of earnings per share if they have an anti-dilutive effect.

### *Cash and Cash Equivalents*

ITT considers all highly liquid investments purchased with an original maturity or remaining maturity at the time of purchase of three months or less to be cash equivalents. Cash equivalents primarily include fixed-maturity time deposits and money market investments. We record the fixed maturity time deposits at amortized cost and accrue interest during the maturity period.

### *Concentrations of Credit Risk*

Financial instruments that potentially subject ITT to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable from trade customers, investments and derivatives. We maintain cash and cash equivalents with various financial institutions located in different geographical regions, and our policy is designed to limit exposure to any individual counterparty. As part of our risk management processes, we perform periodic evaluations of the relative credit standing of the financial institutions. We have not sustained any material credit losses during the previous three years from financial instruments held at financial institutions.

Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising ITT's customer base and their dispersion across many different industries and geographic regions. However, our largest customer represents approximately 10% of the December 31, 2015 outstanding trade accounts receivable balance. ITT performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and requires collateral, such as letters of credit and bank guarantees, in certain circumstances.

### *Allowance for Doubtful Accounts*

We determine our allowance for doubtful accounts using a combination of factors to reduce our trade receivables balances to their estimated net realizable amount. We maintain an allowance for doubtful accounts based on a variety of factors including the length of time receivables are past due, macroeconomic trends and conditions, significant one-time events, historical experience and the financial condition of our customers. We record a specific reserve for individual accounts when we become aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable. If circumstances related to the specific customer change, we adjust estimates of the recoverability of receivables as appropriate.

### *Inventories*

Inventories, which include the costs of material, labor and overhead, are stated at the lower of cost or market, with cost generally computed on a first-in, first-out (FIFO) basis. Estimated losses from obsolete and slow-moving inventories are recorded to reduce inventory values to their estimated net realizable value and are charged to cost of sales. At the point of loss recognition, a new cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in a recovery in carrying value. Inventories valued under the last-in, first-out (LIFO) method represent 13.2% and 15.1% of total 2015 and 2014 inventories, respectively. We have a LIFO reserve of \$8.3 and \$9.3 recorded as of December 31, 2015 and 2014, respectively.

Cost of sales is generally reported using standard cost techniques with full overhead absorption that approximates actual cost.

### *Plant, Property and Equipment*

Plant, property and equipment, including capitalized interest applicable to major project expenditures, are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets 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. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter. Fully depreciated assets are retained in property and accumulated depreciation accounts until disposal. Repairs and maintenance costs are expensed as incurred.

The Company enters into operating and capital leases for the use of premises and equipment. Rent expense related to operating lease agreements are recorded on a straight line basis, considering lease incentives and escalating rental payments.

### *Capitalized Internal Use Software*

Costs incurred in the preliminary project stage of developing or acquiring internal use software are expensed as incurred. After the preliminary project stage is completed, management has approved the project and it is probable that the project will be completed and the software will be used for its intended purpose, ITT capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. ITT amortizes capitalized internal use software costs using the straight-line method over the estimated useful life of the software, generally from three to seven years.

### *Investments*

As of December 31, 2015 and 2014, we held investments in time deposits with a cost of \$64.9 and \$5.4, respectively, having an original maturity exceeding three months at the time of purchase. These investments mature within four months of the balance sheet date and have been presented in other current assets as short-term investments on the Consolidated Balance Sheet. These investments have been classified as held-to-maturity and are recorded at amortized cost, which approximates fair value at December 31, 2015 and 2014. We did not realize any gains or losses from the maturity of our investments during 2015 or 2014. Interest income recognized from these investments during 2015 or 2014 was not material to our results of operations.

Investments in corporate-owned life insurance (COLI) policies are recorded at their cash surrender values as of the balance sheet date. The Company's investments in COLI policies are included in other non-current assets in the consolidated balance sheets and were \$92.9 and \$93.0 at December 31, 2015 and 2014, respectively. Changes in the cash surrender value during the period generally reflect gains or losses in the fair value of assets, premium payments, and policy redemptions. Gains from COLI investments of \$3.6, \$4.6, and \$3.7 were recorded within operating expenses during years ended December 31, 2015, 2014 and 2013, respectively. These investments were made with the intention of utilizing them as a long-term funding source for deferred compensation obligations, which as of December 31, 2015 and 2014 were approximately \$13.0 and \$14.4, respectively, however, the COLI policies do not represent a committed funding source for these obligations and as such they are subject to claims from creditors, and we can designate them for another purpose at any time.

### *Long-Lived Asset Impairment*

Long-lived assets, including intangible assets with finite lives and capitalized internal use software, are tested for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable. We assess the recoverability of long-lived assets based on the undiscounted future cash flow the assets are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When an impairment is identified, we reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

### *Goodwill and Intangible Assets*

Goodwill represents purchase consideration paid in a business combination that exceeds the values assigned to the net assets of the acquired business. Intangible assets include customer relationships, proprietary technology, trademarks, patents and other intangible assets. Intangible assets with a finite life are generally amortized on a straight-line basis over an estimated economic useful life, which generally ranges from 10-20 years, and are tested for impairment if indicators of impairment are identified. Certain of our intangible assets have an indefinite life, namely certain brands and trademarks.

Goodwill and indefinite-lived intangible assets are not amortized, but rather are tested for impairment annually (or more frequently if impairment indicators arise, such as changes to the reporting unit structure, significant adverse changes in the business climate or an adverse action or assessment by a regulator). We conduct our annual impairment testing on the first day of the fourth fiscal quarter. An initial qualitative evaluation is performed which considers present events and circumstances, to determine the likelihood of impairment. If the likelihood of impairment is not considered to be more likely than not, then no further testing is performed. If it is considered to be more likely than not that the asset is impaired, then a two-step quantitative impairment test is performed. If the carrying value of the reporting unit exceeds its estimated fair value, then the second step of the impairment test is performed in order to measure the impairment loss to be recorded, if any. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. For indefinite-lived intangibles, if it is considered to be more likely than not that the asset is impaired, we compare the fair value of those assets to their carrying value. We recognize an impairment loss when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value.

We estimate the fair value of our reporting units using an income approach. Under the income approach, we estimate fair value based on the present value of estimated future cash flows. We estimate the fair value of our indefinite-lived intangible assets using the relief from royalty method. The relief from royalty method estimates the portion of a company's earnings attributable to an intellectual property asset based on an assumed royalty rate that the company would have paid had the asset not been owned.

### *Business Combinations*

ITT allocates the purchase price of its acquisitions to the tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquiree based on their estimated fair value at the acquisition date. Changes to acquisition date fair values prior to the expiration of the measurement period, a period not to exceed 12 months from date of acquisition, are recorded as an adjustment to the associated goodwill. Changes to acquisition date fair values after expiration of the measurement period are recorded in earnings. The excess of the acquisition price over those estimated fair values is recorded as goodwill. Acquisition-related expenses are expensed as incurred and the costs associated with restructuring actions initiated after the acquisition are recognized separately from the business combination.

### *Commitments and Contingencies*

We record accruals for commitments and loss contingencies for those which are both probable and the amount can be reasonably estimated. In addition, legal fees are accrued for cases where a loss is probable and the related fees can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount of loss. We review these accruals quarterly and adjust the accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other current information.

### *Environmental-Related Liabilities and Assets*

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. Our estimated liability is reduced to reflect the 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. Accruals for environmental liabilities are primarily included in other non-current liabilities at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties.

The Company records an asset related to its environmental exposures for insurance and other third parties. The environmental-related asset represents our best estimate of probable recoveries from third parties for costs incurred in past periods, as well as costs estimated to be incurred in future periods.

Environmental costs and related recoveries are recorded within general and administrative expenses in the Consolidated Statements of Operations.

### *Foreign Currency Translation*

The national currencies of our foreign subsidiaries are generally the functional currencies. Balance sheet accounts are translated at the exchange rate in effect at the end of each period, except for equity which is translated at historical rates; income statement accounts are translated at the average rates of exchange prevailing during the period. Gains and losses resulting from foreign currency translation are reflected in the cumulative translation adjustments component of shareholders' equity.

For foreign subsidiaries that do not use the local currency as their functional currency, foreign currency assets and liabilities are remeasured to the foreign subsidiary's functional currency using end of period exchange rates, except for nonmonetary balance sheet accounts, which are remeasured at historical exchange rates.

For transactions denominated in other than the functional currency, revenue and expenses are remeasured at average exchange rates in effect during the reporting period in which the transactions occurred, except for expenses related to nonmonetary assets and liabilities. Transaction gains or losses from foreign currency remeasurement are reported in general and administrative expenses.

## **NOTE 2**

### **RECENT ACCOUNTING PRONOUNCEMENTS**

The Company considers the applicability and impact of all accounting standard updates (ASUs). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

#### ***Recently Adopted Accounting Pronouncements***

In November 2015, the Financial Accounting Standards Board (FASB) issued guidance to simplify the presentation and reduce cost and complexity around deferred tax assets (DTAs) and deferred tax liabilities (DTLs). The new guidance requires entities to present DTAs and DTLs as noncurrent in the balance sheet as opposed to the previous guidance which required entities to separately present DTAs and DTLs as current and noncurrent in the balance sheet. The requirement to net DTAs and DTLs by tax jurisdiction is unchanged. ITT has elected to adopt this accounting pronouncement as of December 31, 2015 on a prospective basis. The adoption of this amendment did not have a material impact to ITT's financial statements.

In September 2015, the FASB issued guidance simplifying the accounting for measurement-period adjustments. This guidance replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The pronouncement is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, but early adoption is permitted. The adoption of this amendment did not have a material impact to ITT's financial statements. The effects on future periods will depend upon the nature and significance of future acquisitions.

In April 2014, the FASB issued guidance that raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and other disposals that do not meet the definition of a discontinued operation. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The adoption of these amendments on January 1, 2015 did not have a material impact to ITT's financial statements. The effects on future periods will depend upon the nature and significance of future disposals.

#### ***Accounting Pronouncements Not Yet Adopted***

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new guidance will be effective for the Company beginning in its first quarter of 2018. The amendments may be applied retrospectively to each prior period presented or with the cumulative effect recognized as of the date of initial application. ITT is currently evaluating the impact of these amendments and the transition alternatives on ITT's financial statements.

## NOTE 3 SEGMENT INFORMATION

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. Our four reportable segments are referred to as: Industrial Process, Motion Technologies, Interconnect Solutions and Control Technologies.

*Industrial Process* manufactures engineered fluid process equipment serving a diversified mix of customers in global industries such as chemical, oil and gas, mining, and other industrial process markets and is a provider of plant optimization and efficiency solutions and aftermarket services and parts.

*Motion Technologies* manufactures brake components and specialized sealing solutions, shock absorbers and damping technologies primarily for the global automotive, truck and trailer, public bus and rail transportation markets.

*Interconnect Solutions* manufactures and designs a wide range of highly engineered harsh environment connector solutions that make it possible to transfer signal and power between electronic devices which service global customers for the aerospace and defense, industrial and transportation, oil and gas, and medical markets.

*Control Technologies* manufactures specialized equipment, including actuation, fuel management, noise and energy absorption, and environmental control system components, for the aerospace and defense, and industrial markets.

Corporate and Other consists of corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs, as well as charges related to certain matters, such as asbestos and environmental liabilities, that are managed at a corporate level and are not included in segment results when evaluating performance or allocating resources. Assets of the segments exclude general corporate assets, which principally consist of cash, investments, asbestos-related receivables and certain property, plant and equipment.

	Revenue			Operating Income (Loss)			Operating Margin		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Industrial Process	\$ 1,113.8	\$ 1,208.3	\$ 1,107.4	\$ 141.2	\$ 123.9	\$ 112.0	12.7%	10.3%	10.1%
Motion Technologies	767.2	769.4	721.8	126.4	130.9	100.3	16.5%	17.0%	13.9%
Interconnect Solutions	328.1	392.8	395.5	12.2	22.2	14.2	3.7%	5.7%	3.6%
Control Technologies	281.2	290.5	278.2	42.4	63.5	55.3	15.1%	21.9%	19.9%
Total segment results	2,490.3	2,661.0	2,502.9	322.2	340.5	281.8	13.0%	12.8%	11.3%
Asbestos-related benefit (costs), net	—	—	—	91.4	(3.9)	(32.8)	—	—	—
Eliminations / Other corporate costs	(4.7)	(6.4)	(6.0)	(33.5)	(70.2)	(65.4)	—	—	—
Total Eliminations / Corporate and Other costs	(4.7)	(6.4)	(6.0)	57.9	(74.1)	(98.2)	—	—	—
Total	\$ 2,485.6	\$ 2,654.6	\$ 2,496.9	\$ 380.1	\$ 266.4	\$ 183.6	15.3%	10.0%	7.4%

	Assets			Capital Expenditures			Depreciation and Amortization		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Industrial Process	\$ 1,097.5	\$ 1,152.3	\$ 20.4	\$ 40.4	\$ 63.0	\$ 27.9	\$ 29.1	\$ 31.0	
Motion Technologies	779.8	450.1	39.3	49.2	31.7	32.4	30.3	29.6	
Interconnect Solutions	303.2	365.4	17.6	20.2	15.6	10.8	12.8	10.6	
Control Technologies	370.6	334.1	6.1	3.8	5.7	12.6	10.0	10.0	
Corporate and Other	1,172.5	1,329.6	3.3	5.2	6.9	6.3	6.1	5.7	
Total	\$ 3,723.6	\$ 3,631.5	\$ 86.7	\$ 118.8	\$ 122.9	\$ 90.0	\$ 88.3	\$ 86.9	



Geographic Information	Revenue <sup>(a)</sup>		
	2015	2014	2013
United States	\$ 941.1	\$ 927.0	\$ 896.2
Germany	290.7	303.3	266.7
Other developed markets	476.8	588.3	583.4
Other emerging growth markets	777.0	836.0	750.6
<b>Total</b>	<b>\$ 2,485.6</b>	<b>\$ 2,654.6</b>	<b>\$ 2,496.9</b>

(a) Revenue to external customers is attributed to individual regions based upon the destination of product or service delivery.

Geographic Information	Plant, Property & Equipment, Net	
	2015	2014
United States	\$ 192.0	\$ 169.4
Italy	81.6	89.3
Germany	36.8	44.9
South Korea	32.6	37.1
China	37.2	36.1
Other developed markets	22.2	20.9
Other emerging growth markets	41.1	46.2
<b>Total</b>	<b>\$ 443.5</b>	<b>\$ 443.9</b>

The following table provides revenue by product category, net of intercompany balances.

	2015	2014	2013
Pumps and complementary products	\$ 1,025.9	\$ 1,112.3	\$ 1,010.8
Pump support and maintenance services	87.8	96.0	96.6
Brake component products	656.7	647.9	619.6
Shock absorber equipment	110.2	121.3	102.0
Connectors equipment	327.9	392.3	394.9
CT Aerospace products	210.7	199.5	192.6
CT Industrial products	66.4	85.3	80.4
<b>Total</b>	<b>\$ 2,485.6</b>	<b>\$ 2,654.6</b>	<b>\$ 2,496.9</b>

During 2015, 2014, and 2013, a single customer accounted for 9.1%, 9.2%, and 10.1% of consolidated ITT revenue, respectively.

## NOTE 4 RESTRUCTURING ACTIONS

We have initiated various restructuring actions throughout the business during the past three years. Discussion of certain individually significant actions is provided below. Other less significant restructuring actions initiated during 2014 and 2013 include reduction in force initiatives and geographic sales presence realignment. Restructuring costs are included as a component of general and administrative expense in our Consolidated Income Statements. Restructuring costs incurred during each of the previous three years ended are presented in the table below.

	2015	2014	2013
By component:			
Severance costs	\$ 21.7	\$ 23.2	\$ 22.3
Asset write-offs	1.0	1.5	3.9
Other restructuring costs	1.3	3.4	2.2
<b>Total restructuring costs</b>	<b>\$ 24.0</b>	<b>\$ 28.1</b>	<b>\$ 28.4</b>
By segment:			
Industrial Process	\$ 12.2	\$ 4.2	\$ 4.5
Motion Technologies	—	2.1	5.1
Interconnect Solutions	6.3	20.5	17.2
Control Technologies	5.3	—	0.4
Corporate and Other	0.2	1.3	1.2

In the fourth quarter of 2015, we initiated a restructuring action at our Control Technologies segment to relocate the operations of two facilities to a lower-cost location. The total restructuring costs of this action is estimated to be approximately \$7, primarily related to employee severance. During 2015, we recognized \$4.5 related to this action and anticipate that the action will be completed in early 2017.

The following table displays a rollforward of the restructuring accruals, presented on our Consolidated Balance Sheet within accrued liabilities, for each of the previous two years ended December 31st.

	2015	2014
Restructuring accruals - beginning balance	\$ 21.9	\$ 14.7
Restructuring costs	24.0	28.1
Cash payments	(24.4)	(18.6)
Asset write-offs	(1.0)	(1.5)
Foreign exchange translation and other	(0.5)	(0.8)
<b>Restructuring accrual - ending balance</b>	<b>\$ 20.0</b>	<b>\$ 21.9</b>
By accrual type:		
Severance accrual	\$ 19.6	\$ 19.6
Facility carrying and other costs accrual	0.4	2.3

### 2015 Industrial Process Restructuring Actions

In March 2015, we announced a series of restructuring actions in the Company's Industrial Process segment related to a strategic reorganization of the business and to achieve efficiencies and reduce the overall cost structure. The Company expects to incur restructuring costs, principally involuntary severance costs, of approximately \$16 related to this action. The costs incurred during 2015 primarily relate to employee severance for approximately 200 planned headcount reductions. We expect to incur remaining restructuring costs of approximately \$4 related to this action in the first half of 2016. The following table provides a rollforward of the restructuring accruals associated with the 2015 Industrial Process restructuring actions.

	2015
Restructuring accruals - beginning balance	\$ —
Restructuring costs	12.2
Cash payments	(6.1)
Asset write-offs	(1.0)
Foreign exchange translation	(0.2)
Restructuring accruals - ending balance	\$ 4.9

### 2013 - 2015 Interconnect Solutions Restructuring Actions

Beginning in 2013, we initiated comprehensive restructuring actions to improve the overall cost structure of our Interconnect Solutions segment. In 2013, these actions included headcount reductions for approximately 500 employees and the transition of certain production lines from one location to another existing lower cost manufacturing site. The total cost recognized for these actions was \$38.4. In May 2015, we initiated a subsequent action to better align the segment with current market conditions. Under this action, the Company recognized total costs of \$6.5, principally involuntary severance for approximately 100 employees. Both actions were substantially completed in 2015. The timing of payments related to the remaining accrual for these actions is expected to be approximately \$5 in both 2016 and 2017.

The following table provides a rollforward of the restructuring accrual associated with the Interconnect Solutions turnaround activities.

	2015	2014
Restructuring accruals - beginning balance	\$ 17.1	\$ 8.0
Restructuring costs	6.3	20.5
Cash payments	(13.8)	(9.9)
Asset Write-Offs	—	(1.3)
Foreign exchange translation	(0.2)	(0.2)
Restructuring accruals - ending balance	\$ 9.4	\$ 17.1

## NOTE 5 INCOME TAXES

For each of the years ended December 31, 2015, 2014, and 2013 the tax data related to continuing operations is as follows:

	2015	2014	2013
<b>Income components:</b>			
United States	\$ 159.3	\$ 44.5	\$ 28.5
International	223.0	217.5	152.0
Income from continuing operations before income tax	382.3	262.0	180.5
<b>Income tax expense (benefit) components:</b>			
<b>Current income tax expense (benefit):</b>			
United States – federal	(8.5)	16.2	10.6
United States – state and local	0.1	0.7	4.2
International	52.9	54.6	39.6
Total current income tax expense	44.5	71.5	54.4
<b>Deferred income tax expense (benefit) components:</b>			
United States – federal	31.9	(0.6)	(331.2)
United States – state and local	6.0	5.1	(36.7)
International	(12.3)	(4.7)	3.9
Total deferred income tax (benefit) expense	25.6	(0.2)	(364.0)
Income tax expense (benefit)	\$ 70.1	\$ 71.3	\$ (309.6)
Effective income tax rate	18.3%	27.2%	(171.5)%

A reconciliation of the income tax expense (benefit) for continuing operations from the U.S. statutory income tax rate to the effective income tax rate is as follows for each of the years ended December 31, 2015, 2014, and 2013:

	2015	2014	2013
Tax provision at U.S. statutory rate	35.0 %	35.0 %	35.0 %
Tax exempt interest	(6.7)%	(10.3)%	(17.5)%
U.S. tax on foreign earnings	3.8 %	9.3 %	(0.7)%
Valuation allowance on deferred tax assets	2.1 %	8.6 %	(191.1)%
Tax on undistributed foreign earnings	(5.6)%	(8.1)%	6.1 %
Foreign tax rate differential	(3.6)%	(6.2)%	(4.8)%
State and local income tax	1.0 %	1.6 %	0.6 %
Other adjustments	(0.6)%	(1.3)%	(0.6)%
Foreign tax holiday	(1.1)%	(1.3)%	(1.0)%
U.S. permanent items	(1.0)%	(1.0)%	(1.3)%
Audit settlements & unrecognized tax benefits	(5.0)%	0.9 %	3.8 %
Effective income tax rate	18.3 %	27.2 %	(171.5)%

Our effective tax rate in 2015 includes tax benefits for previously unrecognized tax positions of approximately \$13.0 due to the completion of tax examinations and lapses in the statute of limitations.

During 2015, the Company settled the U.S. income tax audit for tax years 2009 to 2011. The Company recorded a tax benefit of \$18.0 in continuing operations, which includes a net tax benefit of \$8.0 from favorable audit adjustments and \$10.0 from the recognition of previously unrecognized tax benefits. In addition, this U.S. income tax audit resulted in a tax benefit of \$20.9 related to discontinued operations, which includes net tax expense of \$17.4 from unfavorable audit adjustments and a tax benefit of \$38.3 from the recognition of previously unrecognized tax positions. In accordance with the existing Tax Matters Agreement with Exelis and Xylem, the Company is entitled to reimbursement for a portion of the tax liability and has recorded a receivable of \$1.6 and \$13.2 in continuing and discontinued operations, respectively.

As a result of investment opportunities and other factors, and their impact on the Company's expected liquidity, certain earnings generated in Hong Kong, Japan, Luxembourg, and South Korea may be repatriated in the future and are therefore not considered to be indefinitely reinvested outside of the U.S. In 2015, the Company repatriated certain foreign earnings and subsequently reversed the deferred tax liability on the undistributed foreign earnings by \$21.5. We have not provided for deferred taxes on the remaining excess of financial reporting over tax bases of investments in foreign subsidiaries in the amount of \$809.7 because we plan to reinvest such earnings indefinitely outside of the U.S. While the amount of U.S. federal income taxes, if such earnings are distributed in the future, cannot be determined, such taxes may be reduced by tax credits and other tax deductions. As of December 31, 2015, the amount of cash, cash equivalents and marketable securities held by foreign subsidiaries was \$432.7. Our intent is to permanently reinvest these funds outside of the U.S., and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the U.S. and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. taxes to repatriate these funds.

We operate under a tax holiday in South Korea, which is effective until December 31, 2019. The tax holiday is conditional upon our meeting certain earnings thresholds. The impact of this holiday decreased foreign taxes by \$4.1, or \$0.05, per diluted share in 2015.

Deferred tax assets and liabilities include the following:

	2015	2014
<b>Deferred Tax Assets:</b>		
Accruals	\$ 88.0	\$ 69.0
Asbestos	228.7	272.6
Employee benefits	110.4	109.4
Credit carryforwards	34.5	29.3
Loss carryforwards	125.1	128.0
Other	15.5	36.0
Gross deferred tax assets	602.2	644.3
Less: Valuation allowance	135.7	147.1
Net deferred tax assets	\$ 466.5	\$ 497.2
<b>Deferred Tax Liabilities:</b>		
Undistributed earnings	\$ (39.6)	\$ (61.2)
Intangibles	(70.8)	(58.7)
Accelerated depreciation	(31.0)	(26.0)
Investment	(0.5)	(0.4)
Total deferred tax liabilities	\$ (141.9)	\$ (146.3)
Net deferred tax assets	\$ 324.6	\$ 350.9

Deferred taxes are presented in the Consolidated Balance Sheets as follows:

	2015	2014
Current assets	\$ —	\$ 56.2
Non-current assets	326.1	304.1
Other non-current liabilities	(1.5)	(9.4)
Net deferred tax assets	\$ 324.6	\$ 350.9

On December 31, 2015, we adopted new FASB guidance related to simplifying the presentation of deferred income taxes on the balance sheet. We have elected to apply the guidance prospectively, resulting in the classification of all deferred tax assets and liabilities as non-current as of December 31, 2015. Prior periods were not retrospectively adjusted.

The table included below provides a rollforward of our valuation allowance on net deferred income tax assets from December 31, 2012 to December 31, 2015.

	Federal	State	Foreign	Total
DTA valuation allowance - December 31, 2012	\$ 352.8	\$ 122.4	\$ 61.5	\$ 536.7
Change in assessment	(339.6)	(35.0)	3.7	(370.9)
Current year operations	(13.2)	(42.7)	25.4	(30.5)
DTA valuation allowance - December 31, 2013	—	44.7	90.6	135.3
Change in assessment	—	—	2.5	2.5
Current year operations	—	0.3	9.0	9.3
DTA valuation allowance - December 31, 2014	—	45.0	102.1	147.1
Change in assessment	—	—	(7.4)	(7.4)
Current year operations	—	(3.5)	(0.5)	(4.0)
DTA valuation allowance - December 31, 2015	\$ —	\$ 41.5	\$ 94.2	\$ 135.7

In the third quarter of 2013, the Company moved from a three-year adjusted cumulative domestic pretax loss position to a three-year adjusted cumulative domestic pretax income position. In measuring adjusted cumulative pretax income (loss), the Company adjusted pretax U.S. income (loss) for nonrecurring items and recurring permanent differences. The recurring permanent differences included excess stock option deductions which represented the amount of tax deductions in excess of book deductions, ultimately reducing book income on the tax return, and foreign earnings, the indefinite reinvestment of which was not asserted, and was not expected to be asserted in the foreseeable future, and dividends paid or expected to be paid. Each of these items was recurring in nature and representative of our book taxable income. In addition, we included adjustments for certain non-recurring costs directly attributable to the 2011 spin-off as these were not indicative of future taxable income. The three-year cumulative income position was strong positive evidence in evaluating the realizability of our deferred tax assets as of September 30, 2013. However, the Company considered all available evidence, both positive and negative, in its evaluation to reverse the valuation allowance at that time, including future earnings, industry trends, and certain contingencies, such as asbestos-related costs. Further, we considered future reversals of existing taxable temporary differences as a source of income available to recover a portion of existing deferred tax assets, future taxable income exclusive of reversing taxable temporary differences and carryforwards, and available tax-planning strategies in assessing the realizability of the deferred tax assets. Based on positive evidence, including the three-year cumulative positive income and the absence of any significant negative evidence, management determined that it was more likely than not that the Company's U.S. deferred tax assets would be realized except for certain deferred tax assets attributable to state net operating losses and tax credits.

During the current year, after considering all available evidence, including cumulative income and the absence of any significant negative evidence, the Company released the valuation allowance against certain foreign net deferred tax assets in China. The Company continues to maintain a valuation allowance against certain deferred tax assets attributable to state net operating losses and tax credits and certain foreign net deferred tax assets primarily in Luxembourg, Germany and India which are not expected to be realized. Overall, the current year decrease in the valuation allowance of \$11.4 is primarily attributable to the release of valuation allowance in China.

We have the following tax attributes available for utilization at December 31, 2015:

Attribute	Amount	First Year of Expiration
U.S. federal net operating losses	\$ 1.4	12/31/2024
U.S. state net operating losses	\$ 1,313.5	12/31/2016
U.S. federal tax credits	\$ 28.6	12/31/2021
U.S. state tax credits	\$ 5.8	12/31/2027
Foreign net operating losses	\$ 296.2	12/31/2016

We have approximately \$191.9 of net operating loss carryforwards in Luxembourg as of December 31, 2015 that do not expire.

Shareholders' equity at December 31, 2015 and 2014 includes excess income tax benefits related to stock-based compensation in 2015 and 2014 of approximately \$3.4 and \$10.4, respectively.

### Uncertain Tax Positions

We recognize income tax benefits from uncertain tax positions only if, based on the technical merits of the position, it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The tax benefits recognized in the Consolidated Financial Statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for each of the years ended December 31, 2015, 2014, and 2013 is as follows:

	2015	2014	2013
Unrecognized tax benefits – January 1	\$ 160.1	\$ 161.2	\$ 208.8
Additions for:			
Prior year tax positions	1.8	2.4	1.6
Current year tax positions	3.4	2.8	8.0
Assumed in Acquisition	1.9	—	—
Reductions for:			
Prior year tax positions	(56.6)	(2.8)	(55.4)
Settlements	(19.0)	(1.0)	(1.0)
Expiration of Statute of Limitations	(4.0)	(2.5)	(0.8)
Unrecognized tax benefits – December 31	\$ 87.6	\$ 160.1	\$ 161.2

As of December 31, 2015, \$38.2 and \$3.7 of the unrecognized tax benefits would affect the effective tax rate for continuing operations and discontinued operations respectively, if realized. The Company operates in various tax jurisdictions and is subject to examination by tax authorities in these jurisdictions. The Company is currently under examination in several jurisdictions including Canada, China, Germany, Hong Kong, Italy, Korea, Mexico, the U.S. and Venezuela.

The calculation of our tax liability for unrecognized tax benefits includes dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. Due to the complexity of some uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit. Over the next twelve months, the net amount of the tax liability for unrecognized tax benefits in foreign and domestic jurisdictions could change by approximately \$16 due to changes in audit status, expiration of statutes of limitations and other events. The settlement of any future examinations could result in changes in the amounts attributable to the Company under its existing Tax Matters Agreement with Exelis and Xylem.

The following table summarizes the earliest open tax years by major jurisdiction as of December 31, 2015:

Jurisdiction	Earliest Open Year
China	2010
Czech	2013
Germany	2008
Italy	2005
Korea	2008
Luxembourg	2011
Mexico	2010
United States	2012

We classify interest relating to tax matters as a component of interest expense and tax penalties as a component of income tax expense in our Consolidated Statements of Operations. During 2015 and 2014, we recognized a net interest benefit of \$5.7 and net interest expense of \$0.8, respectively, related to tax matters. We had \$9.8 and \$19.4 of interest expense accrued from continuing and discontinued operations related to tax matters as of December 31, 2015 and 2014, respectively.

### Tax Matters Agreement

On October 25, 2011, we entered into a Tax Matters Agreement with Exelis and Xylem that governs the respective rights, responsibilities and obligations of the companies after the 2011 spin-off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. Federal, state, local and foreign income taxes, other tax matters and related tax returns. Exelis and Xylem have liability with ITT to the U.S. Internal Revenue Service (IRS) for the consolidated U.S. Federal income taxes of the ITT consolidated group relating to the taxable periods in which Exelis and Xylem were part of that group. During 2015, the Company settled the U.S. income tax audit for tax years 2009 to 2011. Pursuant to the Tax Matters Agreement, the Company is entitled to reimbursement for a portion of the tax liability and has recorded an aggregate receivable of \$14.8 from Exelis and Xylem as of December 31, 2015. The settlement of future examinations in state or foreign jurisdictions could result in changes in amounts attributable to us through the Tax Matters Agreement entered into with Exelis and Xylem. Currently we cannot reasonably estimate the amount of such changes.

### NOTE 6 EARNINGS PER SHARE DATA

The following table provides a reconciliation of the data used in the calculation of basic and diluted common shares outstanding for the three years ended December 31, 2015, 2014 and 2013.

	2015	2014	2013
Weighted average common shares outstanding	89.8	91.5	90.9
Add: Weighted average restricted stock awards outstanding <sup>(a)</sup>	—	—	0.1
Basic weighted average common shares outstanding	89.8	91.5	91.0
Add: Dilutive impact of outstanding equity awards	0.9	1.3	1.3
Diluted weighted average common shares outstanding	90.7	92.8	92.3

(a) Restricted stock awards containing rights to non-forfeitable dividends which participate in undistributed earnings with common shareholders are considered participating securities for purposes of computing earnings per share.

The following table provides the number of shares underlying stock options excluded from the computation of diluted earnings per share for the three years ended December 31, 2015, 2014 and 2013 because they were anti-dilutive.

	2015	2014	2013
Anti-dilutive stock options	0.4	0.2	0.2
Average exercise price	\$ 42.50	\$ 43.51	\$ 26.83
Year(s) of expiration	2024 - 2025	2024	2023

In addition, 0.1 of outstanding employee ROIC awards (see Note 16, Long-Term Incentive Employee Compensation, for additional information on ROIC awards) were excluded from the computation of diluted earnings per share for the year ended December 31, 2015, as the performance period related to ROIC awards has not been achieved.



**NOTE 7  
RECEIVABLES, NET**

	2015	2014
Trade accounts receivable	\$ 554.0	\$ 476.8
Notes receivable	3.9	6.1
Other	43.1	30.5
Receivables, gross	601.0	513.4
Less: allowance for doubtful accounts	16.1	13.3
Receivables, net	\$ 584.9	\$ 500.1

The following table displays a rollforward of the allowance for doubtful accounts for the years ended December 31, 2015, 2014, and 2013.

	2015	2014	2013
Allowance for doubtful accounts – January 1	\$ 13.3	\$ 12.6	\$ 12.9
Charges to income	3.6	4.0	1.8
Write-offs	(0.8)	(1.6)	(1.7)
Foreign currency and other	—	(1.7)	(0.4)
Allowance for doubtful accounts – December 31	\$ 16.1	\$ 13.3	\$ 12.6

**NOTE 8  
INVENTORIES, NET**

	2015	2014
Finished goods	\$ 60.9	\$ 70.5
Work in process	56.0	59.9
Raw materials	162.9	148.5
Inventoried costs related to long-term contracts	43.0	61.4
Total inventory before progress payments	322.8	340.3
Less – progress payments	(30.1)	(38.0)
Inventories, net	\$ 292.7	\$ 302.3

**NOTE 9  
OTHER CURRENT AND NON-CURRENT ASSETS**

	2015	2014
Asbestos-related current assets	\$ 74.5	\$ 102.4
Current deferred income taxes <sup>(a)</sup>	—	56.2
Short-term investments	64.9	5.4
Prepaid income tax	14.3	25.9
Other	50.7	59.9
Other current assets	\$ 204.4	\$ 249.8
Other employee benefit-related assets	\$ 92.9	\$ 93.0
Capitalized software costs	28.2	26.8
Environmental related assets	10.8	7.7
Equity method investments	5.6	3.9
Other	15.8	18.4
Other non-current assets	\$ 153.3	\$ 149.8

(a) In the fourth quarter of 2015, we adopted a new accounting pronouncement related to the balance sheet presentation of deferred income taxes. We have applied the provisions of the guidance on a prospective basis. Refer to Note 2, Recent Accounting Pronouncements for further information.

**NOTE 10  
PLANT, PROPERTY AND EQUIPMENT, NET**

	2015	2014
Land and improvements	\$ 25.4	\$ 24.0
Machinery and equipment	909.3	870.3
Buildings and improvements	242.0	228.8
Furniture, fixtures and office equipment	66.3	65.8
Construction work in progress	42.3	44.5
Other	6.7	7.8
Plant, property and equipment, gross	1,292.0	1,241.2
Less: accumulated depreciation	(848.5)	(797.3)
Plant, property and equipment, net	\$ 443.5	\$ 443.9

Depreciation expense of \$70.7, \$72.9 and \$63.4 was recognized in 2015, 2014 and 2013, respectively.

**NOTE 11**  
**GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

**Goodwill**

Changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2014 by segment are as follows:

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total
Goodwill - December 31, 2013	\$ 351.0	\$ 49.8	\$ 73.9	\$ 185.1	\$ 659.8
Goodwill acquired	1.2	—	—	—	1.2
Foreign currency	(20.3)	(5.9)	(2.7)	—	(28.9)
Goodwill - December 31, 2014	\$ 331.9	\$ 43.9	\$ 71.2	\$ 185.1	\$ 632.1
Goodwill acquired	—	161.6	—	13.3	174.9
Allocated to divestiture	—	—	—	(2.7)	(2.7)
Foreign currency	(19.3)	(4.5)	(2.2)	—	(26.0)
Goodwill - December 31, 2015	\$ 312.6	\$ 201.0	\$ 69.0	\$ 195.7	\$ 778.3

Goodwill acquired during 2015 relates to the Wolverine acquisition at Motion Technologies and the Hartzell Aerospace acquisition at Control Technologies. See Note 21, "Acquisitions", for further information. Goodwill of \$2.7 was written-off during the second quarter of 2015 in connection with the sale of an industrial product line within our Control Technologies segment. The sale of this product line resulted in a net gain of \$0.1, which included the allocation of goodwill.

Based on the results of our annual impairment test, we determined that no impairment of goodwill existed as of the measurement date in 2015 or 2014. However, future goodwill impairment tests could result in a charge to earnings. We will continue to evaluate goodwill on an annual basis as of the beginning of our fourth fiscal quarter and whenever events and changes in circumstances indicate there may be a potential impairment.

**Other Intangible Assets**

Information regarding our other intangible assets is as follows:

	December 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Customer relationships	\$ 157.4	\$ (45.3)	\$ 112.1	\$ 83.1	\$ (38.3)	\$ 44.8
Proprietary technology	54.9	(12.7)	42.2	28.1	(9.9)	18.2
Patents and other	8.6	(6.6)	2.0	15.2	(13.1)	2.1
Finite-lived intangible total	220.9	(64.6)	156.3	126.4	(61.3)	65.1
Indefinite-lived intangibles	30.9	—	30.9	26.3	—	26.3
Other Intangible Assets	\$ 251.8	\$ (64.6)	\$ 187.2	\$ 152.7	\$ (61.3)	\$ 91.4

Indefinite-lived intangibles primarily consist of brands and trademarks.

During 2015 we recognized an impairment loss of \$1.8, within general and administrative expenses, for various identified intangibles within our Control Technologies segment. The impairment loss resulted from the expected decline of a non-core product line related to a customer settlement. There was no impairment of intangible assets in 2014.

Customer relationships, proprietary technology and patents and other intangible assets are amortized over weighted average lives of approximately 12.3 years, 12.9 years and 9.5 years, respectively.

The preliminary fair value of intangible assets and their respective weighted average lives with respect to the acquisition of Wolverine and Hartzell Aerospace during 2015 are as follows:

	Hartzell Aerospace		Wolverine	
	Fair Value Acquired	Useful Life (in Years)	Fair Value Acquired	Useful Life (in Years)
Customer relationships	\$ 16.9	20	\$ 62.0	8
Proprietary technology	9.6	20	20.0	10
Backlog	1.9	1	—	—
Brand and trademarks	0.2	1	—	—
Indefinite-lived trade name	—	—	7.0	—
<b>Total</b>	<b>\$ 28.6</b>		<b>\$ 89.0</b>	

Amortization expense related to intangible assets for 2015, 2014 and 2013 was \$14.0, \$11.1 and \$17.6, respectively. Estimated amortization expense for each of the five succeeding years is as follows:

Year	Estimated Amortization Expense
2016	\$ 20.2
2017	18.6
2018	17.4
2019	17.2
2020	17.2
Thereafter	65.7

## NOTE 12 ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES

	2015	2014
Compensation and other employee-related benefits	\$ 138.6	\$ 176.5
Asbestos-related liability	88.0	106.6
Customer-related liabilities	38.0	41.3
Environmental and other legal matters	24.0	31.6
Accrued warranty costs	21.7	29.4
Accrued income taxes and other tax-related liabilities	30.9	28.0
Other accrued liabilities	51.5	50.9
<b>Accrued and other current liabilities</b>	<b>\$ 392.7</b>	<b>\$ 464.3</b>
Deferred income taxes and other tax-related accruals	\$ 44.5	\$ 112.2
Environmental liabilities	72.0	80.2
Compensation and other employee-related benefits	35.6	38.6
Other	37.8	38.5
<b>Other non-current liabilities</b>	<b>\$ 189.9</b>	<b>\$ 269.5</b>

## NOTE 13 LEASES AND RENTALS

ITT leases certain offices, manufacturing buildings, land, machinery, automobiles, computers and other equipment. The majority of leases expire at various dates through 2027 and may include renewal and payment escalation clauses. ITT often pays maintenance, insurance and tax expense related to leased assets. Rental expenses under operating leases were \$18.6, \$18.7 and \$14.7 for 2015, 2014 and 2013, respectively. Future minimum operating lease payments under non-cancellable operating leases with an initial term in excess of one year as of December 31, 2015 are shown below.

2016	\$ 21.7
2017	18.2
2018	17.6
2019	14.9
2020	11.9
2021 and thereafter	72.6
<b>Total minimum lease payments</b>	<b>\$ 156.9</b>

## NOTE 14 DEBT

	2015	2014
Commercial Paper	\$ 94.5	\$ —
Short-term loans	150.0	—
Current maturities of long-term debt	0.7	1.1
Current capital leases	0.5	0.4
<b>Short-term loans and current maturities of long-term debt</b>	<b>245.7</b>	<b>1.5</b>
Non-current maturities of long-term debt	2.3	6.0
Non-current capital leases	0.5	1.0
<b>Long-term debt and capital leases</b>	<b>2.8</b>	<b>7.0</b>
<b>Total debt and capital leases</b>	<b>\$ 248.5</b>	<b>\$ 8.5</b>

### *Commercial Paper*

Commercial paper outstanding as of December 31, 2015 was \$94.5, with an associated weighted average interest rate of 1.04% and maturity terms less than one month from the date of issuance. There was no commercial paper outstanding as of December 31, 2014.

### *Short-term Loans*

On November 25, 2014, we entered into a competitive advance and revolving credit facility agreement (2014 Revolving Credit Agreement) with a consortium of third party lenders including JP Morgan Chase Bank, N.A., as administrative agent, and Citibank, N.A. as syndication agent. Upon its effectiveness, this agreement replaced our existing \$500 four-year revolving credit facility due October 2015. The 2014 Revolving Credit Agreement provides for a five-year maturity with a one-year extension option upon satisfaction of certain conditions, and comprises an aggregate principal amount of up to \$500 of (i) revolving extensions of credit (the revolving loans) outstanding at any time, (ii) competitive advance borrowing option which will be provided on an uncommitted competitive advance basis through an auction mechanism (the competitive advances), and (iii) letters of credit in a face amount up to \$100 at any time outstanding. Subject to certain conditions, we are permitted to terminate permanently the total commitments and reduce commitments in minimum amounts of \$10. We are also permitted, subject to certain conditions, to request that lenders increase the commitments under the facility by up to \$200 for a maximum aggregate principal amount of \$700. Borrowings under the credit facility are available in U.S. dollars, Euro or Sterling.

At our election, the interest rate per annum applicable to the competitive advances will be obtained from bids in accordance with competitive auction procedures. At our election, interest rate per annum applicable to the revolving loans will be based on either (i) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin or (ii) a fluctuating rate of interest determined by reference to the greatest of (a) the prime rate of JPMorgan Chase Bank, N.A., (b) the federal funds effective rate plus one-half of 1% or (c) the 1-month LIBOR rate, adjusted for statutory reserve requirements, plus 1%, in each case, plus an applicable margin. As of December 31, 2015, we had \$150 outstanding under the credit facility, with an associated interest rate of 1.55%.

The credit facility contains customary affirmative and negative covenants that, among other things, will limit or restrict our ability to: incur additional debt or issue guarantees; create liens; enter into certain sale and lease-back transactions; merge or consolidate with another person; sell, transfer, lease or otherwise dispose of assets; liquidate or dissolve; and enter into restrictive covenants. Additionally, the 2014 Revolving Credit Agreement requires us not to permit the ratio of consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) (leverage ratio) to exceed 3.00 to 1.00 at any time, or the ratio of consolidated EBITDA to consolidated interest expense (interest coverage ratio) to be less than 3.00 to 1.00. At December 31, 2015, our interest coverage ratio and leverage ratio were within the prescribed thresholds. In the event of certain ratings downgrades of the Company, to a level below investment grade, the direct and indirect significant U.S. subsidiaries of the Company would be required to guarantee the obligations under the credit facility.

## **NOTE 15 POSTRETIREMENT BENEFIT PLANS**

### *Defined Contribution Plans*

Substantially all of ITT's U.S. and certain international employees are eligible to participate in a defined contribution plan. ITT sponsors numerous defined contribution savings plans, which allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. Several of the plans require us to match a percentage of the employee contributions up to certain limits. Company contributions charged to income amounted to \$18.4, \$17.3, and \$15.3 for 2015, 2014 and 2013, respectively.

The ITT Stock Fund, an investment option under the ITT Corporation Retirement Savings Plan, is considered an employee stock ownership plan and, as a result, participants in the ITT Stock Fund may receive dividends in cash or may reinvest such dividends into the ITT Stock Fund. The ITT Stock Fund held approximately 0.2 shares of ITT common stock at December 31, 2015.

### *Defined Benefit Plans*

ITT sponsors several defined benefit pension plans which have approximately 2,200 active participants; however, most of these plans have been closed to new participants for several years. As of December 31, 2015, of our total projected benefit obligation, the ITT Industrial Process Pension Plan represented 35%, the ITT Consolidated Hourly Pension Plan represented 35%, other U.S. plans represented 11% and international pension plans represented 19%. The U.S. plans are generally for hourly employees with a flat dollar benefit formula based on years of service. International plan benefits are primarily determined based on participant years of service, future compensation, and age at retirement or termination.

ITT also provides health care and life insurance benefits for eligible U.S. employees upon retirement. In some cases, the plan is still open to certain union employees, but for the majority of our businesses these plans are closed to new participants. The majority of the liability pertains to retirees with postretirement medical insurance.

### Balance Sheet Information

Amounts recognized as assets or liabilities in the Consolidated Balance Sheets for postretirement benefit plans reflect the funded status. The following table provides a summary of the funded status of our postretirement benefit plans and the presentation of the funded status within our Consolidated Balance Sheet as of December 31, 2015 and 2014.

	2015			2014		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Fair value of plan assets	\$ 279.0	\$ 7.9	\$ 286.9	\$ 273.9	\$ 9.5	\$ 283.4
Projected benefit obligation	417.9	143.4	561.3	411.6	134.5	546.1
Funded status	\$ (138.9)	\$ (135.5)	\$ (274.4)	\$ (137.7)	\$ (125.0)	\$ (262.7)
Amounts reported within:						
Accrued liabilities	(4.3)	(9.7)	(14.0)	(4.4)	(8.6)	(13.0)
Non-current liabilities	(134.6)	(125.8)	(260.4)	(133.3)	(116.4)	(249.7)

A portion of our projected benefit obligation includes amounts that have not yet been recognized as expense in our results of operations. Such amounts are recorded within accumulated other comprehensive loss until they are amortized as a component of net periodic postretirement cost. The following table provides a summary of amounts recorded within accumulated other comprehensive loss at December 31, 2015 and 2014.

	2015			2014		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Net actuarial loss	\$ 168.9	\$ 66.6	\$ 235.5	\$ 169.1	\$ 63.0	\$ 232.1
Prior service cost (benefit)	5.6	(57.4)	(51.8)	6.6	(74.2)	(67.6)
Total	\$ 174.5	\$ 9.2	\$ 183.7	\$ 175.7	\$ (11.2)	\$ 164.5

The following table provides a rollforward of the projected benefit obligations for our U.S. and international pension plans and our other employee-related defined benefit plans for the years ended December 31, 2015 and 2014.

	2015				2014			
	U.S.	Int'l	Other Benefits	Total	U.S.	Int'l	Other Benefits	Total
<b>Change in benefit obligation</b>								
Benefit obligation – January 1	\$ 324.1	\$ 87.5	\$ 134.5	\$ 546.1	\$ 281.2	\$ 84.8	\$ 166.6	\$ 532.6
Service cost	3.5	1.5	0.9	5.9	3.2	1.6	1.5	6.3
Interest cost	13.0	1.5	5.0	19.5	13.1	2.4	7.4	22.9
Amendments <sup>(a)</sup>	—	—	—	—	4.5	—	(58.7)	(54.2)
Actuarial (gain) loss	(14.9)	(2.9)	7.0	(10.8)	39.0	13.7	25.9	78.6
Benefits and expenses paid	(18.5)	(2.7)	(7.9)	(29.1)	(16.9)	(3.0)	(8.2)	(28.1)
Acquired	32.7	2.8	1.9	37.4	—	—	—	—
Settlement	—	(1.1)	—	(1.1)	—	(1.6)	—	(1.6)
Curtailment	—	—	2.0	2.0	—	—	—	—
Foreign currency translation	—	(8.6)	—	(8.6)	—	(10.4)	—	(10.4)
Benefit obligation – December 31	\$ 339.9	\$ 78.0	\$ 143.4	\$ 561.3	\$ 324.1	\$ 87.5	\$ 134.5	\$ 546.1

(a) During 2014, management approved changes to certain other employee-related defined benefit plans, reducing certain retiree medical benefits, resulting in a decrease to ITT's other employee-related defined benefit liability of \$58.7.

The following table provides a rollforward of our U.S. and international pension plan and other employee-related defined benefit plan assets and the funded status as of and for the years ended December 31, 2015 and 2014.

	2015				2014			
	U.S.	Int'l	Other Benefits	Total	U.S.	Int'l	Other Benefits	Total
<b>Change in plan assets</b>								
Plan assets – January 1	\$ 272.9	\$ 1.0	\$ 9.5	\$ 283.4	\$ 266.8	\$ 2.0	\$ 9.2	\$ 278.0
Actual return on plan assets	(8.0)	—	0.1	(7.9)	22.1	0.1	0.3	22.5
Employer contributions	8.6	3.8	6.2	18.6	0.9	3.5	8.2	12.6
Benefits and expenses paid	(18.5)	(2.7)	(7.9)	(29.1)	(16.9)	(3.0)	(8.2)	(28.1)
Acquired	23.1	—	—	23.1	—	—	—	—
Settlement	—	(1.1)	—	(1.1)	—	(1.6)	—	(1.6)
Foreign currency translation	—	(0.1)	—	(0.1)	—	—	—	—
Plan assets – December 31	\$ 278.1	\$ 0.9	\$ 7.9	\$ 286.9	\$ 272.9	\$ 1.0	\$ 9.5	\$ 283.4
Funded status at end of year	\$ (61.8)	\$ (77.1)	\$ (135.5)	\$ (274.4)	\$ (51.2)	\$ (86.5)	\$ (125.0)	\$ (262.7)

The accumulated benefit obligation for all defined benefit pension plans was \$415.4 and \$408.3 at December 31, 2015 and 2014, respectively. The following table provides information for pension plans with an accumulated benefit obligation in excess of plan assets.

	2015	2014
Projected benefit obligation	\$ 417.9	\$ 411.6
Accumulated benefit obligation	415.4	408.3
Fair value of plan assets	279.0	273.9

#### Income Statement Information

The following table provides the components of net periodic postretirement cost and other amounts recognized in other comprehensive loss for each of the years ended December 31, 2015, 2014 and 2013 as they pertain to our defined benefit pension plans.

	2015			2014			2013		
	U.S.	Int'l	Total	U.S.	Int'l	Total	U.S.	Int'l	Total
<b>Net periodic postretirement cost</b>									
Service cost	\$ 3.5	\$ 1.5	\$ 5.0	\$ 3.2	\$ 1.6	\$ 4.8	\$ 4.9	\$ 1.7	\$ 6.6
Interest cost	13.0	1.5	14.5	13.1	2.4	15.5	12.1	2.5	14.6
Expected return on plan assets	(20.8)	—	(20.8)	(20.0)	(0.1)	(20.1)	(19.5)	(0.1)	(19.6)
Amortization of net actuarial loss (gain)	7.5	1.0	8.5	5.8	0.4	6.2	8.3	0.6	8.9
Amortization of prior service cost	1.0	—	1.0	0.6	—	0.6	0.8	—	0.8
Net periodic postretirement cost	4.2	4.0	8.2	2.7	4.3	7.0	6.6	4.7	11.3
Effect of settlement, curtailment, or special termination benefit	—	0.1	0.1	—	0.4	0.4	1.2	—	1.2
Total net periodic postretirement cost	4.2	4.1	8.3	2.7	4.7	7.4	7.8	4.7	12.5
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive loss</b>									
Net actuarial loss (gain)	13.9	(2.9)	11.0	37.0	13.7	50.7	(40.0)	(1.8)	(41.8)
Prior service cost	—	—	—	4.5	—	4.5	—	—	—
Amortization of net actuarial (loss) gain	(7.5)	(1.1)	(8.6)	(5.8)	(0.9)	(6.7)	(8.3)	(0.6)	(8.9)
Amortization of prior service cost	(1.0)	—	(1.0)	(0.6)	—	(0.6)	(0.8)	—	(0.8)
Foreign currency translation	—	(2.5)	(2.5)	—	(1.8)	(1.8)	—	0.5	0.5
Total change recognized in other comprehensive loss	5.4	(6.5)	(1.1)	35.1	11.0	46.1	(49.1)	(1.9)	(51.0)
Total impact from net periodic postretirement cost and changes in other comprehensive loss	\$ 9.6	\$ (2.4)	\$ 7.2	\$ 37.8	\$ 15.7	\$ 53.5	\$ (41.3)	\$ 2.8	\$ (38.5)



The following table provides the components of net periodic postretirement cost and other amounts recognized in other comprehensive loss for each of the years ended December 31, 2015, 2014 and 2013 as they pertain to other employee-related defined benefit plans.

	2015	2014	2013
<b>Net periodic postretirement cost</b>			
Service cost	\$ 0.9	\$ 1.5	\$ 2.9
Interest cost	5.0	7.4	8.3
Expected return on plan assets	(0.9)	(0.7)	(0.6)
Amortization of net actuarial loss	4.6	2.7	4.3
Amortization of prior service credit	(11.0)	(6.6)	(0.4)
Net periodic postretirement (benefit) cost	(1.4)	4.3	14.5
Gain due to curtailment <sup>(a)</sup>	(4.2)	—	—
Total net periodic postretirement (benefit) cost	(5.6)	4.3	14.5
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive loss</b>			
Net actuarial (gain) loss	7.7	26.3	(31.1)
Prior service credit	—	(58.7)	(19.0)
Amortization of net actuarial loss	(4.6)	(2.7)	(4.3)
Amortization of prior service credit	11.0	6.6	0.4
Acceleration of prior service costs	6.2	—	—
Total changes recognized in other comprehensive loss	20.3	(28.5)	(54.0)
Total impact from net periodic postretirement cost and changes in other comprehensive loss	\$ 14.7	\$ (24.2)	\$ (39.5)

(a) During 2015, we recognized a benefit of \$4.2 from a curtailment gain related to a reduction in force in our ICS segment.

The following table provides the estimated net actuarial loss and prior service cost that is expected to be amortized from accumulated other comprehensive loss into net periodic postretirement cost during 2016.

	Pension	Other Benefits	Total
Net actuarial loss	\$ 7.4	\$ 4.9	\$ 12.3
Prior service cost (credit)	0.9	(6.5)	(5.6)
Total	\$ 8.3	\$ (1.6)	\$ 6.7

## Postretirement Plan Assumptions

The determination of projected benefit obligations and the recognition of expenses related to postretirement benefit plans are dependent on various assumptions that are judgmental and developed in consultation with external advisors. Management develops each assumption using relevant Company experience in conjunction with market-related data for each individual country in which such plans exist. Assumptions are reviewed annually and adjusted as necessary. The actuarial assumptions are based on the provisions of the applicable accounting pronouncements, review of various market data and discussion with our external advisors. Changes in these assumptions could materially affect our financial statements.

The following table provides the weighted-average assumptions used to determine projected benefit obligations and net periodic postretirement cost, as they pertain to our U.S. and non-U.S. defined benefit pension plans and other employee-related defined benefit plans.

	2015			2014		
	U.S.	Int'l	Other Benefits	U.S.	Int'l	Other Benefits
<b>Obligation Assumptions:</b>						
Discount rate	4.3%	2.3%	4.1%	4.0%	1.9%	3.8%
Rate of future compensation increase	N/A	3.4%	N/A	N/A	3.3%	N/A
<b>Cost Assumptions:</b>						
Discount rate	4.0%	1.9%	3.8%	4.8%	3.2%	4.7%
Expected return on plan assets	8.0%	4.8%	8.0%	8.0%	4.7%	8.0%

The assumed discount rates reflect our expectation of the present value of expected future cash payments for benefits at the measurement date. We base the discount rate assumption on investment yields of high-quality fixed income securities at the measurement date during the expected benefits payment period. Effective December 31, 2015, the Company elected to utilize a yield curve rather than a single weighted discount rate in determining liabilities and future service cost and interest cost associated with plan liabilities for the pension and other employee-related defined benefit plans in the U.S.

The rate of future compensation increase assumption for foreign plans reflects our long-term actual experience and future and near-term outlook. The rate of future compensation increase assumption is not applicable for U.S. plans because the benefit formula is based on a years of service approach.

The expected long-term rate of return on assets reflects the expected returns for each major asset class in which the plans invest, the weight of each asset class in the target mix, the correlations among asset classes, and their expected volatilities. Our expected return on plan assets is estimated by evaluating both historical returns and estimates of future returns based on our target asset allocation. Specifically, we estimate future returns based on independent estimates of asset class returns weighted by the target investment allocation.

The chart below shows actual returns compared to the expected long-term returns for our postretirement plans that were utilized in the calculation of the net periodic postretirement cost for each respective year.

	2015	2014	2013
Expected rate of return on plan assets	8.0%	8.0%	8.0%
Actual rate of return on plan assets	(2.8)%	8.6%	14.2%

For the recognition of net periodic postretirement cost, the calculation of the expected return on plan assets is generally derived using a market-related value of plan assets based on average asset values at the measurement date over the last five years. The use of fair value, rather than a market-related value, of plan assets could materially affect net periodic postretirement cost.

During 2014, the Company adopted a revised mortality table, to reflect improved mortality, which increased the Company's projected benefit obligation by approximately \$19 for its US pension and other employee related benefit plans.

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) is 8.5% for pre-age 65 retirees and 6.5% for post-age 65 retirees for 2016, decreasing ratably to 4.5% in 2024. Increasing the health care trend rates by one percent per year would have the effect of increasing the benefit obligation by \$6.6 and the aggregate annual service and interest cost components by \$0.2. A decrease of one percent in the health care trend rate would reduce the benefit obligation by \$5.6 and the aggregate annual service and interest cost components by \$0.2. To the extent that actual experience differs from these assumptions, the effect will be amortized over the average future working life or life expectancy of the plan participants.

#### *Investment Policy*

The investment strategy for managing worldwide postretirement benefit plan assets is to seek an optimal rate of return relative to an appropriate level of risk for each plan. Investment strategies vary by plan, depending on the specific characteristics of the plan, such as plan size and design, funded status, liability profile and legal requirements. During 2015, our investment policy was updated to reduce risk by increasing the target allocation in fixed income by approximately 15% with a corresponding decrease in allocations to equity investments. This shift in the target asset allocation is expected to reduce our rate of return on plan assets and result in higher 2016 net periodic pension costs by approximately \$2.0.

Substantially all of the postretirement benefit plan assets are managed on a commingled basis in a master investment trust. With respect to the master investment trust, the Company allows itself broad discretion to invest tactically to respond to changing market conditions, while staying reasonably within the target asset allocation ranges prescribed by its investment guidelines. In making these asset allocation decisions, the Company takes into account recent and expected returns and volatility of returns for each asset class, the expected correlation of returns among the different investments, as well as anticipated funding and cash flows. To enhance returns and mitigate risk, the Company diversifies its investments by strategy, asset class, geography and sector.

The following table provides the allocation of postretirement benefit plan assets by asset category, as of December 31, 2015 and 2014, and the related targeted asset allocation ranges by asset category.

	2015	2014	Target Allocation Range
U.S. equities	<b>31%</b>	36%	30-40 %
International equities	<b>24%</b>	29%	20-40 %
Fixed income	<b>43%</b>	35%	25-45 %
Cash and other	<b>2%</b>	—%	0-5 %

#### *Fair Value of Plan Assets*

In measuring plan assets at fair value, a fair value hierarchy is applied which categorizes and prioritizes the inputs used to estimate fair value into three levels. The fair value hierarchy is based on maximizing the use of observable inputs and minimizing the use of unobservable inputs when measuring fair value. Classification within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices (in non-active markets or in active markets for similar assets or liabilities), inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 inputs are unobservable inputs for the assets or liabilities.

In certain instances, fair value is estimated using quoted market prices obtained from external pricing services. In obtaining such data from the pricing service, the Company has evaluated the methodologies used to develop the estimate of fair value in order to assess whether such valuations are representative of fair value, including net asset value (NAV). Additionally, in certain circumstances, the Company may adjust NAV reported by an asset manager when sufficient evidence indicates NAV is not representative of fair value.

The following is a description of the valuation methodologies and inputs used to measure fair value for major categories of investments.

- Equities – Open ended mutual funds, collective trusts and commingled funds are measured at NAV. These funds are classified within either Level 1 or 2 of the fair value hierarchy.
- Fixed income – U.S. government securities are generally valued using quoted prices of securities with similar characteristics. Corporate bonds and notes are generally valued by using pricing models (e.g., discounted cash flows), quoted prices of securities with similar characteristics or broker quotes. Fixed income securities are classified in Level 1 or 2 of the fair value hierarchy.

The following table provides the fair value of plan assets held by our postretirement benefit plans, at December 31, 2015 and 2014, by asset class.

2015	Pension			Other Benefits	
	Total	Level 2	Level 3	Total	Level 1
Equities:					
U.S.	\$ 85.8	\$ 85.8	\$ —	\$ 2.6	\$ 2.6
International	46.3	46.3	—	1.9	1.9
Emerging Markets	18.9	18.9	—	0.8	0.8
Fixed income	121.1	121.1	—	2.6	2.6
Cash and other <sup>(a)</sup>	6.9	2.9	4.0	—	—
<b>Total</b>	<b>\$ 279.0</b>	<b>\$ 275.0</b>	<b>\$ 4.0</b>	<b>\$ 7.9</b>	<b>\$ 7.9</b>

(a) Pension plan assets as of December 31, 2015 include an investment in a hedge fund acquired from Wolverine. The hedge fund is valued using broker quotes and classified within Level 3 of the fair value hierarchy due to the significance of unobservable inputs involved in the broker quote.

2014	Pension		Other Benefits	
	Total	Level 2	Total	Level 1
Equities:				
U.S.	\$ 97.6	\$ 97.6	\$ 2.8	\$ 2.8
International	53.0	53.0	1.9	1.9
Emerging Markets	24.9	24.9	0.9	0.9
Fixed income	97.1	97.1	2.8	2.8
Cash and other	1.3	1.3	1.1	1.1
<b>Total</b>	<b>\$ 273.9</b>	<b>\$ 273.9</b>	<b>\$ 9.5</b>	<b>\$ 9.5</b>

#### Contributions

While we make contributions to our postretirement benefit plans when considered necessary or advantageous to do so, the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future contributions. Funding requirements under IRS rules are a major consideration in making contributions to our post-retirement plans. In addition, we fund certain of our international pension plans in countries where funding is allowable and tax-efficient. During 2015 and 2014, we contributed \$12.4 and \$4.4 to our global pension plans, respectively. The 2015 contribution included a \$7.5 discretionary contribution to our U.S. pension plans. We anticipate making contributions to our global pension plans of \$5.0 during 2016.

We contributed \$6.2 and \$8.2 to our other employee-related defined benefit plans during both 2015 and 2014, respectively. We currently estimate that the 2016 contributions to our other employee-related defined benefit plans will be approximately \$10.0.

### Estimated Future Benefit Payments

The following table provides the projected timing of payments for benefits earned to date and the expectation that certain future service will be earned by current active employees for our pension and other employee-related benefit plans.

	U.S. Pension	Int'l Pension	Other Benefits
2016	\$ 19.7	\$ 3.5	\$ 9.7
2017	20.2	3.2	9.4
2018	20.7	3.4	9.2
2019	21.1	3.3	8.8
2020	21.4	4.0	10.6
2021 - 2025	108.0	16.8	45.8

## NOTE 16 LONG-TERM INCENTIVE EMPLOYEE COMPENSATION

The 2011 Omnibus Incentive Plan (2011 Incentive Plan) was approved by shareholders and established in May of 2011 to provide for the awarding of options on common shares and full value restricted common shares or units to employees and non-employee directors. The number of shares initially available for issuance to participants under the 2011 Incentive Plan was 4.6. The 2011 Incentive Plan replaced the ITT Amended and Restated 2003 Equity Incentive Plan (2003 Incentive Plan) on a prospective basis and no future grants will be made under the 2003 Incentive Plan. However, any shares remaining available for issuance under the 2003 Incentive Plan became available for grant under the 2011 Incentive Plan as of the date the 2011 Incentive Plan was approved by shareholders. As of December 31, 2015, 39.3 shares were available for future grants under the 2011 Incentive Plan. ITT makes shares available for the exercise of stock options or vesting of restricted shares or units by purchasing shares in the open market or by issuing shares from treasury stock.

Our long-term incentive plan (LTIP) is comprised of three components: non-qualified stock options (NQOs), restricted stock units (RSUs), and a Performance Unit awards (PSUs). The majority of RSUs settle in shares; however RSUs granted to international employees are settled in cash. We account for NQOs, equity-settled RSUs, and PSUs as equity-based compensation awards and cash-settled RSUs are accounted for as liability-based awards. PSUs are based on both a relative total shareholder return (TSR) metric as well as a return on invested capital (ROIC) metric, equally weighted, providing a balance between relative and absolute long-term performance. PSUs settle in shares, dependent upon performance, following a three-year performance period to further align payouts with stock price performance. PSUs are accounted for as two distinct awards, an ROIC award and a TSR award.

LTIP costs are primarily recorded within general and administrative expenses, at fair value over the requisite service period (typically three years) on a straight-line basis and are reduced by an estimated forfeiture rate. These costs impacted our consolidated results of operations as follows:

	2015	2014	2013
Share-based compensation expense, equity-based awards	\$ 15.7	\$ 14.0	\$ 13.3
Share-based compensation expense, liability-based awards	1.1	3.1	3.8
Total share-based compensation expense in operating income	\$ 16.8	\$ 17.1	\$ 17.1

At December 31, 2015, there was \$21.3 of total unrecognized compensation cost related to non-vested equity awards. This cost is expected to be recognized ratably over a weighted-average period of 1.9 years. Additionally, unrecognized compensation cost related to liability-based awards was \$2.0, which is expected to be recognized ratably over a weighted-average period of 1.9 years.

### Non-Qualified Stock Options

Options generally vest over or at the conclusion of a three-year period and are exercisable in seven or ten-year periods, except in certain instances of death, retirement or disability. Options granted between 2004 and 2009 were awarded with a contractual term of seven years. Options granted prior to 2004 and after 2009 were awarded with a contractual term of ten years. The exercise price per share is the fair market value of the underlying common stock on the date each option is granted.

A summary of the status of our NQOs as of December 31, 2015, 2014 and 2013 and changes during the years then ended is presented below.

Stock Options	2015		2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding – January 1	1.9	\$ 24.20	2.7	\$ 20.46	4.3	\$ 18.46
Granted	0.2	41.52	0.2	43.52	0.4	26.82
Exercised	(0.3)	19.87	(0.8)	17.67	(1.9)	17.37
Cancelled or expired	(0.1)	35.95	(0.2)	24.46	(0.1)	16.15
Outstanding – December 31	1.7	\$ 27.10	1.9	\$ 24.20	2.7	\$ 20.46
Options exercisable – December 31	1.1	\$ 21.75	1.1	\$ 20.26	1.5	\$ 18.34

The aggregate intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) during 2015, 2014 and 2013 was \$6.6, \$22.5 and \$26.3, respectively.

The amount of cash received from the exercise of stock options was \$6.2, \$15.1 and \$34.8 for 2015, 2014 and 2013, respectively. The income tax benefit realized during 2015, 2014 and 2013 associated with stock option exercises and lapses of restricted stock was \$6.3, \$15.1 and \$13.4, respectively. We classify the cash flows attributable to excess tax benefits arising from stock option exercises and restricted stock lapses as a financing activity. Excess tax benefits arising from stock option exercises and restricted stock lapses were \$3.4, \$10.4 and \$8.7 for 2015, 2014 and 2013, respectively.

The following table summarizes information about ITT's stock options at December 31, 2015:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value	Number	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
\$12.39	0.1	0.2	\$ 0.6	0.1	0.2	\$ 0.6
\$19.97	0.1	4.2	1.3	0.1	4.2	1.3
\$20.28	0.4	5.9	7.1	0.4	5.9	7.1
\$21.53	0.2	5.2	3.7	0.2	5.2	3.7
\$22.80	0.3	6.2	3.6	0.2	6.2	3.6
\$26.76	0.2	7.2	2.4	0.1	7.2	0.5
\$41.52	0.2	9.2	—	—	—	—
\$43.52	0.2	8.2	—	—	—	—
	1.7	6.5	\$ 18.7	1.1	5.7	\$ 16.8

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on ITT's closing stock price of \$36.32 as of December 31, 2015, which would have been received by the option holders had all option holders exercised their options as of that date. There was 0.4 options "out-of-the-money" as of December 31, 2015.

As of December 31, 2015, the total number of stock options expected to vest (including those that have already vested) was 1.7. These stock options have a weighted-average exercise price of \$26.79, an aggregate intrinsic value of \$18.7 and a weighted-average remaining contractual life of 6.5 years.

The fair value of each option grant was estimated on the date of grant using the binomial lattice pricing model which incorporates multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The following are weighted-average assumptions for 2015, 2014 and 2013:

	2015	2014	2013
Dividend yield	1.1%	1.0%	1.5%
Expected volatility	29.4%	29.6%	29.9%
Expected life (in years)	5.8	5.8	6.4
Risk-free rates	1.7%	1.8%	1.1%
Weighted-average grant date fair value	\$ 11.23	\$ 11.93	\$ 6.62

Expected volatilities for option grants were based on a peer average of historical and implied volatility. ITT uses historical data to estimate option exercise and employee termination behavior within the valuation model. The expected life assumption represents an estimate of the period of time options are expected to remain outstanding. The expected life provided above represents the weighted average of expected behavior for two separate groups of employees who have historically exhibited different behavior. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of option grant.

#### *Restricted Stock Units and Performance Units*

The fair value of equity-settled restricted stock units is determined using the closing price of the Company's common stock on date of grant. The fair value of cash-settled RSUs is remeasured using the closing price of the Company's common stock at the end of each reporting period. Recipients do not have voting rights and do not receive cash dividends during the restriction period. Dividend equivalents on RSUs, which are subject to forfeiture, are accrued and paid in cash upon vesting of the RSU, which typically occurs three years from the date of grant. If an employee retires or is terminated other than for cause, a pro rata portion of the RSU may vest.

The fair value of the ROIC awards was based on the closing price of ITT common stock on the date of grant less the present value of expected dividend payments during the vesting period. A dividend yield of 1.1% was assumed based on ITT's annualized dividend payment of \$0.4732 per share and the February 25, 2015 closing stock price of \$41.52. The fair value of the ROIC award is fixed on the grant date; however, a probability assessment is performed each reporting period to estimate the likelihood of achieving the ROIC targets and the amount of compensation to be recognized. The ROIC award payout is subject to a payout factor which includes a maximum and minimum payout.

The fair value of the TSR award was measured using a Monte Carlo simulation on the date of grant, measuring potential total shareholder return for ITT relative to the other companies in the S&P 400 Capital Goods Index (the TSR Performance Group). The expected volatility of ITT's stock price was based on the historical volatility of a peer group while expected volatility for the other companies in the TSR Performance Group was based on their own stock price history. All volatility and correlation measures were based on three years of daily historical price data through March 4, 2014, corresponding to the three-year performance period of the award. The TSR award payout is subject to a multiplier which includes a maximum and minimum payout. As the grant date occurs after the beginning of the performance period, actual TSR performance between the beginning of the performance period (December average closing stock price) and the grant date was reflected in the valuation. A dividend yield of 1.1% was assumed based on ITT's annualized dividend payment of \$0.4732 per share and the February 25, 2015 closing stock price of \$41.52.

The table below provides a rollforward of outstanding RSUs, PSUs, and RSAs for each of the years ended December 31, 2015, 2014 and 2013.

Restricted Stock and Performance Units	2015		2014		2013	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding – January 1	1.1	\$ 31.70	1.3	\$ 24.17	1.2	\$ 21.06
Granted	0.5	41.34	0.4	43.88	0.6	28.16
Performance adjustment <sup>(a)</sup>	0.1	29.59	—	—	—	—
Lapsed	(0.3)	24.09	(0.5)	21.62	(0.4)	20.25
Canceled	(0.1)	35.89	(0.1)	27.33	(0.1)	22.68
Outstanding – December 31	1.3	\$ 36.56	1.1	\$ 31.70	1.3	\$ 24.17
Vested pending issuance	0.3	\$ 29.59	—	\$ —	—	\$ —

(a) Represents the adjustment to the number of shares to be issued above target for performance results achieved relative to PSUs granted in 2013 that vested on December 31, 2015.

The table below provides the number of the outstanding equity settled RSUs, cash settled RSUs, and PSUs as of December 31, 2015, 2014 and 2013.

	2015	2014	2013
Equity settled RSUs	0.7	0.7	1.0
Cash settled RSUs	0.1	0.1	0.1
PSU awards	0.5	0.3	0.2

As of December 31, 2015, the total number of RSUs and PSUs expected to vest (including those that have already vested) was 0.8 and 0.5, respectively. The number of PSUs expected to vest is based on current performance estimates.

## NOTE 17 CAPITAL STOCK

ITT has authority to issue an aggregate of 300 shares of capital stock, of which 250 shares have been designated as Common Stock having a par value of \$1 per share and 50 shares have been designated as Preferred Stock not having any par or stated value. There was no Preferred Stock outstanding as of December 31, 2015 and 2014.

The stockholders of ITT common stock are entitled to receive dividends when and as declared by ITT's Board of Directors. Dividends are paid quarterly. Dividends declared were \$0.4732, \$0.44 and \$0.40 per common share in 2015, 2014, and 2013, respectively.

On October 27, 2006, a three-year \$1 billion share repurchase program (2006 Share Repurchase Program) was approved by our Board of Directors. On December 16, 2008, the provisions of the share repurchase program were modified by our Board of Directors to replace the original three-year term with an indefinite term. During 2015, 2014, and 2013, we repurchased 2.0 shares, 1.1 shares, and 3.1 shares of common stock for \$80.0, \$50.0 and \$85.2, respectively. Through December 2015, we had repurchased 18.4 shares for \$759.3, including commissions, under the \$1 billion share repurchase program.

Separate from the 2006 Share Repurchase Program, the Company repurchased 0.1 shares, 0.2 shares, and 0.1 shares for an aggregate price of \$4.0, \$10.2, and \$2.7, during 2015, 2014 and 2013, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock or stock units.

We make shares available for the exercise of stock options and vesting of restricted stock by purchasing shares in the open market or by issuing shares from treasury stock. During 2015, 2014, and 2013, we issued 0.6 shares, 1.4 shares, and 2.3 shares, respectively, related to equity compensation arrangements. As of December 31, 2015 and 2014, 15.0 shares and 13.3 shares of Common Stock were held in our treasury account, respectively.



## NOTE 18 COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. We will continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including our assessment of the merits of the particular claim, as well as our current reserves and insurance coverage, we do not expect that such legal proceedings will have any material adverse impact on our financial statements, unless otherwise noted below.

### **Asbestos Matters**

ITT, including its subsidiary Goulds Pumps, Inc., has been sued, along with many other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims generally allege that certain products sold by us or our subsidiaries prior to 1985 contained a part manufactured by a third party (e.g., a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. As of December 31, 2015, there were 37 thousand pending active claims against ITT, including Goulds Pumps, filed in various state and federal courts alleging injury as a result of exposure to asbestos. Activity related to these asserted asbestos claims during the period was as follows:

(in thousands)	2015	2014	2013
Pending claims – Beginning	62	79	96
New claims	4	4	5
Settlements	(1)	(2)	(3)
Dismissals	(28)	(19)	(19)
Pending claims – Ending	37	62	79
Pending inactive claims <sup>(a)</sup>	—	13	13
Pending active claims	37	49	66

(a) Inactive claims represent pending claims in Mississippi filed in 2004 or prior, which have been excluded from our asbestos measurement because the plaintiffs cannot demonstrate a significant compensable loss. As of December 31, 2015, all inactive claims have been dismissed.

Frequently, plaintiffs are unable to identify any ITT or Goulds Pumps product as a source of asbestos exposure. Our experience to date is that a majority of resolved claims are dismissed without any payment from the Company. Management believes that a large majority of the pending claims have little or no value. In addition, because claims are sometimes dismissed in large groups, the average cost per resolved claim, as well as the number of open claims, can fluctuate significantly from period to period. ITT expects more asbestos-related suits will be filed in the future, and ITT will aggressively defend or seek a reasonable resolution, as appropriate.

### *Estimating the Liability and Related Asset*

The Company records an asbestos liability, including legal fees, for costs estimated to be incurred to resolve all pending claims, as well as unasserted claims estimated to be filed against the Company over the next ten years. The asbestos liability has not been discounted to present value due to an inability to reliably forecast the timing of future cash flows. The methodology used to estimate our asbestos liability for pending claims and claims estimated to be filed over the next 10 years relies on and includes the following:

- interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos in the workplace;
- widely accepted epidemiological studies estimating the number of people likely to develop mesothelioma and lung cancer from exposure to asbestos;
- the Company's historical experience with the filing of non-malignant claims against it and the historical relationship between non-malignant and malignant claims filed against the Company;
- analysis of the number of likely asbestos personal injury claims to be filed against the Company based on such epidemiological and historical data and the Company's recent claims experience;
- analysis of the Company's pending cases, by disease type;
- analysis of the Company's recent experience to determine the average settlement value of claims, by disease type;
- analysis of the Company's recent experience in the ratio of settled claims to total resolved claims, by disease type;
- analysis of the Company's defense costs in relation to its indemnity costs and agreements in place with external counsel;
- adjustment for inflation in the average settlement value of claims and defense costs estimated to be paid in the future; and
- analysis of the Company's recent experience with regard to the length of time to resolve asbestos claims.

Asbestos litigation is a unique form of litigation. Frequently, the plaintiff sues a large number of defendants and does not state a specific claim amount. After filing of the complaint, the plaintiff engages defendants in settlement negotiations to establish a settlement value based on certain criteria, including the number of defendants in the case. Rarely do the plaintiffs seek to collect all damages from one defendant. Rather, they seek to spread the liability, and thus the payments, among many defendants. As a result, the Company is unable to estimate the maximum potential exposure to pending claims and claims estimated to be filed over the next 10 years.

The forecast period used to estimate our potential liability to pending and projected asbestos claims is a judgment based on a number of factors, including the number and type of claims filed, recent experience with pending claims activity and whether that experience is expected to continue into the future, the jurisdictions where claims are filed, the effect of any legislative or judicial developments, and the likelihood of any comprehensive asbestos legislation at the federal level. These factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and, accordingly, our estimate of the asbestos exposure. Developments related to asbestos tend to be long-cycle, changing over multi-year periods. Accordingly, we monitor these and other factors and periodically assess whether an alternative forecast period is appropriate.

The Company retains a consulting firm to assist management in estimating the potential liability for pending asbestos claims and for claims estimated to be filed over the next 10 years based on the methodology described above. Our methodology determines a point estimate based on our assessment of the value of each underlying assumption, rather than a range of reasonably possible outcomes. Projecting future asbestos costs is subject to numerous variables and uncertainties that are inherently difficult to predict. In addition to the uncertainties surrounding the key assumptions discussed above, additional uncertainty related to asbestos claims and estimated costs arises from the long latency period prior to the manifestation of an asbestos-related disease, changes in available medical treatments and changes in medical costs, changes in plaintiff behavior resulting from bankruptcies of other companies that are or could be co-defendants, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential legislative or judicial changes. At December 31, 2015, approximately 28% of the recorded asbestos liability relates to pending claims, with the remainder relating to claims estimated to be filed over the next 10 years.

We record a corresponding undiscounted asbestos-related asset that represents our best estimate of probable recoveries from our insurers for the estimated asbestos liabilities. In developing this estimate, the Company considers coverage-in-place and other agreements with its insurers, as well as a number of additional factors. These additional factors reviewed include the financial viability of our insurance carriers and any related solvency issues, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, the extent to which settlement and defense costs will be reimbursed by the insurance policies and interpretation of the various policy and contract terms and limits and their interrelationships, and various judicial determinations relevant to our insurance programs. The timing and amount of reimbursements will vary due to a time lag between when ITT pays an amount to defend or settle a claim and when a reimbursement is received from an insurer, differing policy terms and certain gaps in our insurance coverage as a result of uninsured periods, insurer insolvencies, and prior insurance settlements. Approximately 83% of our estimated receivables are due from insurers that had credit ratings of A- or better from A.M. Best as of December 31, 2015.

In addition, the Company retains an insurance consulting firm to assist management in estimating probable recoveries for pending asbestos claims and for claims estimated to be filed over the next 10 years based on the analysis of policy terms, the likelihood of recovery provided by external legal counsel, and incorporating risk mitigation judgments where policy terms or other factors are not certain. The aggregate amount of insurance available to the Company for asbestos-related claims was acquired over many years and from many different carriers. Amounts deemed not recoverable generally are due from insurers that are insolvent, or result from disagreements with the insurers over policy terms, coverage limits or coverage disputes. Such limitations in our insurance coverage are expected to result in projected payments to claimants substantially exceeding the probable insurance recovery.

The Company has negotiated with certain of its insurers to reimburse the Company for a portion of its indemnity and defense costs through "coverage-in-place" agreements or policy buyout agreements. The agreements are designed to facilitate the collection of ITT's insurance portfolio, to mitigate issues that insurers may raise regarding their responsibility to respond to claims, and to promote an orderly exhaustion of the policies. As of December 31, 2015, approximately 53% of our asbestos-related assets were related to coverage-in-place agreements and buyout agreements with insurers.

After reviewing our portfolio of insurance policies, with consideration given to applicable deductibles, retentions and policy limits, the solvency and historical payment experience of various insurance carriers, existing insurance settlements, and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, ITT believes that its recorded receivable for insurance recoveries is probable of collection.

Estimating our exposure to pending asbestos claims and those that may be filed in the future is subject to significant uncertainty and risk as there are multiple variables that can affect the timing, severity, quality, quantity and resolution of claims. Any predictions with respect to the variables impacting the estimate of the asbestos liability and related asset are subject to even greater uncertainty as the projection period lengthens. In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years which could be material to the financial statements, we do not believe there is a reasonable basis for estimating those costs at this time.

The asbestos liability and related receivables reflect management's best estimate of future events. However, future events affecting the key factors and other variables for either the asbestos liability or the related receivables could cause actual costs or recoveries to be materially higher or lower than currently estimated. Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims which may be filed beyond the next 10 years, it is difficult to predict the ultimate cost of resolving all pending and unasserted asbestos claims. We believe it is possible that future events affecting the key factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

### Settlement Agreements

During 2015, ITT entered into settlement agreements with insurers to settle responsibility for certain insured claims through a series of payments into a Qualified Settlement Fund (QSF) to be paid over the next three years, resulting in a benefit of \$8.9. During 2014, ITT executed a final settlement agreement with an insurer to settle responsibility for multiple insurance claims, resulting in a one-time lump sum payment to a QSF of \$2.2 in 2015. During 2013, ITT executed a final settlement agreement (the 2013 Settlement) with an insurer to settle responsibility for multiple categories of insured claims, including pending and future product liability claims. Under the terms of the 2013 Settlement, the insurer agreed to a specified series of payments into a QSF over the course of the next five years, resulting in a one-time benefit of \$31.0.

### Defense Cost Adjustment

During 2015, the Company changed its asbestos defense strategy to retain a single firm to defend the Company in asbestos litigation. This long-term strategy streamlines the Company's management of cases and significantly reduces defense costs. Our agreement with the defense firm is currently limited to a certain set of claims and the remaining claims are expected to be transitioned to the firm within the next four years. Based on the terms of the agreement, the Company adjusted its asbestos liability and related assets and recognized a net benefit of \$100.7 in 2015 for the revised estimate of the cost to defend pending claims and claims expected to be filed over the next 10 years.

### Income Statement Charges

The table below summarizes the total net asbestos charge for the years ended December 31, 2015, 2014 and 2013.

	2015	2014	2013
Asbestos provision	\$ 63.0	\$ 64.9	\$ 63.3
Defense cost adjustment	(100.7)	—	—
Asbestos remeasurement, net	(44.8)	(58.8)	0.5
Settlement agreements	(8.9)	(2.2)	(31.0)
Net asbestos (benefit) charge, net	(91.4)	3.9	32.8

### Changes in Financial Position

The following table provides a rollforward of the estimated asbestos liability and related assets for the years ended December 31, 2015 and 2014.

	2015			2014		
	Liability	Asset	Net	Liability	Asset	Net
Balance as of January 1	\$ 1,223.2	\$ 476.4	\$ 746.8	\$ 1,264.7	\$ 517.8	\$ 746.9
Changes in estimate	(103.6)	(21.1)	(82.5)	32.4	26.3	6.1
Settlement agreements	—	8.9	(8.9)	—	2.2	(2.2)
Net cash activity and other	(76.8)	(52.2)	(24.6)	(73.9)	(69.9)	(4.0)
Balance as of December 31	\$ 1,042.8	\$ 412.0	\$ 630.8	\$ 1,223.2	\$ 476.4	\$ 746.8
Current portion	88.0	74.5		106.6	102.4	
Noncurrent portion	954.8	337.5		1,116.6	374.0	

## Environmental

In the ordinary course of business, we are subject to federal, state, local, and foreign environmental laws and regulations. We are responsible, or are alleged to be responsible, for ongoing environmental investigation and site remediation. These sites are in various stages of investigation and/or remediation and in many of these proceedings our liability is considered de minimis. We have received notification from the U.S. Environmental Protection Agency, and from similar state and foreign environmental agencies, that a number of sites formerly or currently owned and/or operated by ITT, and other properties or water supplies that may be or have been impacted from those operations, contain disposed or recycled materials or wastes and require environmental investigation and/or remediation. These sites include instances where we have been identified as a potentially responsible party under federal and state environmental laws and regulations.

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. Environmental-related assets represent estimated recoveries from insurance providers and other third parties.

The following table provides a rollforward of the estimated environmental liability and related assets for the years ended December 31, 2015 and 2014.

	2015			2014		
	Liability	Asset	Net	Liability	Asset	Net
Balance as of January 1	\$ 89.9	\$ 7.7	\$ 82.2	\$ 94.6	\$ 11.7	\$ 82.9
Changes in estimates for pre-existing accruals <sup>(a)</sup> :						
Pre-existing accrual additions	11.0	6.7	4.3	11.2	(3.7)	14.9
Pre-existing accrual reversals	(5.6)	(0.9)	(4.7)	(2.9)	—	(2.9)
Accruals added during the period for new matters	—	—	—	0.1	—	0.1
Net cash activity	(12.1)	(0.7)	(11.4)	(12.6)	(0.3)	(12.3)
Foreign currency	(0.6)	—	(0.6)	(0.5)	—	(0.5)
Balance as of December 31	\$ 82.6	\$ 12.8	\$ 69.8	\$ 89.9	\$ 7.7	\$ 82.2

(a) Changes in estimates for pre-existing accruals includes environmental-related costs of \$0.1 and \$2.7 reported within results of discontinued operations for the years ended December 31, 2015 and 2014, respectively.

In the fourth quarter of 2015, ITT entered into a settlement agreement with one of our insurance providers whereby the provider agreed to pay the net present value of the remaining limits of the policy amounting to approximately \$34. Based on the terms of the agreement, substantially all of the settlement amount, which is expected to be received during the first quarter of 2016, will be deposited into a QSF which can be drawn upon only to pay future environmental expenses associated with remediation sites covered under the policy. As a result of the settlement agreement, we recorded income of \$6.3 representing a previously established reserve for this insurance asset.

The following table illustrates the reasonably possible high range of estimated liability, and number of active sites for environmental matters.

	2015	2014
High end range	\$ 140.6	\$ 160.3
Number of active environmental investigation and remediation sites	49	54

As actual costs incurred at identified sites in future periods may vary from our current estimates given the inherent uncertainties in evaluating environmental exposures, management believes it is possible that the outcome of these uncertainties may have a material adverse effect on our financial statements.

## Other Matters

The Company has received a civil subpoena from the Department of Defense, Office of the Inspector General requesting documents pertaining to certain products manufactured by the Company's Interconnect Solutions segment that are purchased or used by the U.S. government. The Company is cooperating with the request. The Company is unable to estimate the timing or outcome of the matter.

## NOTE 19 GUARANTEES, INDEMNITIES AND WARRANTIES

### *Indemnities*

Since ITT's incorporation in 1920, we have 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. We do not have a liability recorded for these expired indemnifications and are not aware of any claims or other information that would give rise to material payments under such indemnities.

As part of the 2011 spin-off, ITT agreed to provide certain indemnifications and cross-indemnifications among ITT, Exelis and Xylem, subject to limited exceptions with respect to certain employee claims and other liabilities and obligations. The indemnifications address a variety of subjects, including asserted and unasserted product liability matters (e.g., asbestos claims, product warranties) which relate to products manufactured, repaired and/or sold prior to the 2011 spin-off. These indemnifications last indefinitely and are not affected by Harris' acquisition of Exelis. ITT expects Exelis and Xylem to fully perform under the terms of the Distribution Agreement and therefore has not recorded a liability for matters for which we have been indemnified. In addition, both Exelis and Xylem have made asbestos indemnity claims that could give rise to material payments under the indemnity provided by ITT; such claims are included in our estimate of asbestos liabilities.

### *Guarantees*

We have \$167.1 of guarantees, letters of credit and similar arrangements outstanding at December 31, 2015, primarily pertaining to commercial or performance guarantees and insurance matters. We have not recorded any material loss contingencies under these guarantees, letters of credit and similar arrangements as of December 31, 2015 as the likelihood of nonperformance by ITT is considered remote. From time to time, we may provide certain third-party guarantees that may be affected by various conditions and external factors, some of which could require that payments be made under such guarantees. We do not consider the maximum exposure or current recorded liabilities under our third-party guarantees to be material either individually or in the aggregate. We do not believe such payments would have a material adverse impact on our financial statements.

### *Warranties*

ITT warrants numerous products, the terms of which vary widely. In general, ITT warrants its products against defect and specific non-performance. In certain markets, such as automotive, aerospace and rail, liability for product defects could extend beyond the selling price of the product and could be significant if the defect interrupts production or results in a recall. The table included below provides changes in the product warranty accrual for December 31, 2015 and 2014.

	2015	2014
Warranty accrual – January 1	\$ 29.4	\$ 28.6
Warranty expense	5.6	14.7
Payments	(12.3)	(12.2)
Foreign currency and other	0.8	(1.7)
Warranty accrual – December 31	\$ 23.5	\$ 29.4

## NOTE 20 DISCONTINUED OPERATIONS

Results from discontinued operations reflect a gain of \$39.4 for the year ended December 31, 2015, principally related to the settlement of the U.S. income tax audit during the third quarter of 2015. This includes a tax benefit of \$38.3 from the recognition of previously unrecognized tax positions, related net interest income of \$3.2, and a \$13.2 receivable due from Exelis and Xylem, partially offset by net tax expense of \$17.4 from unfavorable audit adjustments. Results from discontinued operations reflect a loss of \$3.9 for the year ended December 31, 2014, primarily related to a settlement payment to a former ITT entity.

## NOTE 21 ACQUISITIONS

### *Wolverine Automotive Holdings*

On October 5, 2015, we completed the acquisition of Wolverine Automotive Holdings Inc., the parent company of Wolverine Advanced Materials LLC (Wolverine). Wolverine is a manufacturer of customized technologies for automotive braking systems and specialized sealing solutions for harsh operating environments across a range of industries. The purchase price of \$298.1 net of cash acquired, which is subject to a post-closing working capital adjustment, was funded through a combination of cash and a \$200 borrowing from our revolving credit facility. Wolverine has approximately 500 employees globally and reported 2014 revenues of \$154, including \$17 of sales to ITT.

The allocation of the purchase price is based on the fair value of assets acquired, liabilities assumed and non-controlling interests in Wolverine as of October 5, 2015. Our assessment of fair value is preliminary, and may be adjusted for information that is currently not available to us, primarily related to the valuation of intangible assets, postretirement obligations, environmental liabilities, deferred tax matters, real estate, and residual goodwill. The purchase price allocation presented below represents the effect of recording preliminary estimates for the fair value of assets acquired, liabilities assumed, and non-controlling interests in Wolverine and related deferred income taxes. We expect to obtain the information necessary to finalize the fair value of the net assets acquired at the acquisition date during the measurement period. Changes to the preliminary estimates of the fair value of the net assets acquired during the measurement period will be recorded as adjustments to those assets and liabilities with a corresponding adjustment to goodwill.

The goodwill of \$161.6 is not deductible for income tax purposes. All of the goodwill has been assigned to the Motion Technologies segment. Other intangibles acquired include existing customer relationships, proprietary technology, and trade names.

### *Hartzell Aerospace*

On March 31, 2015, we completed the acquisition of Hartzell Aerospace for a purchase price of \$52.9 that was funded through additional commercial paper borrowings. Hartzell Aerospace, which reported 2014 revenues of \$34, designs and manufactures products to support aerospace applications, featuring a differentiated portfolio of environmental control system components and an established aftermarket business. The acquisition is being reported within the Control Technologies segment and complements the ITT aerospace growth platform, with customer and sales channel alignment and key high-growth and next-generation platform expansion opportunities.

The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as of the acquisition date. The excess of the purchase price over the estimated fair value of net assets acquired of \$13.3 was recorded as goodwill (which is expected to be deductible for income tax purposes). All of the goodwill has been assigned to the Control Technologies segment.

### *Allocation of Purchase Price for Wolverine and Hartzell Aerospace*

	Wolverine	Hartzell
Cash	\$ 8.5	\$ —
Receivables	31.6	5.3
Inventory	34.4	4.8
Plant, property and equipment	22.8	2.6
Goodwill	161.6	13.3
Other intangible assets	89.0	28.6
Other assets	3.4	0.9
Accounts payable and accrued liabilities	(21.3)	(2.6)
Postretirement liabilities	(14.6)	—
Other liabilities	(8.8)	—
<b>Net assets acquired</b>	<b>\$ 306.6</b>	<b>\$ 52.9</b>

Pro forma results of operations have not been presented because the acquisitions were not deemed material, either individually or in the aggregate, at the acquisition date.

## SUPPLEMENTAL FINANCIAL DATA

### SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2015 Quarters				2014 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Revenue	\$ 666.8	\$ 601.9	\$ 628.2	\$ 588.7	\$ 660.0	\$ 657.1	\$ 663.0	\$ 674.5
Gross profit	201.3	194.9	213.9	199.0	216.9	219.9	214.8	214.8
Income from continuing operations attributable to ITT Corporation	36.6	96.5	140.6	38.7	33.4	80.6	41.2	33.2
Income (loss) from discontinued operations	0.1	34.2	1.7	3.4	0.3	(0.3)	(2.9)	(1.0)
Net income attributable to ITT Corporation	36.7	130.7	142.3	42.1	33.7	80.3	38.3	32.2
Basic earnings (loss) per share attributable to ITT Corporation:								
Continuing operations	\$ 0.40	\$ 1.08	\$ 1.57	\$ 0.42	\$ 0.37	\$ 0.88	\$ 0.45	\$ 0.36
Discontinued operations	0.01	0.38	0.02	0.04	—	—	(0.03)	(0.01)
Net income	\$ 0.41	\$ 1.46	\$ 1.59	\$ 0.46	\$ 0.37	\$ 0.88	\$ 0.42	\$ 0.35
Diluted earnings (loss) per share attributable to ITT Corporation:								
Continuing operations	\$ 0.40	\$ 1.07	\$ 1.56	\$ 0.42	\$ 0.36	\$ 0.87	\$ 0.44	\$ 0.36
Discontinued operations	0.01	0.38	0.02	0.04	—	(0.01)	(0.03)	(0.01)
Net income	\$ 0.41	\$ 1.45	\$ 1.58	\$ 0.46	\$ 0.36	\$ 0.86	\$ 0.41	\$ 0.35
Common stock price per share:								
High	\$ 40.52	\$ 42.43	\$ 43.96	\$ 42.97	\$ 45.34	\$ 49.42	\$ 48.24	\$ 44.87
Low	\$ 32.70	\$ 32.86	\$ 39.01	\$ 35.30	\$ 36.74	\$ 44.93	\$ 41.48	\$ 37.87
Close	\$ 36.32	\$ 33.43	\$ 41.84	\$ 39.91	\$ 40.46	\$ 44.94	\$ 48.10	\$ 42.76
Dividends per share	\$ 0.1183	\$ 0.1183	\$ 0.1183	\$ 0.1183	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11





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/ DENISE L. RAMOS <b>Denise L. Ramos</b> <b>(Principal executive officer)</b>	Chief Executive Officer, President and Director	February 19, 2016
/S/ THOMAS M. SCALERA <b>Thomas M. Scalera</b> <b>(Principal financial officer)</b>	Senior Vice President and Chief Financial Officer	February 19, 2016
/S/ STEVEN C. GIULIANO <b>Steven C. Giuliano</b> <b>(Principal accounting officer)</b>	Vice President and Chief Accounting Officer	February 19, 2016
/S/ ORLANDO D. ASHFORD <b>Orlando D. Ashford</b>	Director	February 19, 2016
/S/ G. PETER D'ALOIA <b>G. Peter D'Aloia</b>	Director	February 19, 2016
/S/ GERAUD DARNIS <b>Geraud Darnis</b>	Director	February 19, 2016
/S/ DONALD DEFOSSET, JR. <b>Donald DeFosset, Jr.</b>	Director	February 19, 2016
/S/ CHRISTINA A. GOLD <b>Christina A. Gold</b>	Director	February 19, 2016
/S/ RICHARD P. LAVIN <b>Richard P. Lavin</b>	Director	February 19, 2016
/S/ FRANK T. MACINNIS <b>Frank T. MacInnis</b>	Director	February 19, 2016
/S/ REBECCA A. MCDONALD <b>Rebecca A. McDonald</b>	Director	February 19, 2016
/S/ TIMOTHY H. POWERS <b>Timothy H. Powers</b>	Director	February 19, 2016

## EXHIBIT INDEX

Exhibit Number	Description	Location
3.1	ITT Corporation's Articles of Amendment and Restated Articles of Incorporation, effective as of October 31, 2011	Incorporated by reference to Exhibit 3.1 of ITT Corporation's Form 10-K for the year ended December 31, 2013 (File No. 001-05672).
3.2	Amended and Restated By-laws of ITT	Incorporated by reference to Exhibit 3.1 of ITT Corporation's Form 8-K Current Report dated October 5, 2011 (File No. 001-05672).
10.1	Distribution Agreement, dated as of October 25, 2011, among ITT Corporation, Xylem Inc. and Exelis Inc.	Incorporated by reference to Exhibit 10.1 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2011 (File No. 001-05672).
10.2	Benefits and Compensation Matters Agreement, dated as of October 25, 2011, among ITT Corporation, Xylem Inc. and Exelis Inc.	Incorporated by reference to Exhibit 10.2 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2011 (File No. 001-05672).
10.3	First Amendment to Benefits and Compensation Matters Agreement	Incorporated by reference as Exhibit 10.1 of ITT Corporation's Form 10-Q for the quarter ended June 30, 2013
10.4	Tax Matters Agreement, dated as of October 25, 2011, among ITT Corporation, Xylem Inc. and Exelis Inc.	Incorporated by reference to Exhibit 10.3 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2011 (File No. 001-05672).
10.5	Master Transition Services Agreement, dated as of October 25, 2011, among ITT Corporation, Xylem Inc. and Exelis Inc.	Incorporated by reference to Exhibit 10.4 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2011 (File No. 001-05672).
10.6	ITT Transitional Trademark License Agreement - Exelis, dated as of October 25, 2011, between ITT Manufacturing Enterprises LLC and Exelis Inc.	Incorporated by reference to Exhibit 10.5 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2011 (File No. 001-05672).
10.7	Master Lease Agreement and Master Sublease Agreement, dated as of October 25, 2011 and September 30, 2011, respectively	Incorporated by reference to Exhibit 10.6 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2011 (File No. 001-05672).
10.8	Five Year Competitive Advance and Revolving Credit Facility Agreement, dated as of November 25, 2014 among ITT Corporation and Other Parties Signatory Thereto	Incorporated by reference to Exhibit 10.1 of ITT Corporation's Form 8-K dated November 25, 2014 (File No. 001-05672).
10.9*	Indenture between ITT Corporation and Union Bank N.A., as Trustee dated May 1, 2009	Incorporated by reference to Exhibit 4.3 of ITT Corporation's Form S-3 dated September 18, 2015 (File No. 001-05672).
10.10*	ITT Retirement Savings Plan for Salaried Employees (effective January 1, 2016)	Filed herewith.
10.11*	ITT Corporation Senior Executive Change in Control Severance Pay Plan amended and restated as of January 1, 2015 (formerly known as the ITT Corporation Special Senior Executive Severance Pay Plan)	Incorporated by reference to Exhibit 10.10 of ITT Corporation's Form 10-K for the year ended December 31, 2014 (File No. 001-05672).
10.12*	ITT Corporation Senior Executive Severance Pay Plan amended and restated effective as of January 1, 2015 (formerly known as the ITT Industries, Inc. Senior Executive Severance Pay Plan, dated December 20, 1995, amended and restated as of December 31, 2008 and July 1, 2013)	Incorporated by reference to Exhibit 10.11 of ITT Corporation's Form 10-K for the year ended December 31, 2014 (File No. 001-05672).
10.13*	ITT Corporation Change in Control Severance Plan amended and restated as of January 1, 2015 (formerly known as ITT Corporation Enhanced Severance Pay Plan (amended and restated as of July 13, 2004).	Incorporated by reference to Exhibit 10.12 of ITT Corporation's Form 10-K for the year ended December 31, 2014 (File No. 001-05672).
10.14*	ITT Deferred Compensation Plan (Effective as of January 1, 1995 as amended and restated as of October 31, 2011)	Incorporated by reference to Exhibit 4.5 of ITT Corporation's Registration Statement on Form S-8 as filed on October 28, 2011 (File No. 001-05672).

<b>Exhibit Number</b>	<b>Description</b>	<b>Location</b>
10.15*	ITT Corporation Deferred Compensation Plan for Non-Employee Directors	Incorporated by reference to Exhibit 10.48 of ITT Corporation's Form 10-Q for the quarter ended September 30, 2008 (File No. 001-05672).
10.16*	ITT Excess Savings Plan amended and restated effective December 31, 2008	Incorporated by reference to Exhibit 10.17 of ITT Corporation's Form 10-K for the year ended December 31, 2008 (File No. 001-05672).
10.17*	Non-Employee Director Compensation Summary	Incorporated by reference to Exhibit 10.16 of ITT Corporation's Form 10-K for the year ended December 31, 2014 (File No. 001-05672).
10.18*	2011 Omnibus Incentive Plan	Incorporated by reference to Exhibit 4.3 of ITT Corporation's Registration Statement on Form S-8 as filed on October 28, 2011 (File No. 001-05672).
10.19*	ITT 1997 Annual Incentive Plan (amended and restated as of July 13, 2004) formerly known as ITT Industries 1997 Annual Incentive Plan (amended and restated as of July 13, 2004)	Incorporated by reference to Exhibit 10.13 of ITT Industries' Form 10-Q for the quarter ended September 30, 2004 (File No. 001-05672).
10.20*	ITT 2003 Equity Incentive Plan, amended and restated as of February 15, 2008 and approved by shareholders on May 13, 2008 (previously amended and restated as of July 13, 2004 and subsequently amended as of December 18, 2006) and previously known as ITT Industries, Inc. 2003 Equity Incentive Plan	Incorporated by reference to Exhibit 10.5 of ITT Corporation's Form 10-Q for the quarter ended June 30, 2008 (File No. 001-05672).
10.21*	ITT Corporation Form of 2015 Performance Unit Award Agreement	Incorporated by reference to Exhibit 10.1 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2015 (File No. 001-05672).
10.22*	ITT Corporation Form of 2015 Non-Qualified Stock Option Award Agreement	Incorporated by reference to Exhibit 10.2 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2015 (File No. 001-05672).
10.23*	ITT Corporation Form of 2015 Restricted Stock Unit Agreement	Incorporated by reference to Exhibit 10.3 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2015 (File No. 001-05672).
10.24*	ITT Corporation Form of 2014 Performance Unit Award Agreement	Incorporated by reference to Exhibit 10.1 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2014 (File No. 001-05672).
10.25*	ITT Corporation Form of 2014 Non-Qualified Stock Option Award Agreement	Incorporated by reference to Exhibit 10.2 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2014 (File No. 001-05672).
10.26*	ITT Corporation Form of 2014 Restricted Stock Unit Award Agreement	Incorporated by reference to Exhibit 10.3 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2014 (File No. 001-05672).
10.27*	ITT Corporation Form of 2013 Performance Unit Award Agreement	Incorporated by reference to Exhibit 10.01 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2013 (File No. 001-05672).
10.28*	ITT Corporation Form of 2013 Non-Qualified Stock Option Award Agreement (Band A)	Incorporated by reference to Exhibit 10.01 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2013 (File No. 001-05672).
10.29*	ITT Corporation Form of 2013 Restricted Stock Unit Agreement	Incorporated by reference to Exhibit 10.01 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2013 (File No. 001-05672).
10.30*	ITT Corporation Form of 2013 Restricted Stock Unit Agreement (Cash Settled)	Incorporated by reference to Exhibit 10.01 of ITT Corporation's Form 10-Q for the quarter ended March 31, 2013 (File No. 001-05672).
10.31*	Employment Agreement dated as of October 4, 2011 and effective as of October 31, 2011 between ITT Corporation and Denise L. Ramos.	Incorporated by reference to Exhibit 10.1 of ITT Corporation's Form 8-K/A dated October 17, 2011 (File No. 001-05672).

<b>Exhibit Number</b>	<b>Description</b>	<b>Location</b>
10.32	Form of indemnification agreement with directors and officers	Incorporated by reference to Exhibit 10.1 to ITT Corporation's Form 10-Q for the quarter ended September 30, 2014 (File No. 001-05672).
21	Subsidiaries of the Registrant	Filed herewith.
23.1	Consent of Deloitte & Touche LLP	Filed herewith.
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 2002	Filed herewith.
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 2002	Filed herewith.
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.
101	The following materials from ITT Corporation's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Shareholders' Equity and (vi) Notes to Consolidated Financial Statements	Submitted electronically with this report.

\* Management compensatory plan

\*\* The registrant has requested confidential treatment with respect to portions of this exhibit. Those portions have been omitted from the exhibit and filed separately with the U.S. Securities and Exchange Commission.

**ITT RETIREMENT SAVINGS PLAN**

**(As Amended and Restated Effective January 1, 2016)**

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# ITT RETIREMENT SAVINGS PLAN

(As Amended and Restated Effective January 1, 2016)

## ARTICLE 1

### INTRODUCTION AND PURPOSE

The ITT Investment and Savings Plan for Salaried Employees (the “ISP”) was established effective April 1, 1974 by ITT Corporation for the benefit of certain salaried employees. The ISP was subsequently renamed the ITT Salaried Investment and Savings Plan.

Effective October 31, 2011, ITT Corporation restructured into three separate publicly traded companies named ITT Corporation, Exelis Inc., and Xylem Inc. In connection with the restructuring, sponsorship of the ISP was transferred to Exelis Inc.

Also in connection with the restructuring, ITT Corporation (as in existence after the restructuring) established, effective as of October 31, 2011, the ITT Corporation Retirement Savings Plan for Salaried Employees (the “Plan”), for the eligible employees of the Corporation and its subsidiaries. Accounts in the ISP attributable to participants in the ISP who became employees on October 31, 2011 of ITT Corporation (as in existence after the restructuring) or any of its subsidiaries were transferred to the Plan and that portion of the Plan constitutes a successor plan to the ISP.

Effective from January 1, 2012 through December 31, 2015, the Plan was designed to be a safe harbor plan with respect to before-tax savings (pursuant to Section 401(k)(12) of the Internal Revenue Code (the “Code”)) and with respect to matching contributions (pursuant to Section 401(m)(11) of the Code).

Effective as of the close of business on December 31, 2012, the following qualified plans were merged into the Plan and accounts for each participant and beneficiary thereof were transferred to the Plan:

- ITT Koni Friction Products Savings Plan for Hourly Employees
- ITT Engineered Valves CA Pure Flo Solutions Group Savings Plan for Hourly Employees
- ITT Pure Flo Precision Savings Plan for Hourly Employees

Effective as of the close of business on December 31, 2013, the following qualified plans were merged into the Plan and accounts for each participant and beneficiary thereof were transferred to the Plan:

- ITT Aerospace Controls Savings Plan for Hourly Employees
- ITT Control Technologies Savings Plan for Hourly Employees
- ITT Cannon Savings Plan for Hourly Employees
- ITT BIW Connector Systems Employees’ Savings Plan
- ITT Engineered Valves -- Fabri Savings Plan for Hourly Employees
- ITT Engineered Valves -- Lancaster Savings Plan for Hourly Employees

Effective January 1, 2014, the Plan was renamed the “ITT Corporation Retirement Savings Plan.” In addition, effective January 1, 2014, assets and liabilities attributable to account balances transferred to the ITT Industrial Process Retirement Savings Plan for Bargaining Unit Employees (the “IPRSP”) from the Pro Cast and Goulds Pumps Service Center Employees’ Savings Plan (the “Pro Cast Plan”) on December 31, 2013 were transferred from the IPRSP to the Plan for each former participant and beneficiary of the Pro Cast Plan.



Effective as of the close of business on December 31, 2015, the following qualified plans were merged into the Plan and accounts for each participant and beneficiary thereof were transferred to the Plan:

AcousticFab, LLC 401(k) Plan  
Electrofilm Manufacturing Company, LLC 401(k) Plan  
Industrial Tube Company, LLC 401(k) Plan

Effective January 1, 2016, ITT Industries Holdings, Inc. became the Plan Sponsor and the Plan was renamed the “ITT Retirement Savings Plan.”

The Plan, as amended and restated herein effective January 1, 2016, and such other dates as are expressly provided herein, is intended to constitute a profit sharing plan with an employee stock ownership plan (“ESOP”) feature within the meaning of Section 4975(e) of the Code and a cash or deferred arrangement within the meaning of Section 401(k) of the Code. The portion of the Plan intended to qualify as an ESOP is designed to invest primarily in qualifying employer securities as such term is defined in Section 4975(e)(8) of the Code and is intended to comply with the distributions requirements of Section 409(o) of the Code.

The provisions of the Plan are conditioned upon the Plan’s qualification under Section 401(a) of the Code and Company contributions being deductible under Section 404 of the Code. It is further intended that the Plan also conform to the requirements of Title I of ERISA and that the Trust be qualified under Section 501 of the Code.

## ARTICLE 2

### DEFINITIONS

2.1 “*Accounts*” shall mean, with respect to any Member or Deferred Member, his After-Tax Account, Before-Tax Account, Company Core Account, Company Floor Account, Company Matching Account, Merged Bargained Plan Matching Employer Contributions Account, Merged Employer Contributions Account, Merged Matching Employer Contributions Account, Prior Company Matching Account, Prior ESOP Account, Prior Plan Account, Rollover Account, Roth Account, Roth Rollover Account, Special Company Contribution Account, and Special Transition Contributions Account.

2.2 “*Actual Contribution Percentage*” shall mean, with respect to a specified group of employees referred to in Section 4.5, the average of the ratios, calculated separately for each employee in that group, of:

- (a) the After-Tax Savings and Company Matching Contributions (excluding Company Matching Contributions forfeited under Section 4.1 or 4.5) made by or on behalf of the employee for the Plan Year; to
- (b) the employee’s Statutory Compensation for a Plan Year.

Only Company Matching Contributions that are permitted to be taken into account under applicable Treasury Regulations for purposes of the test described in Section 4.5 shall be taken into account for purposes of calculating the Actual Contribution Percentage. An Actual Contribution Percentage shall be computed to the nearest one-hundredth of one percent of the employee’s Statutory Compensation. For purposes of this calculation, the non-Highly Compensated Employee Actual Contribution Percentage shall be determined based on the then current Plan Year and the Highly Compensated Employee Actual Contribution Percentage shall also be determined for the then current Plan Year. For purposes of this Section, Statutory Compensation shall exclude compensation paid to the employee while he is not a Plan Member.

Notwithstanding the foregoing, effective for any Plan Year beginning on or after January 1, 2012, and before January 1, 2016, the Benefits Administration Committee may elect to calculate the Actual Contribution Percentage without regard to Company Matching Contributions.

2.3 “*Actual Deferral Percentage*” shall mean, with respect to a specified group of employees referred to in Section 4.1(d), the average of the ratios, calculated separately for each employee in that group, of:

- (a) the amount of Regular Before-Tax Savings and regular Roth Contributions made on the employee’s behalf for a Plan Year under Section 4.1(a) and Section 4.7, respectively (including Regular Before-Tax Savings and regular Roth Contributions returned to a Highly Compensated Employee under Section 4.1(c)(ii) and Regular Before-Tax Savings and regular Roth Contributions returned to any employee under Section 4.1(c)(iii)); to
- (b) the employee’s Statutory Compensation for a Plan Year.

Such Actual Deferral Percentage shall be computed to the nearest one-hundredth of one percent of the employee’s Statutory Compensation. For purposes of this calculation, the non-Highly Compensated Employee Actual Deferral Percentage shall be determined based on the then current Plan Year and the Highly Compensated Employee Actual Deferral Percentage shall also be determined

for the then current Plan Year. For purposes of this Section, Statutory Compensation shall exclude compensation paid to the employee while he is not a Plan Member. For purposes of this Section, Regular Before-Tax Savings and regular Roth Contributions may be taken into account for a Plan Year only if they relate to compensation that either would have been received by the Member in the Plan Year but for the deferral election or are attributable to services performed by the Member in the Plan Year and would have been received by the Member within 2½ months after the close of the Plan Year but for the deferral election; are allocated to the Member as of a date within that Plan Year and the allocation is not contingent on the participation or performance of service after such date; and are actually paid to the Trustees no later than 12 months after the end of the Plan Year to which the contributions relate.

2.4 “*After-Tax Account*” shall mean that portion of the Trust Fund, which, with respect to any Member or Deferred Member, is attributable to:

- (a) After-Tax Savings made to the Plan under Section 4.2; and
- (b) any amounts that are attributable to after-tax contributions made to the ISP, the Merged Frozen Plans, the Merged Plans, the Merged Bargained Plan, or any other qualified profit sharing or other defined contribution plan previously in effect at the Company or an Associated Company and that are transferred to the Plan on the Member’s behalf,

plus any investment earnings and gains or losses on such amounts.

2.5 “*After-Tax Savings*” shall mean the contributions made by a Member pursuant to Section 4.2.

2.6 “*Associated Company*” shall mean any division, subsidiary or affiliated company of ITT which is:

- (a) a component member of a controlled group of corporations (as defined in Section 414(b) of the Code), which controlled group of corporations includes as a component member ITT;
- (b) any trade or business under common control (as defined in Section 414(c) of the Code) with ITT;
- (c) any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes ITT; or
- (d) any other entity required to be aggregated with ITT pursuant to regulations under Section 414(o) of the Code,

during the period it is described in (a), (b), (c), or (d). Notwithstanding the foregoing, for purposes of Section 5.4(a) of the Plan the definitions of Section 414(b) and (c) of the Code shall be modified by substituting the phrase “more than 50 percent” for the phrase “at least 80 percent” each place it appears in Section 1563(a)(1) of the Code.

2.7 “*Before-Tax Account*” shall mean that portion of the Trust Fund, which, with respect to any Member or Deferred Member, is attributable to:

- (a) Regular Before-Tax Savings made to the Plan under Section 4.1(a);
- (b) Catch-Up Contributions made to the Plan under Section 4.1(b); and

- (c) any amounts that are attributable to before-tax contributions (including catch-up contributions) made to the ISP, the Merged Frozen Plans, the Merged Hartzell Plans, the Merged Plans, the Merged Bargained Plan, or any other qualified profit sharing or other defined contribution plan previously in effect at the Company or an Associated Company and that are transferred to the Plan on the Member's behalf,

plus any investment earnings and gains or losses on such amounts.

2.8 “*Before-Tax Savings*” shall mean:

- (a) Regular Before-Tax Savings made on a Member's behalf under Section 4.1(a); and
- (b) Catch-Up Contributions made on a Member's behalf under Section 4.1(b).

2.9 “*Beneficiary*” shall mean such primary beneficiary or beneficiaries as may be designated from time to time by the Member or Deferred Member, in accordance with procedures prescribed by the Benefits Administration Committee for such purpose, to receive, in the event of the Member's or Deferred Member's death, the value of the Vested Share of his Accounts at the time of his death. If more than one Beneficiary is designated, the percentage payable to each Beneficiary must be designated. A Member or Deferred Member may also designate a contingent Beneficiary to receive the value of the Vested Share of his Accounts at the time of the Member's or Deferred Member's death in the event the primary beneficiary predeceases the Member or Deferred Member, or, if there is more than one primary beneficiary, in the event all primary beneficiaries predecease the Member or Deferred Member. In the event that more than one primary Beneficiary is named (or, in the event of the death of all of the primary Beneficiaries, more than one contingent Beneficiary is named), they shall share equally in the value of the Vested Share of the Member's or Deferred Member's Accounts unless the Member or Deferred Member shall have designated different percentages for the different Beneficiaries. Unless otherwise specified by the Member or Deferred Member, the designation of any primary Beneficiary or contingent Beneficiary who subsequently predeceases the Member or Deferred Member shall be deemed void and have no further effect. In accordance with applicable Treasury Regulations, a trust may be designated as either a primary or contingent Beneficiary. Except as hereinafter provided, in the case of a Member or Deferred Member who is married, the sole Beneficiary shall be the Member's or Deferred Member's spouse unless such spouse consents in writing on a form witnessed by a notary public to the designation of another person as primary Beneficiary. Such consent shall be irrevocable with respect to such Beneficiary designation. In the case of a Member or Deferred Member who incurs a divorce under applicable State law prior to commencing benefits under the Plan, such Member's or Deferred Member's designation of a named Beneficiary shall remain valid unless otherwise provided in a qualified domestic relations order (as described in Article 18 of the Plan) or unless such Member or Deferred Member changes his named Beneficiary or is subsequently remarried. If no Beneficiary designation is in effect at the Member's or Deferred Member's death or if no person, persons or entity so designated survives the Member or Deferred Member, the Member's or Deferred Member's surviving spouse, if any, shall be the sole Beneficiary; otherwise the Beneficiary shall be the personal representative of the estate of the Member or Deferred Member.

2.10 “*Benefits Administration Committee*” shall mean the Benefits Administration Committee established from time to time pursuant to Article 13 for the purposes of administering the Plan.

2.11 “*Board of Directors*” shall mean the Board of Directors of ITT or the Plan Sponsor or of any successor of either.

- 2.12 “*Catch-Up Contributions*” shall mean Before-Tax Savings or Roth Contributions made to the Plan pursuant to Section 4.1(b) or Section 4.7, respectively, that constitute catch-up contributions under Section 414(v) of the Code.
- 2.13 “*Code*” shall mean the Internal Revenue Code of 1986, as amended from time to time. References to any section of the Code shall include any successor provision thereto.
- 2.14 “*Company*” shall mean the Plan Sponsor and each other entity located in the continental United States that is an Associated Company as of January 1, 2016 (and any successor to any such entity), each with respect to its Employees. Notwithstanding the foregoing, (a) an entity shall cease to be part of the Company when such entity ceases to be an Associated Company, and (b) Wolverine Automotive Holdings, Inc., WC Wolverine Holdings, Inc., and Wolverine Advanced Materials, LLC shall not be included in the “*Company*” until the Plan is amended to so provide. Before January 1, 2016, “*Company*” shall mean ITT with respect to its Employees, any Participating Division with respect to its Employees, and any Participating Corporation with respect to its Employees.
- 2.15 “*Company Core Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Company Core Contributions and any investment earnings and gains or losses thereon.
- 2.16 “*Company Core Contributions*” shall mean Company Core Contributions made pursuant to Section 5.2.
- 2.17 “*Company Floor Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his “*Company Floor Account*” under the ISP that was transferred from the ISP to the Plan and any investment earnings and gains or losses on such account in the Plan.
- 2.18 “*Company Matching Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Company Matching Contributions and any investment earnings and gains or losses thereon.
- 2.19 “*Company Matching Contributions*” shall mean Company Matching Contributions made pursuant to Section 5.1.
- 2.20 “*Contributing Member*” shall mean a Member who is making Before-Tax Savings, Roth Contributions, and/or After-Tax Savings.
- 2.21 “*Deferred Member*” shall mean:
- (a) a Member who has terminated employment with the Company and all Associated Companies and who has not received a complete distribution of the Vested Share of his Accounts;
  - (b) the spouse Beneficiary of a deceased Member or Deferred Member;
  - (c) an alternate payee designated as such pursuant to a domestic relations order as qualified by the Plan pursuant to Article 18; or
  - (d) an individual who (i) had an account transferred to the Plan from a Merged Frozen Plan, a Merged Hartzell Plan, a Merged Plan, or the Merged Bargained Plan, (ii) has not been a

Member, (iii) was not a beneficiary under the transferor plan, and (iv) has not received complete distribution of the Vested Share of his Accounts.

- 2.22 “*Disability*” shall mean, with respect to a Member, the total disability of such Member as defined under any long term disability plan maintained by the Company for employees who are similarly situated as of the date the disability occurs. If a Member qualifies for benefits under such plan, then he shall be deemed to be totally disabled as determined by the insurance company that insures such plan. A Member who does not qualify for benefits under such plan because he has elected not to participate in such plan or because of a plan limitation shall be deemed to be totally disabled if the insurance company insuring such plan determines that he would have qualified for benefits under such plan if he had elected to participate therein or if he otherwise would have qualified absent the plan limitation. For purposes of this Plan, the effective date of disability shall be the later of the date of disability as defined in the applicable disability plan or the date as of which the applicable insurance company issues its determination of total disability.
- 2.23 “*Earnings*” shall mean the amount of income, if any, to be returned with any excess deferrals, excess contributions, or excess aggregate contributions under Section 4.1 or 4.5 for the Plan Year, as determined in accordance with applicable law and regulations prescribed by the Secretary of the Treasury under the provisions of Sections 402(g), 401(k) and 401(m) of the Code.
- 2.24 “*Effective Date*” shall mean October 31, 2011 with respect to ITT and any Participating Corporations and Participating Divisions that enter the Plan as of such date. With respect to Participating Corporations and Participating Divisions that began their participation in the Plan after such date and before January 1, 2016, or Associated Companies that began their participation in the Plan on or after January 1, 2016, “*Effective Date*” shall mean the date as of which such Participating Corporation, Participating Division, or Associated Company begins its participation in the Plan.
- 2.25 “*Employee*” shall mean any person regularly employed by the Company who is paid from a payroll maintained in the continental United States, and who receives regular and stated compensation other than a pension or retainer. Before January 1, 2014, a person was an Employee only if the person was considered a salaried employee for purposes of the Company’s employee benefit plans.

Notwithstanding the foregoing, except as the Board of Directors or the Benefits Administration Committee, pursuant to authority delegated to it by the Board of Directors, may otherwise provide on a basis uniformly applicable to all persons similarly situated, the following individuals shall not be considered “Employees” for purposes of the Plan:

- (a) any individual who is accruing service under a qualified retirement plan maintained by the Company or any Associated Company or any other retirement plan of the Company or any Associated Company as shall be specified by the Board of Directors from time to time and any individual who is eligible to participate in a retirement plan of the Company or any Associated Company that is maintained outside of the United States;
- (b) any individual whose terms and conditions of employment are determined by a collective bargaining agreement with the Company, which does not make this Plan applicable to him;
- (c) any individual who is a Leased Employee;
- (d) any individual who is engaged by the Company to perform services for the Company or an Associated Company in a relationship (i) that the Company characterizes as other than an

employment relationship, or (ii) that the individual has agreed is not an employment relationship and has waived his rights to coverage as an employee, such as where the Company engages the individual to perform services as an independent contractor, even if a determination is made by the Internal Revenue Service or other governmental agency or court, after the individual is engaged to perform such services, that the individual is an employee of the Company or an Associated Company for purposes of the Code;

- (e) any individual:
  - (i) who is regularly employed by the Company in a permanent position (as distinguished from a temporary assignment); and
  - (ii) whose primary place of employment with the Company is outside of the United States; and
  - (iii) who has his primary residence outside of the United States;
- (f) any individual:
  - (i) who is paid from a payroll maintained in the continental United States; and
  - (ii) who is not a United States citizen or a resident alien (as defined in Section 7701(b) of the Code); and
  - (iii) who is employed by the Company or an Associated Company on a temporary assignment in the United States;
- (g) any individual who is a nonresident alien with no U. S. source income; and
- (h) any individual who is a bona fide resident of Puerto Rico.

The term “employee,” as used in this Plan, means any individual who is employed by the Company or an Associated Company as a common law employee of the Company or Associated Company, regardless of whether the individual is an “Employee,” and any Leased Employee.

2.26 “*ERISA*” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.27 “*ESOP*” shall mean that portion of the Plan that consists of amounts invested in the ITT Stock Fund.

2.28 “*Exelis Stock*” shall mean common stock of Exelis Inc.

2.29 “*Exelis Stock Fund*” shall mean the Investment Fund under the Plan that is invested in Exelis Stock.

2.30 “*Highly Compensated Employee*” shall mean, with respect to any Plan Year, any employee who (a) in the Plan Year or the “look-back year” (which shall be the immediately preceding Plan Year) was a 5-percent owner (as defined in Section 416(i) of the Code), or (b) in the “look-back year” (which shall be the immediately preceding Plan Year) earned annual Statutory Compensation from the Company or an Associated Company that exceeds a dollar amount that is indexed annually and is determined pursuant to Section 414(q)(1)(B) of the Code.

The threshold referred to in (b) shall be adjusted from time to time for cost of living in accordance with Section 414(q) of the Code.

Notwithstanding the foregoing, with respect to the first and second Plan Years, the “look-back years” under (a) and (b) above shall be the 12-month period preceding the Plan Year.

For purposes of this Section, employees who are nonresident aliens and who receive no earned income from the Company or an Associated Company that constitutes income from sources within the United States shall be disregarded for all purposes of this Section. The provisions of this Section shall be further subject to such additional requirements as shall be described in Section 414(q) of the Code and its applicable regulations, which shall override any aspects of this Section inconsistent therewith.

- 2.31 “*Hours Worked*” shall mean hours for which an employee is compensated by the Company or by an Associated Company whether or not he has worked, such as paid holidays, paid vacation, paid sick leave and paid time off, and back pay for the period for which it was awarded, and each such hour shall be computed as only one hour, even though he is compensated at more than the straight time rate. With respect to any period for which an employee is compensated but has not worked, hours counted shall be included on the basis of the Employee’s normal workday or workweek. This definition of Hours Worked shall be applied in compliance with 29 Code of Federal Regulations Section 2530.200b-2(b) and (c), as promulgated by the United States Department of Labor, in a consistent and nondiscriminatory manner.
- 2.32 “*Investment Fund*” shall mean the separate funds in which contributions to the Plan are invested in accordance with Article 7.
- 2.33 “*ISP*” shall mean the ITT Salaried Investment and Savings Plan (including certain provisions that were included in a predecessor plan that was named the Pre-Distribution ITT Plan) that was maintained by ITT Corporation as in existence prior to October 31, 2011 and the sponsorship of which was transferred to Exelis Inc. effective October 31, 2011.
- 2.34 “*ITT*” shall mean ITT Corporation (as restructured effective October 31, 2011) or its successor.
- 2.35 “*ITT Stock*” shall mean common stock of ITT.
- 2.36 “*ITT Stock Fund*” shall mean the Investment Fund offered under the Plan that is invested in ITT Stock.
- 2.37 “*Leased Employee*” shall mean any person (other than a common law employee of the Company or an Associated Company) who, pursuant to an agreement between the Company and any other person (“leasing organization”) has performed services for the Company or an Associated Company or any related persons determined in accordance with Section 414(n)(6) of the Code on a substantially full-time basis for a period of at least one year and such services are performed under the primary direction of or control by the Company or an Associated Company. In the case of any person who is a Leased Employee (or who would qualify as a Leased Employee but for the requirement that substantially full-time service be performed for one year) before or after a period of service as an employee, the entire period during which he has performed services as a Leased Employee shall be counted as service as an employee for all purposes of the Plan, except that he shall not, by reason of that status, become a Member of the Plan.
- 2.38 “*Loan Valuation Date*” shall mean the business day on which a Member’s proper application for a loan under the Plan is received by the Savings Plan Administrator, or its designee.



- 2.39 “*Member*” shall mean any person who has become a Member as provided in Article 3.
- 2.40 “*Merged Bargained Plan*” shall mean the ITT Engineered Valves -- Lancaster Savings Plan for Hourly Employees, which was merged into the Plan as of the close of business on December 31, 2013. Special rules for individuals with accounts transferred from the Merged Bargained Plan are set forth in Appendix K.
- 2.41 “*Merged Bargained Plan Matching Employer Contributions Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his “*Matching Employer Contributions Account*” under the Merged Bargained Plan that was transferred to the Plan on December 31, 2013, plus investment earnings and gains and losses on such account under the Plan.
- 2.42 “*Merged Frozen Plan*” or “*Merged Frozen Plans*” shall mean one or more of the ITT Koni Friction Products Savings Plan for Hourly Employees, ITT Engineered Valves CA Pure Flo Solutions Group Savings Plan for Hourly Employees, and the ITT Pure Flo Precision Savings Plan for Hourly Employees, which were merged into the Plan as of the close of business on December 31, 2012. Special rules for individuals with accounts transferred from the Merged Frozen Plans are set forth in Appendix I. As of December 31, 2012, no participants in the Merged Frozen Plans were employed by the Company or an Associated Company.
- 2.43 “*Merged Hartzell Plan*” or “*Merged Hartzell Plans*” shall mean one or more of the AcousticFab, LLC 401(k) Plan, the Electrofilm Manufacturing Company, LLC 401(k) Plan, and the Industrial Tube Company, LLC 401(k) Plan, which were merged into the Plan as of the close of business on December 31, 2015, Special rules for individuals with accounts transferred from the Merged Hartzell Plans are set forth in Appendix L.
- 2.44 “*Merged Plan*” or “*Merged Plans*” shall mean one or more of the ITT Aerospace Controls Savings Plan for Hourly Employees, the ITT Control Technologies Savings Plan for Hourly Employees (reflecting the merger into that plan of the ITT Conoflow Savings Plan for Hourly Employees as of December 31, 2012) , the ITT Cannon Savings Plan for Hourly Employees, the ITT BIW Connector Systems Employees’ Savings Plan, and the ITT Engineered Valves -- Fabri Savings Plan for Hourly Employees, which were merged into the Plan as of the close of business on December 31, 2013, or the Pro Cast and Goulds Pumps Service Center Employees’ Savings Plan (the “*Pro Cast Plan*”), the assets and liabilities of which were transferred to the Plan from the ITT Industrial Process Retirement Savings Plan for Bargaining Unit Employees on January 1, 2014. Special rules for individuals with accounts transferred from the Merged Plans are set forth in Appendix J.
- 2.45 “*Merged Employer Contributions Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his “*Floor Employer Contributions Account*” under the ITT Koni Friction Products Savings Plan for Hourly Employees that was transferred to the Plan on December 31, 2012, his “*Floor Employer Contributions Account*” under the ITT Aerospace Controls Savings Plan for Hourly Employees that was transferred to the Plan on December 31, 2013, or his “*Employer Discretionary Contribution Subaccount*” under a Merged Hartzell Plan that was transferred to the Plan on December 31, 2015, plus investment earnings and gains and losses on such account under the Plan.
- 2.46 “*Merged Matching Employer Contributions Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his “*Matching Employer Contributions Account*” under (a) one of the Merged Frozen Plans that was transferred to the Plan on December 31, 2012, (b) one of the Merged Plans that was transferred to the Plan on December 31,

2013, (c) the Pro Cast and Goulds Pumps Service Center Employees' Savings Plan that was transferred to the Plan on January 1, 2014, and/or (d) one of the Merged Hartzell Plans that was transferred to the Plan on December 31, 2015, plus investment earnings and gains and losses on such account under the Plan.

- 2.47 “*Non-U.S. Citizen Employee*” shall mean any person regularly employed by the Company who is:
- (a) not a citizen of the United States or a resident alien;
  - (b) paid from a payroll maintained in the continental United States; and
  - (c) employed by the Company in a permanent position (as distinguished from a temporary assignment).
- 2.48 “*Participating Corporation*” shall mean, prior to January 1, 2016, any subsidiary or affiliated company of ITT or designated division(s) or unit(s) only of such subsidiary or affiliate which, by appropriate action of the board of directors of ITT or by a designated officer of ITT pursuant to authorization delegated to him by the board of directors of ITT was designated as a Participating Corporation in the Plan as to all of its employees or as to the employees of one or more of its operating or other units and the board of directors of which shall have taken appropriate action to adopt this Plan.
- 2.49 “*Participating Division*” shall mean, prior to January 1, 2016, any division of ITT or designated unit(s) only of such division which by appropriate action of the board of directors of ITT or by a designated officer of ITT pursuant to authorization delegated to him by the board of directors of ITT was designated as a Participating Division in this Plan.
- 2.50 “*Permanent and Total Disability*” shall mean presumably permanent incapacity in accordance with the Federal Social Security Act occurring while an Employee and resulting in a Member’s being unable to engage in any regular gainful employment or occupation by reasons of any medically demonstrable physical or mental condition. Such disability shall be deemed to exist only when a written application has been filed with the Benefits Administration Committee by or on behalf of such Member and when such disability is certified to the Benefits Administration Committee by a licensed physician approved by the Benefits Administration Committee, provided that such disability will not be considered established unless it has continued for a period of not less than six months.
- 2.51 “*PFTIC*” shall mean the ITT Pension Fund Trust and Investment Committee or its successor established from time to time pursuant to Section 12.1.
- 2.52 “*Plan*” shall mean the ITT Retirement Savings Plan as set forth herein or as amended from time to time. Before January 1, 2014, the Plan was known as the “ITT Corporation Retirement Savings Plan for Salaried Employees,” and from January 1, 2014 through December 31, 2015, the Plan was known as the “ITT Corporation Retirement Savings Plan.”
- 2.53 “*Plan Sponsor*” shall mean ITT Industries Holdings, Inc., the entity that sponsors the Plan effective January 1, 2016, or its successor.
- 2.54 “*Plan Year*” shall mean the calendar year, provided that the first Plan Year shall be the period from October 31, 2011 through December 31, 2011.

- 2.55 “*Prior Company Matching Account*” shall mean that portion of the Trust Fund, which, with respect to any Member or Deferred Member, is attributable to his “Company Matching Contribution Account” under the ISP that was transferred from the ISP to the Plan, plus investment earnings and gains or losses on such account in the Plan.
- 2.56 “*Prior ESOP Account*” shall mean that portion of the Trust Fund, which, with respect to any Member or Deferred Member, is attributable to his “Prior ESOP Account” under the ISP that was transferred from the ISP to the Plan, plus investment earnings and gains or losses.
- 2.57 “*Prior Plan Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his “Prior Plan Account” under the ISP that was transferred from the ISP to the Plan, plus investment earnings and gains or losses.
- 2.58 “*Regular Before-Tax Savings*” shall mean Before-Tax Savings made on a Member’s behalf under Section 4.1(a).
- 2.59 “*Rollover Account*” shall mean the portion of the Trust Fund, which, with respect to a Member or Deferred Member, is attributable to
- (a) Rollover Contributions other than Roth Rollover Contributions made to the Plan under Section 4.4; and
  - (b) any amounts that are attributable to rollover contributions made to the ISP, the Merged Frozen Plans, the Merged Hartzell Plans, the Merged Plans, the Merged Bargained Plan, or to any other qualified profit sharing or other defined contribution plan previously in effect at the Company or an Associated Company and that are transferred to the Plan on the Member’s behalf,
- plus any investment earnings and gains or losses on such amounts. After-tax Rollover Contributions shall be accounted for separately in the Rollover Account.
- 2.60 “*Rollover Contributions*” shall mean the contributions made by a Member pursuant to Section 4.4.
- 2.61 “*Roth Account*” shall mean that portion of the Trust Fund, which, with respect to a Member or Deferred Member, is attributable to his Roth Contributions, plus any investment earnings and gains or losses on such amounts.
- 2.62 “*Roth Contributions*” shall mean regular Roth Contributions and Roth Catch-up Contributions made on a Member’s behalf under Section 4.7 on or after February 1, 2015.
- 2.63 “*Roth Rollover Account*” shall mean that portion of the Trust Fund, which with respect to a Member or Deferred Member, is attributable to his Roth Rollover Contributions, plus any investment earnings and gains or losses on such amounts.
- 2.64 “*Roth Rollover Contributions*” shall mean Rollover Contributions made by a Member pursuant to Section 4.4(b)(ii) on or after February 1, 2015 that are attributable to Roth amounts.
- 2.65 “*Salary*” shall mean an Employee’s total remuneration from the Company for services rendered while a Member during a Plan Year, including annual base salary, overtime, shift differentials, commissions, regularly occurring incentive pay, and differential wage payments (as defined in Section 3401(h)(2) of the Code), all as determined prior to any deferral election pursuant to Section 4.1(a), any deferral

election pursuant to Section 125 of the Code, and any deferral election for a qualified transportation fringe under Section 132(f) of the Code and excluding:

- (a) foreign service allowances, separation pay, or, in accordance with rules uniformly applicable to all Members similarly situated and as interpreted by the Benefits Administration Committee, special bonuses, special commissions, and other special pay or allowances of similar nature; and
- (b) the cost of any public or private employee benefit plan, including the Plan; and
- (c) amounts excluded for certain Union Employees pursuant to Appendix K.

In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, the annual Salary of each Member taken into account under the Plan for any Plan Year shall not exceed \$200,000, as adjusted by the Secretary of the Treasury to reflect cost-of-living adjustments in accordance with Section 401(a)(17)(B) of the Code.

For purposes of Before-Tax Savings and Roth Contributions, Salary shall not include amounts that are excluded from compensation within the meaning of Section 415(c)(3) of the Code and Section 1.415(c)-(2) of the regulations thereunder.

- 2.66 “*Savings*” shall mean the After-Tax Savings contributed by a Member and the Before-Tax Savings contributed on a Member’s behalf.
- 2.67 “*Savings Plan Administrator*” shall mean the Benefits Administration Committee or its delegate.
- 2.68 “*Self-Directed Brokerage Account*” or “*SDA*” shall mean an Investment Fund that is a self-directed brokerage account established by a Member, as described in Section 7.1(b).
- 2.69 “*Service*” shall mean the period of elapsed time beginning on the date an employee commences employment with the Company or any Associated Company or predecessor company of ITT, and ending on his most recent Severance Date, subject to the following:
  - (a) Notwithstanding anything contained herein to the contrary, with respect to an Employee who is employed by the Company on October 31, 2011, such Employee shall be credited with “*Service*” he had earned under the ISP prior to October 31, 2011.

With respect to an individual who:

- (i) was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011;
- (ii) became an employee of Exelis Inc. or Xylem Inc. on October 31, 2011; and
- (iii) becomes an Employee immediately following termination of employment with Exelis Inc. or Xylem Inc. and prior to March 1, 2012,

if such Employee had accrued “*Service*” under the ISP prior to October 31, 2011, his prior “*Service*” under the ISP shall be credited under the Plan as of the date he becomes an Employee after October 31, 2011 and before March 1, 2012.

- (b) If an Employee terminates employment and is later reemployed within 12 months of the earlier of (i) his date of termination, or (ii) the first day of an absence from service immediately preceding his date of termination, the period between his Severance Date and his date of reemployment shall be included in his Service. Effective solely with respect to a Member who is an Employee on or after January 1, 2014, Service used to determine such Member's points for purposes of Company Core Contributions under Section 5.2(a) and Transition Credit Contributions under Section B of Appendix A, as applicable, earned on or after January 1, 2014, shall include the period between any Severance Date incurred by the Member and his subsequent date of reemployment, regardless of the length of his absence from employment.
- (c) If an Employee terminates and is later reemployed, the period of service prior to his Severance Date shall be included in his Service, regardless of the length of his absence from employment.
- (d) Under the circumstances hereinafter stated and upon such conditions as the Benefits Administration Committee shall determine on a basis uniformly applicable to all Employees similarly situated, the period of Service of an Employee shall be deemed not to be interrupted by an absence of the type hereinafter stated and the period of such absence shall be included in determining the length of an Employee's Service:
  - (i) if a leave of absence has been authorized by the Company or any subsidiary or affiliate of the Company, for the period of such authorized leave of absence only; or
  - (ii) if an Employee enters service in the uniformed services of the United States and if such individual's right to re-employment is protected by the Uniformed Services Employment and Reemployment Rights Act of 1994 or any similar law then in effect and if the individual returns to regular employment within the period during which the right to reemployment is protected by any such law. Notwithstanding any provisions of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.
- (e) If a Member dies while performing qualified military service (as defined in Section 414(u) of the Code) and while his reemployment rights are protected by the Uniformed Services Employment and Reemployment Rights Act of 1994, his period of time in qualified military service through the date of his death shall be included in his Service.

2.70 "*Severance Date*" shall mean with respect to employment with the Company and all Associated Companies:

- (a) Except as provided in (b) below, the earlier of:
  - (i) the date an Employee quits, is discharged, retires or dies; or
  - (ii) the first anniversary of the date on which he is first absent from service, with or without pay, for any reason other than discharge, retirement or death, such as vacation, sickness, disability, layoff or leave of absence.
- (b) If Service is interrupted for maternity or paternity reasons, meaning an interruption of Service by reason of the pregnancy of the Employee; the birth of a child of the Employee; the placement

of a child with the Employee by reason of adoption; or for purposes of caring for a newborn child of the Employee immediately following the birth or adoption of the newborn, then the Severance Date shall be the earlier of:

- (i) the date he quits, is discharged, retires or dies; or
- (ii) the second anniversary of the date on which he is first absent from service.

2.71 “*Special Company Contribution Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Special Company Contributions and any investment earnings and gains or losses thereon.

2.72 “*Special Company Contributions*” shall mean Special DC Credit Contributions and Transition Credit Contributions made pursuant to Appendix A.

2.73 “*Special Transition Contributions*” shall mean Special Transition Contributions made pursuant to Appendix K.

2.74 “*Special Transition Contributions Account*” shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Special Transition Contributions plus any investment earnings and gains or losses on such amounts.

2.75 “*Statutory Compensation*” shall mean total wages and other compensation paid to or for the Member by the Company or by an Associated Company as reported on the Member’s Form W-2, Wage and Tax Statement, plus elective contributions under Sections 125, 132(f)(4), 402(g)(3) and 414(v) of the Code. In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, the maximum amount of Statutory Compensation, taken into account under the Plan for any Plan Year for any Member shall not exceed \$200,000, as adjusted by the Secretary of the Treasury to reflect cost-of-living adjustments in accordance with Section 401(a)(17)(B) of the Code. Statutory Compensation shall also include:

- (a) salary continuation payments for military service as described in Treasury Regulation Section 1.415(c)-2(e)(4);
- (b) compensation paid after severance from employment as described in Treasury Regulation Section 1.415(c)-2(e)(3) (i), (ii) and (iii)(A);
- (c) foreign income as described in Treasury Regulation Section 1.415(c)-2(g)(5)(i), excluding amounts described in Treasury Regulation Section 1.415(c)-2(g)(5)(ii); and
- (d) differential wage payments (as defined in Section 3401(h)(2) of the Code) paid by the Company or an Associated Company with respect to any period during which an individual is performing service in the uniformed services (as defined in Section 3401(h)(2)(A) of the Code).

Payments not described above, including, but not limited to, amounts described in Treasury Regulation Section 1.415(c)-2(e)(3)(iii)(B) and (iv), shall not be considered Statutory Compensation if paid after severance from employment, even if such amounts are paid by the later of 2½ months after the date of severance from employment or the end of the Plan Year that includes the date of severance from employment.

- 2.76 “*Target Retirement Fund*” shall mean a fund managed by a provider designated by the PFTIC that is designed for investors who will retire at or around a specified date. The allocation to different asset classes will change over time and the fund will become increasingly conservative as the specified retirement date approaches.
- 2.77 “*Termination of Employment*” shall mean severance from the employment of the Company and all Associated Companies for any reason, including, but not limited to, retirement, death, disability, resignation or dismissal by the Company or an Associated Company; provided, however, that transfer in employment between the Company and any Associated Company shall not be deemed to be “Termination of Employment.” With respect to any leave of absence and any period of service in the uniformed services of the United States, Section 2.69 shall govern. Notwithstanding the foregoing, at such time as a Member who is absent from service with the Company due to a layoff no longer has recall rights under the Company’s applicable layoff policy (if any), such Member’s employment shall be terminated.
- 2.78 “*Trust Fund*” shall mean the aggregate funds held by the Trustee under the trust agreement or agreements established for the purposes of this Plan, consisting of the funds as described in Article 7.
- 2.79 “*Trustee*” shall mean the Trustee or Trustees at any time acting as such under the trust agreement or agreements established for the purposes of this Plan.
- 2.80 “*Valuation Date*” shall mean the date or dates, as applicable, on which the Trust Fund is valued in accordance with Article 8.
- 2.81 “*Vested Share*” shall mean, with respect to a Member or Deferred Member, that portion of his Accounts in which the Member or Deferred Member has a nonforfeitable interest as provided in Article 6.
- 2.82 “*Withdrawal Valuation Date*” shall mean, with respect to withdrawals made pursuant to Section 9.2, the business day on which a Member’s proper request for a withdrawal in a form or manner approved by the Benefits Administration Committee is received and processed by the Savings Plan Administrator or its designee. With respect to withdrawals made pursuant to Section 9.3, Withdrawal Valuation Date shall mean the business day on which a Member’s proper request for a withdrawal under the Plan, as received and processed by the Savings Plan Administrator or its designee, is approved by the Benefits Administration Committee.
- 2.83 “*Xylem Stock*” shall mean common stock of Xylem Inc.
- 2.84 “*Xylem Stock Fund*” shall mean the Investment Fund under the Plan that is invested in Xylem Stock.
- 2.85 “*Year of Service*” shall mean a calendar year during which an Employee completes at least 1,000 Hours Worked.

ARTICLE 3  
MEMBERSHIP

3.1 *Eligibility*

- (a) An Employee whose employment with the Company is not on a temporary or less than full-time basis and who is not a Non-U.S. Citizen Employee shall be eligible to become a Member on the later of the Effective Date or the date he first becomes an Employee.
- (b) An Employee whose employment with the Company is on a temporary or less than full-time basis and who is not a Non-U.S. Citizen Employee shall be eligible to become a Member on the later of the Effective Date or the day following the date he completes 1,000 Hours Worked in a twelve-consecutive-month computation period, provided he is then an Employee. The first computation period shall be the twelve-month period measured from the date on which such Employee's Service commences. Subsequent computation periods shall be the Plan Year, beginning with the Plan Year that contains the first anniversary of the date on which the Employee's Service commenced.
- (c) An Employee who is a Non-U.S. Citizen Employee who works in the continental U.S. on an expatriate basis shall be eligible to become a Member on the later of:
  - (i) the Effective Date; or
  - (ii) the day following the first date as of which he has worked in the continental U.S. as an employeein either case provided he is an Employee on such date.

An individual who is eligible to become a Member under (a), (b) or (c) above shall be eligible to become a Contributing Member as of the first day of the next available pay period (based on administrative processing deadlines) following the date Before-Tax Savings are made pursuant to Section 4.1, After-Tax Savings are made pursuant to Section 4.2, and/or Roth Contributions are made pursuant to Section 4.7. Any Employee who is the subject of a layoff and covered by recall rights shall be eligible to become or again become a Contributing Member as of the first day of the payroll period following his payroll reactivation date.

3.2 *Membership*

An individual who has satisfied the eligibility requirements under Section 3.1 shall become a Member on the date he satisfies such eligibility requirements provided he is an Employee on such date. Special rules for active participants in the Merged Plans and the Merged Bargained Plan on December 31, 2013, are set forth in Appendices J and K, respectively. A Member may make Before-Tax Savings, Roth Contributions, and/or After-Tax Savings as of the first day of the next available pay period or any subsequent pay period (based on administrative processing deadlines) and subject to the provisions of Sections 4.1, 4.2, and 4.7.

3.3 *Certain Member Elections*

An individual who becomes a Member pursuant to Section 3.2 may make the following elections in a form or manner approved by the Benefits Administration Committee:



- (a) He may designate one or more Beneficiaries.
- (b) He may designate a different rate of Before-Tax Savings than the rate that will otherwise automatically apply pursuant to Section 4.1(a).
- (c) He may elect to make Catch-Up Contributions pursuant to Section 4.1(b).
- (d) He may elect to make After-Tax Savings pursuant to Section 4.2.
- (e) He may elect to make Roth Contributions on or after February 1, 2015 pursuant to Section 4.7.
- (f) He may make an investment election as described in Section 7.2
- (g) He may make a dividend election as described in Section 8.8

#### 3.4 *Rehired Member*

A Member who terminates employment with the Company and all Associated Companies and is rehired by the Company as an Employee will re-enter the Plan upon his reemployment as a Member in accordance with the provisions of Section 3.2.

#### 3.5 *Transferred Members*

Notwithstanding any provision of the Plan to the contrary, a Member who remains in the employ of the Company or an Associated Company but ceases to be an Employee shall continue to be a Member of the Plan but shall not be eligible to make Before-Tax Savings, After-Tax Savings, or Roth Contributions or to receive allocations of Company Matching Contributions or Company Core Contributions while his employment status is other than as an Employee. Such Member shall be entitled to any Special Company Contributions or Special Transition Contributions that may be payable for the Plan Year, based on the period of time during which he was an Employee during such Plan Year.

#### 3.6 *Termination of Membership*

A Member's membership shall terminate on the date he is no longer employed by the Company or any Associated Company unless the Member is entitled to benefits under the Plan in which event his membership shall terminate when those benefits are distributed to him.

ARTICLE 4

MEMBER SAVINGS

4.1 *Member Before-Tax Savings*

(a) Commencement and Amount of Regular Before-Tax Savings

- (i) Effective as of the first day of the next available pay period (based on administrative processing deadlines) an Employee who has become a Member pursuant to Article 3 shall have his Salary reduced by 6 percent and that amount shall be contributed on his behalf to the Plan by the Company as Regular Before-Tax Savings until and unless the Member elects, in accordance with the procedures prescribed by the Benefits Administration Committee, to either receive such Salary directly from the Company in cash or to reduce his Salary in some other percentage. Such reduction in Salary shall be applied to Salary that could have been subsequently received by the Member. Any such specified percentage of Salary shall be in a multiple of 1 percent and the maximum percentage shall be 50 percent. Notwithstanding the preceding sentence, if in any Plan Year a Member makes After-Tax Savings in accordance with Section 4.2 and/or regular Roth Contributions in accordance with Section 4.7 in addition to Regular Before-Tax Savings in accordance with this Section, the maximum percentage of Salary such Member may contribute for such Plan Year under the combination of this Section and Sections 4.2 and 4.7 shall not exceed 50 percent.

Notwithstanding the foregoing and Section 4.2:

(A) With respect to an Employee who is employed as an Employee by the Company on October 31, 2011, the following provisions shall apply:

- (1) If such individual was making Regular Before-Tax Savings and/or After-Tax Savings under the ISP immediately prior to October 31, 2011 in an amount equal to a total of 6 percent or more of his Salary, such individual shall become a Member of the Plan on October 31, 2011 and effective as of the first day of the next available pay period (based on administrative processing deadlines) such individual's election of Regular Before-Tax Savings and/or After-Tax Savings under the ISP immediately prior to October 31, 2011 shall be deemed to have been made under the Plan and shall continue in the same amount until and unless the Member makes another Regular Before-Tax Savings and/or After Tax Savings election in accordance with procedures prescribed by the Benefits Administration Committee.
- (2) If such individual was not making Regular Before-Tax and/or After-Tax Savings under the ISP immediately prior to October 31, 2011 in an amount equal to a total of 6 percent or more of his Salary, such individual shall become a Member of the Plan on October 31, 2011 and, effective as of the first day of the next

available pay period (based on administrative processing deadlines):

(I) such individual's After-Tax Savings election under the ISP immediately prior to October 31, 2011, if any, shall be deemed to have been made under the Plan until and unless the Member makes another election in accordance with procedures prescribed by the Benefits Administration Committee; and

(II) such individual shall be deemed to have elected to make Regular Before-Tax Savings under the Plan equal to 6 percent of his Salary or, if less, the amount necessary to have the total of his Regular Before-Tax and After-Tax Contributions equal 6 percent of his Salary, until and unless the Member makes another election in accordance with procedures prescribed by the Benefits Administration Committee.

(B) With respect to an individual who was an active participant in one of the Merged Plans or the Merged Bargained Plan on December 31, 2013 and is an Employee on January 1, 2014, the following provisions shall apply:

(1) If such individual was making regular before-tax contributions and/or after-tax contributions under the applicable Merged Plan or Merged Bargained Plan on December 31, 2013 in an amount equal to a total of 6 percent or more of his compensation, such individual shall become a Member of the Plan on January 1, 2014 and effective as of the first day of the next available pay period (based on administrative processing deadlines) such individual's election in effect under the Merged Plan or Merged Bargained Plan immediately prior to January 1, 2014 shall be deemed to have been an election of Regular Before-Tax Savings and/or After-Tax Savings made under the Plan and shall continue in the same percentage until and unless the Member makes another Regular Before-Tax Savings and/or After Tax Savings election in accordance with procedures prescribed by the Benefits Administration Committee.

(2) If such individual was not making regular before-tax contributions and/or after-tax contributions under the applicable Merged Plan or Merged Bargained Plan immediately prior to January 1, 2014 in an amount equal to a total of 6 percent or more of his compensation, such individual shall become a Member of the Plan on January 1, 2014 and, effective as of the first day of the next available pay period (based on administrative processing deadlines):

(I) such individual's after-tax contribution percentage election under the applicable Merged Plan or Merged Bargained Plan immediately prior to January 1, 2014, if any, shall be

deemed to have been an After-Tax Savings percentage election made under the Plan until and unless the Member makes another election in accordance with procedures prescribed by the Benefits Administration Committee; and

(II) such individual shall be deemed to have elected to make Regular Before-Tax Savings under the Plan equal to 6 percent of his Salary or, if less, the amount necessary to have the total of his Regular Before-Tax and After-Tax Savings equal 6 percent of his Salary, until and unless the Member makes another election in accordance with procedures prescribed by the Benefits Administration Committee.

- (ii) In order to comply with Section 415 of the Code, the Benefits Administration Committee may impose an additional limit on any Member's Before-Tax Savings and Roth Contributions based on the Benefits Administration Committee's reasonable projection of the total "annual addition" (as defined in Section 5.4) that will be credited to a Member's Accounts for a Plan Year.
- (iii) Prior to January 1, 2012, and on and after January 1, 2016, in order to comply with Section 401(k)(3) of the Code, the Benefits Administration Committee may impose a limitation on the extent to which a Member who is a Highly Compensated Employee may reduce his Salary in accordance herewith, based on the Benefits Administration Committee's reasonable projection of Before-Tax Savings and Roth Contribution rates of Members who are not Highly Compensated Employees.
- (iv) A Member may elect to change the rate of Regular Before-Tax Savings under this paragraph (a) or regular Roth Contributions under Section 4.7 as of the first day of any pay period by making an election in the form or manner approved by the Benefits Administration Committee for such purpose. The changed rate shall be effective as soon as administratively possible following the date the election is received by the Savings Plan Administrator.

Effective as of such date as is approved by the Benefit Administration Committee and in accordance with such rules and procedures as may be prescribed by the Benefits Administration Committee, a Member may elect to have the rate of his Regular Before-Tax Savings or regular Roth Contributions automatically escalated.

Effective beginning April 1, 2015, and subject to such rules and procedures as may be prescribed by the Benefits Administration Committee, the contribution rate of a Member shall be automatically increased by 1 percent each April 1 as follows:

- (A) The contribution rate increase shall apply only if (1) the Member does not opt out of the automatic increase pursuant to such rules and procedures as may be prescribed by the Benefits Administration Committee, and (2) as of such April 1, the Member has in effect a contribution rate of less than 10 percent with respect to the combination of Before-Tax Savings, After-Tax Savings, and Roth Contributions. The contribution rate increase shall not apply, however, on April 1, 2015, with respect to a Member who, as of such date, has elected to make Roth Contributions.

- (B) If the contribution rate increase applies, the Member's contribution rate for Before-Tax Savings shall be increased, as of such April 1, by one percent, except: (1) if, as of such April 1, the Member's contribution rate for Before-Tax Savings is zero percent and the Member has a contribution rate for Roth Contributions that is greater than zero percent, the one-percent increase shall instead be applied to the Member's contribution rate for Roth Contributions, and (2) if, as of such April 1, the Member's contribution rate for Before-Tax Savings and Roth Contributions is zero percent and the Member has a contribution rate for After-Tax Savings that is greater than zero percent, the one-percent increase shall instead be applied to the Member's contribution rate for After-Tax Savings.

(b) Catch-Up Contributions

A Member who has attained or will attain age 50 by the last day of the Member's taxable year may elect, in accordance with procedures prescribed by the Benefits Administration Committee, to make Catch-Up Contributions for any Plan Year in accordance with and subject to the limitations of Section 414(v) of the Code. Such Catch-Up Contributions shall be treated under the Plan as Before-Tax Savings or Roth Contributions, as elected by the Member, but shall be subject to the following special rules:

- (i) A Member's Catch-Up Contributions shall not be taken into account for purposes of applying the maximum percentage limitation described in (a) above or the limitations under Sections 402(g) and 415 of the Code and Members' Catch-Up Contributions shall not be taken into account in applying the Actual Deferral Percentage test of (d) below.
- (ii) The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of making such Catch-Up Contributions.
- (iii) The determination of whether a Before-Tax Savings contribution under this Section or a Roth Contribution under Section 4.7 constitutes a Catch-Up Contribution for any Plan Year shall be determined as of the end of such Plan Year, in accordance with Section 414(v) of the Code. Before-Tax Savings contributions or Roth Contributions that are intended to be Catch-Up Contributions for a Plan Year but which do not qualify as Catch-Up Contributions as of the end of the Plan Year shall be treated for all purposes under the Plan as Regular Before-Tax Savings or regular Roth Contributions.
- (iv) The Company shall take a Member's Catch-Up Contributions into account for purposes of determining the amount of Company Matching Contributions under Section 5.1 for a Plan Year.
- (v) A Member's Catch-Up Contributions shall be subject to the same withdrawal and distribution restrictions as Regular Before-Tax Savings contributions and regular Roth Contributions.
- (vi) In the event that the sum of a Member's Catch-Up Contributions and similar contributions to any other qualified defined contribution plan maintained by the Company or an Associated Company exceeds the dollar limit on catch-up contributions

under Section 414(v) of the Code for any calendar year as in effect for such calendar year, the Member shall be deemed to have elected a return of the Catch-Up Contributions in excess of the limit under Section 414(v) of the Code and such amount shall be treated in the same manner as “excess deferrals” under (c) below.

- (vii) If a Member makes catch-up contributions under a qualified defined contribution plan and/or Code Section 403(b) plan maintained by an employer other than the Company or an Associated Company for any calendar year and those contributions when added to his Catch-Up Contributions exceed the dollar limit on catch-up contributions under Section 414(v) of the Code for that calendar year, the Member may allocate all or a portion of such “excess catch-up contributions” to this Plan. In the event such Member notifies the Benefits Administration Committee of the “excess catch-up contributions” in the same manner as is required for allocated “excess deferrals” under (c) below, such “excess catch-up contributions” shall be distributed in the same manner as “excess deferrals” under (c) below.

A Member may elect to change the rate of his Catch-Up Contributions under this paragraph (b) as of the first day of any pay period by making an election in the form or manner approved by the Benefits Administration Committee for such purpose. The changed rate of Catch-Up Contributions shall be effective as soon as administratively possible following the date the election is received by the Savings Plan Administrator.

(c) Application of Maximum Dollar Limit on Regular Before-Tax Savings and Regular Roth Contributions

The maximum dollar amount of Regular Before-Tax Savings, regular Roth Contributions, and similar contributions made on a Member’s behalf by the Company or any Associated Company to all plans, contracts or arrangements subject to the provisions of Section 401(a)(30) of the Code for a calendar year shall be the maximum amount determined by the Secretary of the Treasury for such calendar year, pursuant to Section 402(g) of the Code as in effect for such calendar year, except as permitted under Section 414(v) of the Code. Amounts contributed in excess of such limit shall constitute “excess deferrals.”

- (i) *Prevention of Excess Deferrals Under Plan.* If a Member’s Regular Before-Tax Savings and regular Roth Contributions in a calendar year reach the dollar limit on elective deferrals under Section 401(a)(30) of the Code in any calendar year, the Member’s election to make Regular Before-Tax Savings and/or regular Roth Contributions will be canceled. Such Member may elect at any time to make After-Tax Savings in accordance with Section 4.2. As of the first pay period of the calendar year following the cancellation of a Member’s Regular Before-Tax Savings and/or regular Roth Contributions in accordance with first sentence of this paragraph, the Member’s election of Regular Before-Tax Savings and/or regular Roth Contributions shall again become effective in accordance with his previous election, unless the Member elects otherwise in accordance with Section 4.3.
- (ii) *Treatment of Excess Deferrals under Plan and Plans of Associated Companies.* In the event that the sum of a Member’s Regular Before-Tax Savings and regular Roth Contributions and similar contributions to any other qualified defined contribution plan maintained by the Company or an Associated Company exceeds the dollar limit on elective deferrals under Section 402(g) of the Code for any calendar year as in

effect for such calendar year, a Member who is eligible to make Catch-Up Contributions to the Plan will be deemed to have such excess deferrals reclassified as Catch-Up Contributions (with regular Roth Contributions reclassified first), subject to the limitations of (b) above. To the extent that the reclassification described in the preceding sentence is not applicable, or is insufficient to fully resolve the issue of the excess deferrals, the Member shall be deemed to have elected a return of the Regular Before-Tax Savings and/or regular Roth Contributions in excess of the limit under Section 402(g) of the Code from this Plan (with the excess allocated first to regular Before-Tax Savings). The excess deferrals, together with Earnings, shall be returned to the Member no later than April 15 following the end of the calendar year in which the excess deferrals were made. The amount of excess deferrals to be returned for any calendar year shall be reduced by any Regular Before-Tax Savings and/or regular Roth Contributions previously returned to the Member under (d) below for that calendar year. In the event any Regular Before-Tax Savings and/or regular Roth Contributions returned under this paragraph were matched by Company Matching Contributions, those Company Matching Contributions, together with Earnings, shall be forfeited and used to reduce future Company contributions.

- (iii) *Treatment of Member-Allocated Excess Deferrals.* If a Member makes tax-deferred contributions under another qualified defined contribution plan and/or a Code Section 403(b) plan maintained by an employer other than the Company or an Associated Company for any calendar year and those contributions when added to his Regular Before-Tax Savings and regular Roth Contributions exceed the dollar limit on elective deferrals under Section 402(g) of the Code for that calendar year, the Member may allocate all or a portion of such excess deferrals to this Plan. In that event, a Member who is eligible to make Catch-Up Contributions to the Plan will be deemed to have such excess deferrals reclassified as Catch-Up Contributions (with regular Roth Contributions reclassified first), subject to the limitations of (b) above. To the extent that the reclassification described in the preceding sentence is not applicable, or is insufficient to fully resolve the issue of the excess deferrals, such excess deferrals (with the excess allocated first to Regular Before-Tax Savings), together with Earnings, shall be returned to the Member no later than the April 15 following the end of the calendar year in which such excess deferrals were made. However, the Plan shall not be required to return excess deferrals unless the Member notifies the Benefits Administration Committee or its designee, in writing, not later than March 1, of that following year, of the amount of the tax-deferred contributions made to the plan of the other employer. The amount of any excess deferrals to be returned for any calendar year shall be reduced by any Regular Before-Tax Savings and/or regular Roth Contributions previously returned to the Member under (d) below for that calendar year. In the event any Regular Before-Tax Savings and/or regular Roth Contributions returned under this paragraph were matched by Company Matching Contributions, those Company Matching Contributions, together with Earnings, shall be forfeited and used to reduce Company contributions.

Notwithstanding the foregoing, in lieu of a return of the excess deferrals, a Member may elect, to the extent permitted under applicable Treasury Regulations, to have the Plan treat all or a portion of the excess deferrals attributable to his Regular Before-Tax Savings and/or regular Roth Contributions as After-Tax Savings, subject to the limitations of Section 4.2; provided the Member notifies the Benefits Administration

Committee or its designee, in writing, by the date determined by the Benefits Administration Committee. For this purpose, the excess deferrals, together with Earnings, shall be deemed distributed to the Member and then recontributed to the Plan by the Member as After-Tax Savings for the Plan Year in which the excess deferrals were made. Reclassified excess deferrals shall be considered After-Tax Savings made in the Plan Year to which the excess deferrals relate for purposes of Section 4.5 and shall be subject to the withdrawal provisions applicable to After-Tax Savings under Article 9. If the excess deferrals were matched by Company Matching Contributions, the corresponding Company Matching Contributions shall remain allocated to the Member's Company Account to the extent such excess deferrals if made, as After-Tax Savings would have been matched under the provisions of Section 5.1. The Member's election to reclassify excess deferrals shall be made no later than April 1 following the close of the Plan Year in which the excess deferrals were made or within such shorter period as the Benefits Administration Committee may prescribe.

- (iv) Notwithstanding the foregoing, in the case of any Member who (A) ceases to be an Employee during a Plan Year; (B) is employed during such Plan Year by an employer which is not the Company or an Associated Company; and (C) exceeds the limitation on elective deferrals enumerated in Section 402(g) of the Code based on the Member's participation in the Plan and participation in a plan maintained by the subsequent employer; the Plan shall not distribute to the Member any Before-Tax Savings, Roth Contributions (or any income thereon) arising solely as a result of such Member's exceeding the limit under Section 402(g) of the Code for the Plan Year, unless the exceeding of such limit is based solely on the Member's participation in this Plan without considering any other plan.

(d) ADP Test on Before-Tax Savings and Roth Contributions

Effective for Plan Years beginning on and after January 1, 2012, and before January 1, 2016, except as provided in Appendix K for certain Union Employees described therein, the Plan is intended to satisfy the safe harbor alternative method of meeting the nondiscrimination requirements under Section 401(k)(12) of the Code by treating the first three percent of Company Core Contributions under Section 5.2 as nonelective contributions pursuant to Section 401(k)(12)(C) of the Code. Accordingly, the Plan is deemed to satisfy the ADP Test under Section 401(k) of the Code for such Plan Years with respect to Regular Before-Tax Savings and regular Roth Contributions.

Prior to January 1, 2012, and on and after January 1, 2016, the amount of Regular Before-Tax Savings and regular Roth Contributions made to the Plan for a Plan Year shall comply with the provisions of Section 401(k)(3) of the Code, including any regulations issued thereunder and any subsequent Internal Revenue Service guidance issued under Section 401(k) of the Code. The current year testing method shall be used.

Amounts that would cause the Plan to fail the ADP test shall constitute "excess contributions." If the Benefits Administration Committee determines that the limitation has been exceeded, the following provisions shall apply:

- (i) The excess contributions shall first be treated as Catch-Up Contributions to the extent possible under Section 4.1(b) (with regular Roth Contributions reclassified first).



- (ii) Any remaining excess contributions, together with Earnings thereon, will be allocated to the Highly Compensated Employees with the greatest dollar amount of such contributions in the following manner:
  - (A) The amount to be allocated shall be the lesser of (1) the total excess contributions or (2) such amount as will cause the dollar amount of such Highly Compensated Employee's Regular Before-Tax Savings and regular Roth Contributions to equal the dollar amount of the Regular Before-Tax Savings and regular Roth Contributions of the Highly Compensated Employee with the next highest dollar amount of Regular Before-Tax Savings and regular Roth Contributions. For this purpose, excess contributions will be allocated first to Regular Before-Tax Savings and then to regular Roth Contributions.
  - (B) The process described in (A) above shall be repeated, if necessary, until the total excess contributions shall have been allocated. At any stage in this allocation process, if two or more Highly Compensated Employees have the same dollar amount remaining of Regular Before-Tax Savings and regular Roth Contributions, the allocation shall be made to both of them in equal amounts.
- (iii) The excess contributions allocated to Highly Compensated Employees under (ii) above shall be distributed to such Members before the close of the Plan Year following the Plan Year in which the excess contributions were made, and to the extent practicable, within 2½ months of the close of the Plan Year in which the excess contributions were made. Alternatively, under rules adopted by the Benefits Administration Committee, such Members may elect to recharacterize such excess contributions as After-Tax Savings provided such election to recharacterize the excess contributions is made within 2½ months after the close of the Plan Year in which the excess contributions were made or within such shorter period as the Benefits Administration Committee may prescribe. When the total excess contributions shall have been allocated and distributed or recharacterized in the manner described above, the Plan shall be deemed to satisfy the tests set forth in this Section, regardless of whether the final Average Deferral Percentage of the Highly Compensated Employees in fact satisfy such tests. In the event any Regular Before-Tax Savings and/or regular Roth Contributions distributed under this Section were matched by Company Matching Contributions, those Company Matching Contributions, together with Earnings, shall be forfeited and used to reduce Company contributions.

#### 4.2 *Member After-Tax Savings*

- (a) By authorizing payroll deductions, each Member may elect, subject to (b) below, to contribute to the Trust Fund as After-Tax Savings any whole percentage from 1 percent to 50 percent of his Salary in such payroll period, subject to the following:
  - (i) The total amount of After-Tax Savings for any Plan Year may not exceed 50 percent of his Salary reduced by the rate of Before-Tax Savings being made pursuant to Section 4.1(a) and/or Roth Contributions being made pursuant to Section 4.7.
  - (ii) In order to comply with Section 415 of the Code, the Benefits Administration Committee may impose an additional limit on any Member's After-Tax Savings based on the Benefits Administration Committee's reasonable projection of the total "annual

addition” (as defined in Section 5.4) that will be credited to a Member’s Accounts for a Plan Year.

A Member’s election shall be effective as soon as administratively possible following the date such election is received by the Savings Plan Administrator or its designee.

Notwithstanding the foregoing, the special provisions of (A) Section 4.1(a)(i)(A) shall apply with respect to an Employee who is employed as an Employee by the Company on October 31, 2011 and (B) Section 4.1(a)(i)(B) shall apply with respect to individuals who were active participants in a Merged Plan or the Merged Bargained Plan on December 31, 2013.

- (b) In order to comply with Section 401(m) and/or 415 of the Code, the Benefits Administration Committee may impose an additional limit on the extent to which a Member who is a Highly Compensated Employee may contribute to the Trust Fund as After-Tax Savings, based on the Benefits Administration Committee’s reasonable projection of After-Tax Savings rates of Members who are not Highly Compensated Employees and the necessity of satisfying the test described in Section 4.5.

A Member may elect to change his After-Tax Savings rate on any business day by making an election in a form or manner approved by the Benefits Administration Committee for such purpose. The changed After-Tax Savings rate shall be effective as soon as administratively possible following the date notice is received by the Savings Plan Administrator or its designee.

#### 4.3 *Suspension and Resumption of Member Savings*

- (a) A Member may suspend his Savings under Section 4.1 and/or Section 4.2 or his Roth Contributions under Section 4.7 as of any business day by making an election in a form or manner approved by the Benefits Administration Committee for such purpose. Such suspension will become effective as soon as administratively possible following the date the election is received by the Savings Plan Administrator or its designee. If a Member takes a withdrawal from his Before-Tax Account under Section 9.3(a) or (b), his Savings and Roth Contributions shall be suspended for a period of six months to the extent provided in the applicable Section. Such suspension will become effective as soon as administratively possible following the Withdrawal Valuation Date. No Company Matching Contributions shall be made under Section 5.1 during the period of a Member’s suspension although he will continue to be considered a Member and he will be entitled to Company Core Contributions and any Special Company Contributions or Special Transition Contributions that may be payable during the period of suspension.
- (b) A Member who suspends his Savings and/or Roth Contributions in accordance with the first sentence of (a) above may resume his Savings under Section 4.1 and/or under Section 4.2 and/or his Roth Contributions under Section 4.7 as of any pay period after the date the suspension commenced by making an election in a form or manner approved by the Benefits Administration Committee for such purpose.
- (c) A Member whose Savings and or Roth Contributions are suspended in accordance with the third sentence of (a) above (or were suspended as of the merger date under any similar provision in any Merged Hartzell Plan, Merged Plan or the Merged Bargained Plan) may resume his Savings under Section 4.1 and/or under Section 4.2 and/or his Roth Contributions under Section 4.7 as of the first day of any pay period following the six-month suspension by making

an election in a form or manner approved by the Benefits Administration Committee for such purpose. A resumption elected pursuant to this Section 4.3 shall occur as soon as administratively possible after the election is received by the Savings Plan Administrator or its designee.

#### 4.4 Rollover Contributions

- (a) With the permission of the Benefits Administration Committee, and without regard to any limitation on contributions under this Article 4 or Section 5.4, the Plan may accept from or on behalf of a Member, but not a Deferred Member, a Rollover Contribution in cash, consisting of any amount, including after-tax amounts but, prior to February 1, 2015, excluding any amount attributable to Roth contributions, previously received (or deemed to be received) by him from an “eligible retirement plan.” Such Rollover Contributions shall be subject to the following:
- (i) For purposes of this Section, “eligible retirement plan” means:
- (A) another employer’s qualified plan described in Section 401(a) of the Code (or another qualified defined contribution plan sponsored by the Company or an Associated Company, provided that the Rollover Contribution represents the rollover of all or a portion of a full distribution of the individual’s account balance in such plan due to the sale or closing of a business unit sponsoring such plan);
  - (B) an annuity plan described in Section 403(a) of the Code;
  - (C) an annuity contract described in Section 403(b) of the Code;
  - (D) an eligible Plan under Section 457(b) of the Code that is maintained by a state, political subdivision of a state or any agency or instrumentality of a state or political subdivision of a state; or
  - (E) an individual retirement account or individual retirement annuity of the Member described in Section 408(a) or 408(b) of the Code that contains only amounts that were originally distributed from a qualified plan described in Section 401(a) or 403(a) of the Code (i.e., a “conduit IRA”).
- (b) Such Rollover Contribution may be received in any of the following ways:
- (i) The Plan may accept such amount as a direct rollover of an eligible rollover distribution, including after-tax amounts (other than Roth contributions described in (ii), below) provided such after-tax amounts are received directly from a plan that is qualified under Section 401(a) of the Code or an annuity contract described in Section 403(b) of the Code.
  - (ii) On or after February 1, 2015, the Plan may accept a rollover of Roth contributions to a Member’s Roth Rollover Account, but only if it is a direct rollover from another Roth contribution account under an applicable retirement plan described in section 402A(e)(1) of the Code and only to the extent the rollover is permitted under the rules of section 402(c) of the Code.

- (iii) The Plan may accept such amount directly from the Member provided such amount:
  - (A) was distributed to the Member by an eligible retirement plan;
  - (B) is received by the Plan on or before the 60th day after the day it was received by the Member;
  - (C) would otherwise be includible in gross income; and
  - (D) is not attributable to Roth contributions.

Notwithstanding (B) above, the Benefits Administration Committee may accept a Rollover Contribution more than 60 days after the amount was received by the Member provided the Member has received from the Secretary of the Treasury a waiver of the 60-day requirement, pursuant to Section 402(c)(3)(B) of the Code.

#### 4.5 *ACP Test on After-Tax Savings and Company Matching Contributions*

Effective for Plan Years beginning on or after January 1, 2012, and before January 1, 2016, except as provided for certain Union Employees pursuant to Appendix K, the Plan is intended to satisfy the alternative method of meeting the nondiscrimination requirements with respect to Company Matching Contributions under Section 401(m)(11) of the Code by treating the first three percent of Company Core Contributions under Section 5.2 as nonelective contributions pursuant to Section 401(k)(12)(C) of the Code. Accordingly, with respect to such Plan Years, the Plan is deemed to satisfy the ACP Test under Section 401(m)(11) of the Code with respect to Company Matching Contributions.

Except as provided for certain Union Employees pursuant to Appendix K, the amount of After-Tax Savings and, for Plan Years beginning before January 1, 2012 and on or after January 1, 2016, Company Matching Contributions made to the Plan shall comply with the provisions of Section 401(m)(2) of the Code (the “ACP Test”), including any regulations issued thereunder and any subsequent Internal Revenue Service guidance issued under Section 401(m) of the Code. Notwithstanding the preceding sentence, for any Plan Year, the Benefits Administration Committee may elect to take Company Matching Contributions for the Plan Year into account for purposes of the ACP Test, to the extent permitted under applicable law.

Amounts that would cause the Plan to fail the ACP test constitute “excess aggregate contributions.” If the Benefits Administration Committee determines that the limitation has been exceeded, the following provisions apply:

- (a) The payment or forfeiture of the excess aggregate contributions, together with Earnings thereon, shall be made before the close of the Plan Year following the Plan Year for which the excess aggregate contributions were made and, to the extent practicable, any payment or forfeiture will be made within 2½ months following the end of the Plan Year for which the contributions were made.
- (b) The total amount of excess aggregate contributions, together with Earnings thereon, shall be allocated to the Highly Compensated Employees with the greatest dollar amount of such contributions in the following manner:
  - (i) The amount to be allocated shall be the lesser of (A) the total excess aggregate contributions, or (B) such amount as will cause the dollar amount of such Highly

Compensated Employee's After Tax Savings, and, if applicable, Company Matching Contributions, to equal the dollar amount of the After Tax Savings, and, if applicable, Company Matching Contributions, of the Highly Compensated Employee with the next highest dollar amount of After Tax Savings, and, if applicable, Company Matching Contributions.

- (ii) The process described in (i) above shall be repeated, if necessary, until the total excess aggregate contributions shall have been allocated. At any stage in the allocation process herein described, if two or more Highly Compensated Employees have the same dollar amount remaining of After Tax Savings, and, if applicable, Company Matching Contributions, the allocation shall be made to both of them in equal amounts.
- (c) The excess aggregate contributions allocated to Highly Compensated Employees under (b) above, together with Earnings thereon, shall be paid or returned to a Member from the following categories of contributions (adjusted to reflect earnings or losses attributable thereto):
  - (i) first, unmatched After-Tax Savings;
  - (ii) second, matched After-Tax Savings; and
  - (iii) third, Company Matching Contributions, if applicable.

Once the excess aggregate contributions are paid or returned as described above, the Plan shall be deemed to satisfy the ACP test set forth in this Section, regardless of whether the final Average Contribution Percentage of the Highly Compensated Employees in fact satisfy such tests.

- (d) A Member's Actual Contribution Percentage shall be determined after a Member's excess Before-Tax Savings are either recontributed to the Plan as After-Tax Savings or paid to the Member.

#### 4.6 *Transfer Contributions*

With the permission of the Benefits Administration Committee and under such conditions as it may require, but without regard to any limitations on contributions set forth in this Article 4 or Section 5.4, the Plan may accept an amount, if any, from another qualified plan that, in accordance with the provisions of Section 11.9, the Member elects under such plan to transfer to this Plan, or which the Trustee of such other qualified plan transfers directly to the Trustee of this Plan. Such transferred contributions shall be paid to the Trustee as soon as practicable and shall be held in the Accounts of the Member, as determined by the Benefits Administration Committee. The Member shall be required to establish that such prior employer's plan meets the qualification requirements under Section 401(a) of the Code; and no such trust-to-trust transfer shall be permitted unless the amount transferred is free of all defined benefit or money purchase characteristics and does not make the Plan a transferee plan under Section 401(a)(11)(B)(iii)(III) of the Code.

#### 4.7 *Member Roth Contributions.*

- (a) On or after February 1, 2015, a Member may elect to:

- (i) reduce his future Salary and to have the amount of such reduction contributed to the Plan by the Company; and
  - (ii) designate the contribution irrevocably, at the time of the election, as a Roth Contribution that is being made in lieu of all or a portion of the Regular Before-Tax Savings or Catch-Up Contributions the Member is otherwise eligible to make under Section 4.1(a) or (b), respectively, of the Plan.
- (b) Roth Contributions shall:
- (ii) be subject to the provisions of Sections 4.1(a) and (b) and Section 4.3 as if they were Before-Tax Savings;
  - (iii) be includible in the Member's income pursuant to section 402A of the Code;
  - (iv) be accounted for separately in accordance with Section 8.2; and
  - (v) together with any Regular Before-Tax Savings made on behalf of the Member, be subject to the limits imposed by Sections 4.1(c) and (d).

## ARTICLE 5

### COMPANY CONTRIBUTIONS

#### 5.1 *Company Matching Contributions*

The Company, with respect to each eligible Member employed by it, shall contribute to the Trust a Company Matching Contribution in an amount equal to 50 percent of the Member's Savings and Roth Contributions for each pay period; provided, however, that only the first 6 percent of the Member's Salary will be eligible for such a Company Matching Contribution during each pay period so that the maximum Company Matching Contribution shall be 3 percent of the Member's Salary. Company Matching Contributions will be applied first to a Member's Before-Tax Savings. Any remaining Company Matching Contributions will be applied to the Member's Roth Contributions and then to the Member's After-Tax Savings.

Notwithstanding anything contained herein to the contrary, with respect to Plan Years beginning on and after January 1, 2012, if as of the last day of the Plan Year, the amount of Matching Contributions allocated to a Member for such Plan Year is less than 50 percent of the Member's Savings and Roth Contributions up to 6 percent of the Member's Salary for the Plan Year, the Company shall make a "true-up" Company Matching Contribution on behalf of such Member in an amount equal to the difference. The true-up Company Matching Contribution described in the preceding sentence shall also be made with respect to a Member who terminates employment during the Plan Year and such true-up Company Matching Contribution shall be made as soon as administratively practicable following the end of the calendar year in which the Member terminates employment.

Company Matching Contributions shall be credited to the Member's Company Matching Account.

#### 5.2 *Company Non-Matching Contributions*

##### (a) *Company Core Contributions*

The Company shall contribute to the Trust Fund, with respect to each eligible Member employed by it, Company Core Contributions in the following amounts:

- (i) With respect to a Member whose age plus Service as of the first day of the Plan Year total less than 50, the Company shall make Company Core Contributions each pay period equal to 3 percent of the Member's Salary for such pay period.
- (ii) With respect to a Member whose age plus Service as of the first day of the Plan Year total 50 or more, the Company shall make Company Core Contributions each pay period equal to 4 percent of the Member's Salary for such pay period.

For purposes of the preceding provisions, a Member's age and Service shall be calculated on a basis uniformly applicable to all Members similarly situated as established by the Benefits Administration Committee. Certain Members described in Appendix K are not eligible for Company Core Contributions.

Company Core Contributions shall be credited to the Member's Company Core Account.

(b) Special Company Contributions

The Company shall contribute to the Trust Fund, with respect to each eligible Member employed by it, Special DC Credit Contributions and Transition Credit Contributions pursuant to Appendix A.

Special DC Credit Contributions and Transition Credit Contributions shall be credited to the Member's Special Company Contribution Account.

(c) Special Transition Contributions

The Company shall contribute to the Trust Fund, with respect to each eligible Member employed by it, Special Transition Contributions pursuant to Appendix K.

Special Transition Contributions shall be credited to the Member's Special Transition Contributions Account.

(d) Qualified Nonelective Contributions

The Company may make "qualified nonelective contribution" to the Plan pursuant to the provisions of the Employee Plans Compliance Resolution System. Any such contributions shall be held in a separate account, which shall be considered an "Account" as defined in Section 2.1. Notwithstanding any Plan provision to the contrary, a Member may direct the investment of the amounts held in such separate account in the same manner as Special Company Contributions and all or a portion of such separate account shall be available for withdrawal under the provisions of Section 9.2 (as the last available source), provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date. If any account holding qualified nonelective contributions and associated investment gains or losses was transferred to the Plan from a Merged Frozen Plan, a Merged Hartzell Plan, a Merged Plan, or the Merged Bargained Plan, the funds in such account shall be held for the Member or Deferred Member in the separate account described in this paragraph.

5.3 *Mode of Payment of Company Contributions*

Company contributions under Sections 5.1 and 5.2 shall be made in cash.

5.4 *Maximum Annual Additions.*

- (a) The annual addition to a Member's Accounts for any Plan Year, which shall be considered the "limitation year" for purposes of Section 415 of the Code, when added to the Member's annual addition for that Plan Year under any other qualified defined contribution plan of the Company or any Associated Company, shall not exceed an amount which is equal to the lesser of (i) 100% of his Statutory Compensation for that Plan Year, or (ii) \$40,000, as adjusted in accordance with Section 415(d) of the Code.
- (b) For purposes of this Section, the "annual addition" to a Member's Accounts under this Plan or any other qualified defined contribution plan (including a deemed qualified defined contribution plan under a qualified defined benefit plan) maintained by the Company or an Associated Company shall be determined in accordance with (i) and (ii) below.



- (i) The annual addition shall include all of the following amounts that have been allocated to the Member's Accounts under this Plan or any other qualified defined contribution plan (including a deemed qualified defined contribution plan under a qualified defined benefit plan) maintained by the Company or an Associated Company:
  - (A) the total Company contributions made on the Member's behalf by the Company and all Associated Companies, including any Company Matching Contributions distributed or forfeited under the provisions of Section 4.1 or 4.5;
  - (B) all Before-Tax Savings, Roth Contributions, and After-Tax Savings, including Before-Tax Savings and/or Roth Contributions distributed as excess contributions under Section 4.1(d) and After-Tax Savings distributed as excess aggregate contributions under the provisions of Section 4.5;
  - (C) forfeitures, if applicable; and
  - (D) solely for purposes of the dollar limit under clause (ii) of paragraph (a) above, amounts described in Sections 415(1)(1) and 419A(d)(2) of the Code allocated to the Member.
- (ii) The annual addition shall not include:
  - (A) Rollover Contributions;
  - (B) loan repayments made under Article 10;
  - (C) Before Tax Savings and/or Roth Contributions distributed as excess deferrals under Section 4.1(c); and
  - (D) Catch-Up Contributions.
- (c) To the extent that the annual additions to a Member's Accounts exceed the limitation set forth in Section 415(c)(2) of the Code, corrections shall be made in a manner consistent with the provisions of the Employee Plans Compliance Resolution System as set forth in Revenue Procedure 2008-50 or any subsequent guidance. In the event that a Member of the Plan is a participant in any other defined contribution plan (whether or not terminated), maintained by the Company or any Associated Company, the total amount of annual additions to such Member's accounts under all such defined contribution plans shall not exceed the limitations set forth in this Section 5.4. The Benefits Administration Committee, under uniform rules equally applicable to similarly situated Members, shall determine how to apply the provisions of this Section in order to satisfy the limitation. In making its decision, the Benefits Administration Committee shall take into account the applicable provisions of the other qualified defined contribution plans.

#### 5.5 *Contributions for a Period in Uniformed Services*

- (a) Notwithstanding any provision of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified uniformed service duty will be provided in accordance with Section 414(u) of the Code. A Member who is reemployed and is credited with Service for the purpose of vesting because of a period of service in the uniformed services of the United

States may elect to contribute to the Plan the Before-Tax Savings and Roth Contributions (including Catch-Up Contributions) and/or After-Tax Savings that could have been contributed to the Plan in accordance with the provisions of the Plan had he remained continuously employed by the Company throughout such period of absence (“make-up contributions”). For purposes of determining the amount of make-up contributions a Member may make, his Salary for the period of absence shall be deemed to be the rate of Salary he would have received had he remained employed as an Employee for that period or, if such rate is not reasonably certain, on the basis of the Member’s Salary during the 12-month period immediately preceding such period of absence (or if shorter, the period of employment immediately preceding such period). Any Before-Tax Savings, Roth Contributions, Catch-Up Contributions, and/or After-Tax Savings so determined shall be limited as provided in Sections 4.1(c), 4.1(d) and 4.5 with respect to the Plan Year or Years to which such contributions relate rather than the Plan Year in which payment is made. The make-up contributions may be made over a period not to exceed three times the period of military leave or five years, if less, but in no event later than the Member’s Termination of Employment (unless he is subsequently rehired). The make-up period shall start on the later of (i) the Member’s date of reemployment, or (ii) the date the Benefits Administration Committee notifies the Employee of his rights under this Section. Earnings (or losses) on make-up contributions shall be credited commencing with the date the make-up contribution is made.

- (b) With respect to a Member who makes the election described in paragraph (a) above, the Company shall make Company Matching Contributions on the make-up contributions in the amount described in Section 5.1, as in effect for the Plan Year to which such make-up contributions relate. Company Matching Contributions under this paragraph shall be made to the Plan at the same time as Company Matching Contributions are required to be made for Before-Tax Savings, Roth Contributions, and/or After-Tax Savings made during the same period as the make-up contributions are actually made. Earnings (or losses) on Company Matching Contributions shall be credited commencing with the date the contributions are made. Any limitations on Company Matching Contributions described in Section 4.5 shall be applied with respect to the Plan Year or Years to which such contributions relate rather than the Plan Year or Years in which payment is made.
- (c) The Company shall make Company Core Contributions, Special Company Contributions, and Special Transition Contributions (and any other non-matching employer contributions that may have been required under a predecessor plan) (“make-up Company contributions”) in the amounts described in Section 5.2 (or the provisions of a predecessor plan) as in effect for the Plan Year to which such make-up Company contributions relate. For purposes of determining the amount of such make-up Company contributions, a Member’s Salary for the period of absence shall be deemed to be the rate of Salary he would have received had he remained employed as an Employee for that period or, if such rate is not reasonably certain, on the basis of the Member’s Salary during the 12-month period immediately preceding such period of absence (or if shorter, the period of employment immediately preceding such period). Make-up Company contributions under this paragraph shall be made as soon as practicable after the Member’s reemployment and shall be deemed to have been made to the Plan at the same time as such contributions would have been made but for the Member’s absence. Earnings (or losses) on make-up Company contributions shall be credited commencing with the date the make-up Company contributions are made.

- (d) All contributions under this Section, other than make-up Catch-Up Contributions, are considered “annual additions,” as defined in Section 415(c)(2) of the Code, and shall be limited in accordance with the provisions of Section 5.4 with respect to the Plan Year or Years to which such contributions relate rather than the Plan Year in which payment is made.
- (e) Notwithstanding any other provisions of this Section, the maximum amount of make-up contributions made by or on behalf of a Member shall be reduced by the actual amount of Company Core Contributions, Special Company Contributions, Special Transition Contributions, Before-Tax Savings and Roth Contributions (including Catch-Up Contributions), After-Tax Savings, and Company Matching Contributions, as applicable, made by or on behalf of the Member during his period of service in the uniformed services as a result of differential wage payments (as defined in Section 3401(h) of the Code) that were made to the Member or for any other reason.

#### 5.6 *Return of Contributions*

- (a) If the Commissioner of Internal Revenue, on timely application made after the initial establishment of the Plan, determines that the Plan is not qualified under Section 401(a) of the Code or refuses, in writing, to issue a determination as to whether the Plan is so qualified, the Company’s contributions made on or after the date on which that determination or refusal is applicable shall be returned to the Company. The return shall be made within one year after the denial of qualification. The provisions of this paragraph shall apply only if the application for the determination is made by the date prescribed by the Secretary of the Treasury.
- (b) If all or part of the Company’s deductions for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Company without interest but reduced by any investment loss attributable to those contributions, provided that the contribution is returned within one year after the disallowance of deduction. For this purpose, all contributions made by the Company are expressly declared to be conditioned upon their deductibility under Section 404 of the Code.
- (c) The Company may recover, without interest, the amount of its contributions to the Plan made on account of a mistake of fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.
- (d) In the event that Before-Tax Savings made under Section 4.1(a) and/or Roth Contributions made under Section 4.7 are returned to the Company in accordance with the provisions of this Section, the elections to reduce Salary that were made by Members on whose behalf those contributions were made shall be void retroactively to the beginning of the period for which those contributions were made. The Before-Tax Savings and/or Roth Contributions so returned shall be distributed in cash to those Members for whom those contributions were made, provided, however, that if the contributions are returned under the provisions of paragraph (a) above, the amount of Before-Tax Savings and/or Roth Contributions to be distributed to Members shall be adjusted to reflect any investment gains or losses attributable to those contributions.

5.7 *Contributions Not Contingent Upon Profits*

The Company may make contributions to the Plan without regard to the existence or the amount of current and accumulated Company earnings and profits. Notwithstanding the foregoing, however, this Plan is designed to qualify as a “profit-sharing plan” for all purposes of the Code.

ARTICLE 6

VESTED SHARE OF ACCOUNTS

6.1 *Full Vesting of all Accounts in Plan*

Except as provided otherwise in Appendix I, J, K, or L, a Member shall at all times be 100 percent vested in, and have a nonforfeitable right to, his Accounts in the Plan.

## ARTICLE 7

### INVESTMENT OF CONTRIBUTIONS

#### 7.1 *Investment Funds*

- (a) Accounts in the Plan shall be invested by the Trustee in one or more Investment Funds as authorized by the PFTIC. Such Investment Funds shall include:
- (iv) the ITT Stock Fund;
  - (v) such Target Retirement Funds as the PFTIC shall select; and
  - (vi) for such period after October 31, 2011 as shall be determined by the PFTIC, the Exelis Stock Fund and the Xylem Stock Fund.

Such Investment Funds may also include equity funds, international equity funds, fixed income funds, money market funds, and other funds as the PFTIC elects to offer.

- (b) In addition to the Investment Funds selected by the PFTIC, a Member may establish a self-directed brokerage account (“SDA”), subject to the following terms and conditions:
- (i) Common stock of ITT is not a permitted investment in the SDA.
  - (ii) Account fees associated with a Member’s SDA, as well as commissions, special handling fees, and any other transaction charges associated with transactions in the Member’s SDA will be charged to the Member’s SDA.
- (c) In any Investment Fund, the Trustee temporarily may hold cash or make short-term investments in obligations of the United States Government, commercial paper, an interim investment fund for tax-qualified employee benefit plans established by the Trustee, unless otherwise provided in the applicable trust agreement or by applicable law, or other investments of a short-term nature. Notwithstanding the foregoing, the Trustee in its discretion may hold such amounts in cash, consistent with its obligations as Trustee, as it deems advisable in accordance with the provisions of the trust agreement.
- (d) For the purpose of determining the value of ITT Stock, Exelis Stock, or Xylem Stock hereunder, in the event such stock is traded on a national securities exchange, such stock shall be valued as of the closing quoted selling price of such stock on the New York Stock Exchange composite tape on the business day such stock is delivered to the Trustee. In the event such ITT Stock, ITT Exelis Stock, or Xylem Stock is not traded on a national securities exchange, such shares shall be valued in good faith by an independent appraiser selected by the Trustee and meeting requirements similar to those in the regulations prescribed under Section 170(a)(1) of the Code.
- (e) The Plan is intended to constitute a plan described in Section 404(c) of ERISA. Consequently, each Member is solely responsible for the selection of his investment options. The Trustees, the Benefits Administration Committee, the Company, the PFTIC, and the officers, supervisors, and other employees of the Company are not empowered to advise a Member as to the manner in which his Accounts shall be invested. The fact that an Investment Fund is

available to Members for investment under the Plan shall not be construed as a recommendation for investment in the Investment Fund.

- (f) The Trustee, or such other custodian as the PFTIC may designate, shall maintain the ITT Stock Fund. It is specifically contemplated that the ITT Stock Fund will operate as an employee stock ownership plan (“ESOP”) that is designed to invest primarily in ITT Stock, within the meaning of Section 4975(e)(7) of the Code. Consistent with the ITT Stock Fund’s status as an ESOP, the Trustee may keep such amounts of cash, securities or other property as it, in its sole discretion, shall deem necessary or advisable as part of the Trust Fund, all within the limitations specified in the trust agreement.
- (g) Dividends, interest, and other distributions received on the assets held by the Trustee in respect to the Investment Funds shall be reinvested in the respective Investment Fund, provided, however, with respect to the ITT Stock Fund, dividends, interest, and other distributions received on the assets held by the Trustee in respect to the ITT Stock Fund shall be reinvested in the ITT Stock Fund, except as otherwise may be provided in Section 8.8 with respect to dividends on ITT Stock.

## 7.2 *Investment of Contributions*

Subject to special provisions described in Appendices J, K, and L for certain prior participants in the Merged Plans, the Merged Bargained Plan, and the Merged Hartzell Plans, respectively, contributions under the Plan shall be invested by the Trustee as follows:

- (a) Subject to the following provisions of this Section 7.2, a Member shall make one investment election, in multiples of 1%, covering his Savings, Roth Contributions, Company Matching Contributions, Company Core Contributions, Special Company Contributions, and Special Transition Contributions made to his Accounts, to have such amounts invested in any one or more of the Investment Funds. If no investment election is made, such contribution shall be invested in the Target Retirement Fund that is appropriate based on the Member’s year of birth (or such other Investment Fund as may be designated by the PFTIC), unless and until the Member elects to have all or part of his contributions invested in or transferred to other funds pursuant to Sections 7.3 and 7.4.
- (b) A Member cannot elect to direct the investment of any contributions into the Exelis Stock Fund or the Xylem Stock Fund prospectively. Amounts invested in the Exelis Stock Fund or the Xylem Stock Fund as a result of the restructuring of ITT coincident with the establishment of the Plan are the only amounts that may be invested in such funds. A Member may elect at any time to direct the amounts invested in the Exelis Stock Fund or the Xylem Stock Fund into any other Investment Fund in the Plan, subject to the provisions of this Section 7.2 and Section 7.4.
- (c) Except as provided in Section 7.4(d), no more than 20% of a Member’s Accounts may be invested in the ITT Stock Fund. A Member’s investment election with respect to future contributions cannot direct more than 20% to be invested in the ITT Stock Fund.
- (d) Contributions may not be initially invested in a Member’s SDA. Any amounts to be invested in a Member’s SDA must be transferred into the SDA pursuant to Section 7.4.

- (e) A Member making a Rollover Contribution pursuant to Section 4.4 or a transfer contribution pursuant to Section 4.6 may make a separate initial investment election under this Section 7.2. Such Rollover Contribution or transfer contribution shall be invested, in multiples of 1%, in any one or more of the Investment Funds as elected by the Member. Notwithstanding the preceding sentence, Rollover Contributions or transfer contributions may not be initially invested in the ITT Stock Fund, the Exelis Stock Fund, Xylem Stock Fund, or a Member's SDA. A Member may subsequently transfer or reallocate his Rollover Contributions or transfer contributions to the ITT Stock Fund or the Member's SDA pursuant to Section 7.4. If a Member has not made an election with respect to the initial investment of his Rollover Contributions or transfer contributions under Section 4.6, such Rollover Contributions or transfer contributions shall be invested in the Target Retirement Fund that is appropriate based on the Member's year of birth (or such other Investment Fund as may be designated by the PFTIC).
- (f) A Member may enroll in a managed account program under which investment professionals will monitor the Member's Plan Accounts and manage all investment elections and transactions. The terms of the program shall supersede any contrary provisions of this Plan with respect to Members enrolled therein and any fees charged to the Member will be determined under the terms of the program.
- (g) A Member's Prior ESOP Account shall be invested entirely in the ITT Stock Fund, Exelis Stock Fund, and Xylem Stock Fund, as applicable, except when a Member elects to have all or part of his Prior ESOP Account transferred to or invested in another Investment Fund pursuant to this Article 7.

### 7.3 *Changes in Investment Election for Future Contributions*

On any business day, by making an election in a form or manner approved by the Benefits Administration Committee for such purpose, a Member may change his investment election within the limitations set forth in Section 7.2 with respect to future Savings, Roth Contributions, Company Matching, Company Core, Special Company Contributions, and Special Transition Contributions to be made for any payroll deposited with the Trustee on or after the effective date of such notice. The effective date of such election shall be the business day following the date of the election. A Member shall be permitted to make only one investment election, covering his Savings, Roth Contributions, Company Matching, Company Core, Special Company Contributions, and Special Transition Contributions. A separate election may be made for future Rollover Contributions or transferred contributions made under Section 4.6.

### 7.4 *Redistribution of Investments*

Members and Deferred Members may redistribute their investments as follows:

- (a) On any business day, by making an advance election in a form or manner approved by the Benefits Administration Committee for such purpose, a Member or Deferred Member may elect to reallocate (or transfer, as the case may be) on any Valuation Date all or part, in multiples of 1%, all of his Accounts among the Investment Funds, provided however no more than 20% of a Member's Accounts may be invested in the SDA or the ITT Stock Fund after such reallocation or transfer and no amounts may be reallocated or transferred into the Exelis Stock Fund or the Xylem Stock Fund, except as provided in Section 7.4(d). The reallocation or transfer shall be effective as soon as administratively practicable after the Valuation Date.



- (b) The PFTIC may establish such rules and restrictions regarding the redistribution of investments as it deems appropriate, including restrictions on the maximum number of transfers in a calendar month.
- (c) Any amounts invested in a fund of guaranteed investment contracts or an investment fund covered by a prospectus or other document of similar import or effect shall be subject to any and all terms of such contracts, prospectus or other documents of similar import or effect, including any limitations therein placed on the exercise of any rights otherwise granted to a Member or Deferred Member under any other provisions of this Plan with respect to such amounts.
- (d) No more than 20% of a Member's Accounts may be invested in the ITT Stock Fund. Notwithstanding the preceding sentence:
  - (i) a Member with more than 20% of his Accounts invested in the ITT Stock Fund under the ISP on October 31, 2011 (or such other date as may be designated by the PFTIC) may elect to direct that amounts invested in the Exelis Stock Fund and/or the Xylem Stock Fund be transferred to the ITT Stock Fund without regard to the 20% limit, provided however that such Member may not make any further investments in, or transfers into, the ITT Stock Fund until the 20% limitation described in the preceding sentence has been complied with.
  - (ii) a Member with more than 20% of his accounts invested in a Merged Plan as of January 1, 2009, in the Merged Bargained Plan as of February 1, 2010, or in a Merged Frozen Plan as of October 31, 2011, shall not be required to transfer such pre-January 1, 2009, pre-February 1, 2010, or pre-October 31, 2011 (as applicable) account balance in excess of 20% out of the ITT Stock Fund. If any such Member has 20% or more of his Accounts invested in the ITT Stock Fund, (A) no amounts can be transferred or reallocated from another Investment Fund under the Plan to the ITT Stock Fund, and (B) no future Company contributions can be invested in the ITT Stock Fund.

#### 7.5 *Valuation Date*

The Valuation Date applicable with respect to reallocations made in accordance with Section 7.4 shall be the business day such election is received and processed by the Savings Plan Administrator or its designee and shall not be later than the next business day following the day on which the Member's completed request is received and processed by the Savings Plan Administrator or its designee.

#### 7.6 *Voting of ITT Stock*

Each Member, Deferred Member, or Beneficiary (in the event of the death of the Member or Deferred Member) is, for the purposes of this Section 7.6, hereby designated a named fiduciary within the meaning of Section 402(a)(2) of ERISA with respect to the shares of ITT Stock allocated to his Accounts, determined as herein described. Each Member and Deferred Member (or Beneficiary in the event of the death of the Member or Deferred Member) may direct the Trustee as to the manner in which the ITT Stock allocated to his Accounts, determined as herein described, is to be voted. An individual's proportionate share of the ITT Stock Fund as to which he holds fiduciary status for voting purposes shall be determined at the time such voting rights are exercisable by multiplying the number of shares credited at that time to such portion by a fraction, the numerator of which is the value (as of the Valuation Date designated by the Benefits Administration Committee for this purpose) of that

part of the individual's Accounts invested in the ITT Stock Fund with respect to which the individual provides instructions to the Trustee and the denominator of which is the aggregate value of all amounts allocated to that part of all Member Accounts which is invested in the ITT Stock Fund for which instructions are provided to the Trustee. Before each annual or special meeting of shareholders of ITT, each Member, Deferred Member, and Beneficiary shall be furnished with information regarding how to obtain a copy of the proxy solicitation material for such meeting and the form requesting instructions to the Trustee on how to vote the ITT Stock allocated to such Member's, Deferred Member's and Beneficiary's Accounts. Upon receipt of such instructions, the Trustee shall vote such shares as instructed. In lieu of voting fractional shares as instructed by Members, Deferred Members, or Beneficiaries, the Trustee may vote the combined fractional shares of ITT Stock to the extent possible to reflect the directions of Members, Deferred Members, or Beneficiaries with allocated fractional shares of each class of stock. The Trustee shall vote shares of ITT Stock allocated to Accounts under the Plan but for which the Trustee received no valid voting instructions in the same manner and in the same proportion as the shares of ITT Stock in the Accounts in the respective funds with respect to which the Trustee received valid voting instructions are voted. Instructions to the Trustee shall be in such form and pursuant to such regulations as the Benefits Administration Committee may prescribe.

Any instructions received by the Trustee from Members, Deferred Members, and Beneficiaries regarding the voting of ITT Stock shall be confidential and shall not be divulged by the Trustee to the Company, or to any director, officer, employee or agent of the Company, it being the intent of this provision of this Section 7.6 to ensure that the Company (and its directors, officers, employees and agents) cannot determine the voting instructions given by any Member, Deferred Member, or Beneficiary.

In the event of a tender or exchange offer, the provisions of Article 15 shall control, rather than this Section.

#### *7.7 Blackout Periods*

Notwithstanding any provision of the Plan to the contrary, when required for administrative reasons, the Benefits Administration Committee may temporarily suspend, limit, or restrict the rights of Members, Deferred Members, Beneficiaries or alternate payees (as applicable) to direct or diversify the investment of some or all of their Accounts, to obtain loans from the Plan, and to obtain distributions (including in-service withdrawals) from the Plan. The number and length of such suspensions and the imposition of such limitations or restrictions shall be limited to the greatest extent practicable. Any suspension, limitation or restriction of rights under this Section shall comply with all applicable law and any guidance issued thereunder and may be imposed only if the Benefits Administration Committee timely provides notice of the suspension, limitation or restriction of such rights, as required by Section 101 of ERISA, any guidance issued thereunder, and any other applicable law.

#### *7.8 Diversification Requirements*

The Plan shall comply with the diversification requirements of Section 401(a)(35) of the Code and regulations thereunder with respect to amounts invested in the ITT Stock Fund. In this respect, available investment options other than the ITT Stock Fund into which amounts invested in the ITT Stock Fund may be reallocated at the election of the Member, Deferred Member, or Beneficiary shall include no fewer than three investment options, each of which shall be diversified and have materially different risk and return characteristics (within the meaning of applicable regulations). In addition, the opportunity to make such reallocation from the ITT Stock Fund to such other investment options

shall be reasonable and periodic, occurring not less frequently than quarterly, and no direct or indirect restrictions or conditions that are prohibited under Section 401(a)(35)(D)(ii)(II) of the Code and regulations thereunder shall be imposed.

## ARTICLE 8

### CREDITS TO MEMBERS' ACCOUNTS, VALUATION AND ALLOCATION OF ASSETS

#### 8.1 *Before-Tax Savings, After-Tax Savings and Rollover Contributions*

Before-Tax Savings, After-Tax Savings and Rollover Contributions (other than Roth Rollover Contributions) made on behalf of or by a Member shall be allocated to the Before-Tax Account, After-Tax Account or Rollover Account of such Member, as appropriate, as soon as practicable after such contributions are transferred to the Trust Fund.

#### 8.2 *Roth Contributions and Roth Rollover Contributions*

Roth Contributions and Roth Rollover Contributions made on behalf of or by a Member shall be allocated to the Roth Account and Roth Rollover Account, respectively, of such Member, as soon as practicable after such contributions are transferred to the Trust Fund.

#### 8.3 *Company Matching Contributions*

Company Matching Contributions made for a Member shall be allocated to the Company Matching Account of such Member, as soon as practicable after such contributions are made to the Trust Fund.

#### 8.4 *Company Core Contributions, Special Company Contributions, and Special Transition Contributions*

Company Core Contributions made for a Member shall be allocated to the Company Core Account of such Member, as soon as practicable after such contributions are made to the Trust Fund. Special Company Contributions made for a Member shall be allocated to the Special Company Contribution Account of such Member, as soon as practicable after such contributions are made to the Trust Fund. Special Transition Contributions made for a Member shall be allocated to the Special Transition Contributions Account of such Member, as soon as practicable after such contributions are made to the Trust Fund.

#### 8.5 *Credits to Members' Accounts*

At the end of each business day in which the Plan is in effect and operation, the amount of each Member's credit in each of the Investment Funds shall be expressed and credited in dollars of contributions by the Member and Company allocated to a Member's Accounts for such day. For purposes of this Article 8, "business day" means each day on which the New York Stock Exchange or any successor to its business is open for trading or such other day(s) as may be designated by the PFTIC.

#### 8.6 *Valuation of Assets*

At the end of each business day, the Trustee shall determine the total fair market value of all assets then held by it in each Investment Fund. The Benefits Administration Committee reserves the right to change from time to time the procedures used in valuing the Accounts or crediting (or debiting) the Accounts if it determines, after due deliberation and upon the advice of counsel and/or the current recordkeeper, that such an action is justified in that it results in a more accurate reflection of the fair

market value of assets. In the event of a conflict between the provisions of this Article and such new administrative procedures, those new administrative procedures shall prevail.

#### 8.7 *Allocation of Assets*

At the end of each business day when the value of all assets in each Investment Fund has been determined pursuant to Section 8.6, the Trustee shall determine the gain or loss in the value of such assets in each of the Investment Funds. Such gain or loss shall be allocated pro rata by Investment Fund to the balances credited to the Accounts of all Members and Deferred Members as of such business day.

#### 8.8 *Dividends Paid with respect to Stock in the ESOP*

Dividends with respect to Exelis Stock and Xylem Stock shall be reinvested in the Exelis Stock Fund and Xylem Stock Fund, respectively. Dividends with respect to ITT Stock shall be subject to the following provisions:

##### (a) Dividend Election

A Member or Deferred Member may elect, with respect to a dividend paid on ITT Stock in the ESOP as of the record date of such dividend, to have the dividend either distributed in cash to the Member or Deferred Member or reinvested in shares of ITT Stock, provided however that if the amount of dividends to be paid to the Member or Deferred Member is ten dollars or less, said dividends shall be automatically reinvested in shares of ITT Stock. The Savings Plan Administrator shall prescribe rules regarding the timing and manner of a dividend election.

##### (b) Default Election

In the absence of an affirmative dividend election, the Member or Deferred Member shall be deemed to have elected to have the dividend reinvested in ITT Stock.

##### (c) Effect and Duration of Election

An election made in accordance with (a) or (b) above shall remain in effect until changed by the Member or Deferred Member in accordance with the rules established by the Savings Plan Administrator. The election shall apply to all dividends with a record date on or after the election date.

A Member or Deferred Member may change his dividend election at any time in the manner prescribed by the Savings Plan Administrator.

Notwithstanding any provision of this Section to the contrary, in the event that two or more dividend checks payable to a Member or Deferred Member remain uncashed at one time, that action shall be deemed as an election by the Member or Deferred Member to have his dividends reinvested in ITT Stock in the Plan and the Savings Plan Administrator shall reinvest any further dividends payable to the Member or Deferred Member until the Member or Deferred Member cashes the outstanding checks and makes another affirmative election to receive his dividends in cash.

##### (d) Cash Payment

Dividends elected to be paid in cash shall be distributed to the Member or Deferred Member as soon as administratively practicable after the dividend is received by the Trustee in the Trust Fund. The amount of cash dividends distributed shall be reduced by the amount of any losses attributable to such dividends while held in the Trust Fund. No earnings attributable to such dividends shall be distributed.

## ARTICLE 9

### WITHDRAWALS PRIOR TO TERMINATION OF EMPLOYMENT

#### 9.1 *General Conditions for Withdrawals*

At any time before Termination of Employment, a Member may request a withdrawal from his Vested Share of his Accounts by submitting to the Savings Plan Administrator or its designee an election in a form or manner approved by the Benefits Administration Committee, and shall conform to the standards set by the Benefits Administration Committee, if any, regarding minimum and maximum amounts of withdrawals. Any such withdrawal shall be in accordance with the conditions of Section 9.2 or Section 9.3. For purposes of this Article 9, a Member's Accounts shall be valued as of the applicable Withdrawal Valuation Date. Amounts to be distributed to Members will not participate in the investment experience of the Plan after the Withdrawal Valuation Date. Such amounts generally will be paid as soon as administratively possible following the Withdrawal Valuation Date. Except where specifically provided otherwise, Savings and Roth Contributions by the Member under the Plan may be continued without interruption.

#### 9.2 *Withdrawals from Certain Accounts*

Subject to the provisions of Section 9.1, a Member (but not a Deferred Member) can withdraw amounts in any whole dollar amount or percentage less than or equal to the described value of his Vested Share of the following Accounts; provided, however, that the full withdrawable amount from each source from (a) through (h) below must be withdrawn before any amount can be withdrawn from the source next following on the list of sources from (a) through (h) below:

- (a) all or a portion of his After-Tax Account;
- (b) all or a portion of his Prior Plan Account;
- (c) all or a portion of his Rollover Account;
- (d) all or a portion of his Prior ESOP Account;
- (e) all or a portion of his Company Floor Account, Merged Employer Contributions Account, Merged Bargained Plan Matching Employer Contributions Account, Merged Matching Employer Contributions Account, and Prior Company Matching Account;
- (f) all or a portion of his Company Matching Account provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date;
- (g) all or a portion of his Company Core Account provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date; and
- (h) all or a portion of his Special Company Contribution Account or Special Transition Contributions Account provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date.

Withdrawals will be deemed to be deducted from each of the Investment Funds described in Article 7 on a pro rata basis, provided, however, that no amount shall be deemed to be deducted from the ITT Stock Fund until all amounts have been withdrawn from all of the other Investment Funds, and

provided further that amounts invested in a Member's SDA are not available as a source of any withdrawals described herein. Notwithstanding the foregoing, however, a Member may reallocate his balance in the SDA to the other Investment Funds in the Plan as provided in Article 7 and such Investment Funds (other than the ITT Stock Fund) may then be available as a source for withdrawals in accordance with the provisions of this Article 9.

9.3 *Withdrawal from Before-Tax Account, Roth Account, or Roth Rollover Account*

- (a) Subject to the provisions of Sections 9.1, a Member who, as of a Withdrawal Valuation Date, (i) has attained age 59½, (ii) has established a Total and Permanent Disability, (iii) has become eligible for a qualified reservist distribution as provided in Section 401(k)(2)(B)(i)(V) of the Code, or (iv) is deployed in the uniformed services as provided in Section 414(u)(12) of the Code may withdraw all or any portion of his Before-Tax Account, Roth Account, or Roth Rollover Account. If a Member takes a withdrawal pursuant to (iv) above, the Member may not make Before-Tax Savings, Roth Contributions, or After-Tax Savings under the Plan during the six-month period beginning on the date of the withdrawal.
- (b) Subject to the provisions of Section 9.1, a Member who has not qualified for a withdrawal under Section 9.3(a) as of a Withdrawal Valuation Date and who has withdrawn all amounts available under Section 9.2 may withdraw all or a portion of his Before-Tax Account, Roth Account, and/or Roth Rollover Account (except for the portion that represents investment earnings credited to his Before-Tax Account and/or Roth Account, as applicable) provided he has an immediate and heavy financial need and the withdrawal is necessary to satisfy such need, as provided below. If a Member has not withdrawn all amounts available under Section 9.2, he must take a separate withdrawal of the amounts available under Section 9.2 and that withdrawal shall not be treated as a withdrawal due to hardship.
  - (vi) As a condition for receiving a withdrawal pursuant to the provisions of this Section 9.3(b), there must exist with respect to the Member an immediate and heavy financial need to draw upon his Accounts. For purposes of this subparagraph (b), the Benefits Administration Committee shall presume the existence of an immediate and heavy financial need if the requested withdrawal is on account of any of the following:
    - (A) expenses for (or necessary to obtain) medical care that would be deductible under Section 213(d) of the Code (determined without regard to whether the expenses exceed 7.5 percent of adjusted gross income);
    - (B) costs directly related to the purchase of a principal residence of the Member (excluding mortgage payments);
    - (C) payment of tuition and related educational fees, and room and board expenses, for the next 12 months of post-secondary education of the Member, his spouse, children or dependents (as defined in Section 152 of the Code and determined without regard to Sections 152(b)(1), (b)(2) and (d)(1)(B) of the Code);
    - (D) payment of amounts necessary to prevent eviction of the Member from his principal residence or to avoid foreclosure on the mortgage of his principal residence;



- (E) payments for burial or funeral expenses for the Member's deceased parent, spouse, children or dependents (as defined in Section 152 of the Code and without regard to Section 152(d)(1)(B) of the Code);
- (F) expenses for the repair of damages to the Member's principal residence that would qualify for the casualty deduction under Section 165 of the Code (determined without regard to whether the loss exceeds 10 percent of the Member's adjusted gross income); or
- (G) the inability of the Member to meet such other expenses, debts, or other obligations recognized by the Internal Revenue Service as giving rise to immediate and heavy financial need for purposes of Section 401(k) of the Code.

The amount of the withdrawal may not be in excess of the amount of the financial need of the Member, including an additional amount equal to 20 percent of the amount otherwise needed to satisfy such financial need to pay any federal, state, or local taxes and any amounts necessary to pay any penalties reasonably anticipated to result from the hardship distribution.

- (vii) As a condition for receiving a withdrawal pursuant to the provisions of this Section 9.3(b), the Member must demonstrate that the requested withdrawal is necessary to satisfy the financial need described in (i) above. For purposes of this subparagraph, the Benefits Administration Committee shall presume that the withdrawal is necessary to satisfy the immediate and heavy financial need if the following requirements are met:
  - (A) The Member has obtained all distributions (other than hardship distributions) available under all other retirement plans maintained by the Company and all Associated Companies, including this Plan and including distribution of all cash dividends currently available to the Member under Section 8.8 of the Plan and all non-taxable loans available under all retirement plans maintained by the Company and all Associated Companies, including this Plan, provided that the loan repayments do not result in an additional financial hardship for the Member.
  - (B) The Member agrees to cease all Before-Tax Savings, Roth Contributions, and After-Tax Savings under this Plan and under any other plans of the Company or of any Associated Company for a period of not less than six months following the hardship withdrawal.

The Benefits Administration Committee or its designee shall make determinations of financial hardship in a uniform and nondiscriminatory manner, with reference to all the relevant facts and circumstances and in accordance with applicable tax law under Section 401(k) of the Code.

#### *9.4 Form of Payment*

Withdrawal payments shall be made in the form of cash, except that the Member may request to receive the portion of his Accounts invested in the ITT Stock Fund to be paid in shares of ITT Stock, with any fractional shares being paid in cash.

9.5 *Death after Withdrawal Election*

If a Member elects a withdrawal and dies after the issuance of the check(s) or shares of ITT Stock comprising such withdrawal but prior to negotiation of such check(s) comprising all or a portion of such distribution, then any unpaid cash portion of the withdrawal as represented by the non-negotiated check(s) shall be paid to his estate. If more than one check comprises such withdrawal and the Member negotiates the first check but dies prior to the issuance of any subsequent check, then any subsequent check shall be paid to his estate. If a Member elects a withdrawal and dies prior to the issuance of any check(s) or shares of ITT Stock comprising such withdrawal, then the withdrawal election shall be voided.

9.6 *Direct Rollover*

Certain withdrawals or portions thereof paid pursuant to this Article 9 may be “eligible rollover distributions” as defined and discussed in Section 11.7 and are governed with respect thereto by such Section.

## ARTICLE 10

### LOANS

#### 10.1 *General Conditions for Loans*

Subject to the restrictions in this Article 10, at any time before Termination of Employment, a Member may file an application in a form or manner approved by the Benefits Administration Committee requesting a loan from his Accounts. By filing the loan forms, the Member:

- (a) specifies the amount and the term of the loan;
- (b) agrees to the annual percentage rate of interest;
- (c) agrees to the finance charge;
- (d) promises to repay the loan; and
- (e) authorizes the Company to make regular payroll deductions to repay the loan, with the loan repayments computed based on the frequency of the Member's payroll payments.

The Member shall certify in such application as to the existence and amount of any outstanding loans (including any loans deemed distributed) from any qualified plans maintained by the Company and all Associated Companies.

If at the time a loan is to be issued to a Member a prior loan has been deemed distributed to the Member and not repaid, a new loan may only be issued to a Member if the Member repays the unpaid loan balance, including accrued interest to the date of repayment.

To the extent required by law and under such rules as the Benefits Administration Committee shall adopt, loans shall also be made available on a reasonably equivalent basis to any Beneficiary or former Employee who maintains an account balance under the Plan and who is still a party-in-interest (within the meaning of Section 3(14) of ERISA).

#### 10.2 *Amounts Available for Loans*

A Member may request a loan in any specified whole dollar amount which must be at least \$1,000 but which, when added to the outstanding balance of any other loans to the Member from this Plan or any other qualified plan of the Company or any Associated Company, including the amount of any unpaid deemed loan distribution and accrued interest thereon, does not exceed the lesser of:

- (a) 50% of his Vested Share of his Accounts; or
- (b) \$50,000, reduced by the excess of (i) the Member's highest outstanding loan balance(s) from this Plan or any other plan sponsored by the Company or any Associated Company, if any, during the one-year period ending on the day before the day the loan is made, over (ii) the outstanding balance of loans to the Member from such plans on the date on which the loan is made.

For purposes of determining amounts actually available for loans, a Member's Accounts shall be determined based on the Loan Valuation Date at the time he files his loan request with the Savings Plan Administrator or its designee.

### *10.3 Account Ordering for Loans*

For purposes of processing a loan, the amount of such loan will be deducted from the Member's Accounts in the order set by the Benefits Administration Committee under loan rules.

A loan is deducted from a Member's Accounts as of the Loan Valuation Date. Amounts so deducted and distributed to a Member as a Plan loan will not participate in the investment experience of the Plan except as such amounts are repaid to the Member's Accounts. Loans will be deemed to be deducted from each of the Investment Funds on a pro rata basis, provided, however, that no amount shall be deemed to be deducted from the ITT Stock Fund until all amounts have been withdrawn from all of the other Investment Funds, and provided further that amounts invested in a Member's SDA are not available as a source of any loans described herein. Notwithstanding the foregoing, however, a Member may reallocate his balance in the SDA to the other Investment Funds and such Investment Funds may then be available as a source for loans.

### *10.4 Interest Rate for Loans*

The Benefits Administration Committee shall establish and communicate to Members a reasonable rate of interest for loans commensurate with the interest rates charged by persons in the business of lending money for loans which would be made under similar circumstances, as determined by the Benefits Administration Committee, which interest rate shall remain in effect for the term of the loan, except that with respect to a Member who enters the uniformed services of the United States, the Member may elect to have the interest rate applicable to the unpaid loan balance during the period of leave reduced to 6%.

### *10.5 Term and Repayment of Loan*

- (a) The term of any loan shall be for a period of from 1 to 60 whole months, at the election of the Member, provided that a Member who is using a loan to acquire his own principal residence may elect to repay a loan over a period of whole months between 1 and 180. Except as provided in (b) or (c) below, payments of principal and interest will be made by after-tax payroll deductions or in a manner agreed to by the Member and the Benefits Administration Committee in substantially level amounts, but no less frequently than quarterly, in an amount sufficient to amortize the loan over the repayment period. A Member who is actively employed by the Company cannot elect to cease payroll deductions for repayment of a loan. Except as set forth below with respect to Members who enter the uniformed services of the United States, no extension of the loan term shall be permitted after the loan is made. Repayment of the loan is made to the Member's Accounts from which the loan amount was deducted in the inverse order to the Account Ordering for Loans described in Section 10.3; provided, however, that if a Member's loan is funded in part by an amount attributable to his Roth Account and/or Roth Rollover Account, a proportionate share of each of the Member's loan payments shall be allocated to the Member's Roth Account and/or Roth Rollover Account, as applicable. Repayments are invested in the Member's Accounts in accordance with his current investment election. Loan repayments are not credited with investment experience under the Plan until the first business day following the day on which such repayments are received by the Trust Fund.

- (b) If a Member with an outstanding loan takes a leave of absence to enter the uniformed services of the United States, and such Member will receive military differential wage payments (as defined in Section 3401(h) of the Code) in an amount equal to or greater than his loan repayment, his after-tax payroll deduction loan repayments shall continue during such leave of absence. If a Member with an outstanding loan takes a leave of absence to enter the uniformed services of the United States and such Member will not receive military differential wage payments sufficient to cover his loan repayments, his after-tax payroll deduction loan repayments shall be suspended during the period of leave unless the Member elects to make payments directly by certified check or money order. If payments are suspended, upon the Member's reemployment from the uniformed services, the period of repayment shall be extended by the number of months of the period of service in the uniformed services or, if greater, the number of months that would remain if the original loan term were five years plus the number of months in the period of absence; provided, however, if the Member incurs a Termination of Employment and requests a distribution pursuant to Article 11, the loan shall be canceled, and the outstanding loan balance shall be distributed pursuant to Article 11. The Member shall resume payments in the same amount as before the leave with the balance of the loan (including any interest that accrued during the period of uniformed service) due upon the expiration of the repayment period. Alternatively, the Member may elect to have the remaining balance (including any interest that accrued during the period of uniformed service) reamortized in substantially level installments over the extended term of the loan.
- (c) If a Member with an outstanding loan takes an authorized leave of absence without pay or reduced pay that is less than the required loan payments, for reasons other than to enter the uniformed services of the United States, the Member shall pay any loan payments that become due during such leave directly to the Plan, in the form and manner and at such time as may be prescribed by the Benefit Administration Committee.

#### *10.6 Frequency of Loan Requests*

A Member may have no more than two loans outstanding at any time. Each loan shall be evidenced by a promissory note payable to the Plan.

#### *10.7 Prepayment of Loans*

A Member may prepay the entire outstanding balance of a loan, with interest to date of prepayment except as provided under Section 10.8, at any time. Partial prepayments are not permitted.

#### *10.8 Outstanding Loan Balance at Termination of Employment*

Upon a Member's Termination of Employment, the Deferred Member may continue to make periodic repayments of his outstanding loans provided that his Accounts plus his loan balance at the time of his Termination of Employment is greater than \$5,000, and provided further that if the Deferred Member requests a distribution of his remaining Accounts pursuant to Article 11, the unpaid loan balance shall be treated as an offset distribution. Effective with loans approved on or after January 1, 2014, a Member will no longer be permitted to continue to make loan repayments after the Member's Termination of Employment.

If a Deferred Member fails to pay the loan balance in full or make loan repayments in accordance with Section 10.5, the Benefits Administration Committee may execute upon its security interest in the Member's Accounts under the Plan to satisfy the debt; provided, however, the Plan shall not levy

against amounts held in the Member's Accounts until such time as a distribution of such Accounts could otherwise be made under the Plan.

#### *10.9 Loan Default*

Under certain circumstances, including, but not limited to, a Member's failure to make timely loan repayments, the Benefits Administration Committee may declare the Member's loan to be in default. If a Member's loan is not repaid in accordance with the terms contained in the promissory note and a default occurs, the Plan may execute upon its security interest in the Member's Accounts under the Plan to satisfy the debt; provided, however, the Plan shall not levy against amounts held in the Member's Accounts until such time as a distribution of such Accounts could otherwise be made under the Plan.

#### *10.10 Incorporation by Reference*

Any additional rules or restrictions as may be necessary to implement and administer Plan loans shall be in writing and communicated to Members. Such further documentation is hereby incorporated into the Plan by reference, and, pursuant to Section 13.3, the Benefits Administration Committee is hereby authorized to make such revisions to these rules, as it deems necessary or appropriate on the advice of counsel.

#### *10.11 Death after Loan Application*

If a Member applies for a loan and dies after a check for the loan amount has been issued but prior to negotiation of the check, then the loan shall be paid to his estate or voided, at the option of the Benefits Administration Committee. If a Member applies for a loan and dies before the check for the loan amount is issued, then the loan application shall be voided.

#### *10.12 Transfer of Loans*

The Benefits Administration Committee may designate that the Plan will accept the transfer of a loan from another qualified retirement plan on behalf of a Member who becomes an Employee as a result of an acquisition by ITT or the Company. Loans were transferred for prior participants in the Merged Frozen Plans, the Merged Plans, the Merged Bargained Plan, and the Merged Hartzell Plans as set forth in Appendices I, J, K, and L, respectively.

## ARTICLE 11

### DISTRIBUTIONS

#### 11.1 General

- (a) Upon Termination of Employment, a Member may apply for distribution of the value of his Vested Share of his Accounts. Alternatively, upon Termination of Employment, a Member whose Vested Share of his Accounts exceeds \$5,000 may elect to defer distribution of his Vested Share of his Accounts until December 31 of the year in which he attains age 70½. If a Member terminates employment with no Vested Share in his Accounts, he shall be deemed to have received a full distribution of his benefit at the time of his Termination of Employment. If a Member whose Vested Share of his Accounts exceeds \$5,000 does not apply for a distribution of his Vested Share of his Accounts within 90 days of his Termination of Employment, he shall be deemed to be a Deferred Member. A Deferred Member may elect a partial distribution of any portion of his Vested Share of his Accounts in a lump sum amount at any time, and from time to time, after his Termination of Employment, provided said Deferred Member is not receiving installment payments pursuant to an election under Section 11.3. All distributions under this Section 11.1(a) will be deemed to be deducted from each of the Deferred Member's Investment Funds on a pro rata basis, provided, however, that no amount shall be deemed to be deducted from the ITT Stock Fund until all amounts have been withdrawn from all of the other Investment Funds, and provided further that amounts invested in an SDA are not available as a source of any partial distributions described herein. Notwithstanding the foregoing, however, a Deferred Member may reallocate the balance in his SDA to other Investment Funds in the Plan as provided in Article 7 and such Investment Funds may then be available as a source for partial distributions under this Section.
- (b) Upon the death of a Member or Deferred Member, the value of the Vested Share of such Member's or Deferred Member's Accounts shall be distributed to his Beneficiary, subject to the following:
- (i) If the Member's or Deferred Member's Beneficiary is not the spouse of such Member or Deferred Member, the Vested Share of the Member's or Deferred Member's Accounts shall be distributed to the Beneficiary in accordance with said Beneficiary's election under Section 11.3; provided the entire value of the Vested Share of the Member's Accounts is distributed no later than five years from the Member's or Deferred Member's date of death. Such nonspouse Beneficiary may also elect partial distributions of the Member's benefit in lump sums from time to time during this five-year period, provided that the entire value of the Vested Share of the Member's Accounts is distributed no later than five years from the Member's or Deferred Member's date of death.
- (ii) If the Member's or Deferred Member's Beneficiary is his spouse and the value of the Accounts to be distributed to the spouse Beneficiary exceeds \$5,000, such spouse Beneficiary may elect to defer receipt of the Member's or Deferred Member's Accounts until the December 31 Valuation Date of the year in which the Member or Deferred Member would have reached age 70½. If a spouse Beneficiary's Accounts exceed \$5,000 and the spouse Beneficiary does not apply for a distribution of his Accounts within 90 days of the Member's or Deferred Member's death, such spouse Beneficiary will be deemed to be a Deferred Member. Such spouse Beneficiary will receive

distribution of the Accounts as of the date the Member or Deferred Member would have attained age 65, provided such spouse Beneficiary files application for such distribution. A spouse Beneficiary may, however, file application for distribution of such Accounts at any time prior to the December 31 Valuation Date of the year in which the Member or Deferred Member would have reached age 70½. In addition to the methods of distribution in Section 11.3, a spouse Beneficiary of a deceased Member or Deferred Member may elect a partial distribution of any portion of his Accounts in a lump-sum amount at any time, and from time to time and subject to the provisions of (a) above.

- (c) Notwithstanding any provision of the Plan to the contrary, distributions shall commence as follows:
- (i) A Member or Deferred Member who is a “5-percent owner” as defined in Section 416(i) of the Code must commence distribution of his Accounts no later than December 31 of the year in which he attains age 70½.
  - (ii) A Member or Deferred Member who is not a “5-percent owner” as defined in Section 416(i) of the Code must commence distribution of his Accounts after his Termination of Employment by December 31 of the later of the calendar year in which the Member attains age 70½ or the calendar year in which the Member’s Termination of Employment occurs.
  - (iii) The Accounts of a Member or a Deferred Member who has attained age 70½ and is required to commence distribution under this paragraph shall be paid under the payment method described in Section 11.3(c)(ii) below if the Member or Deferred Member does not apply for distribution and elect a form of payment before payments are required to commence.
- (d) Notwithstanding the provisions of (a), (b), or (c), above, or Section 11.3 below, a Member or Deferred Member (or Beneficiary) may elect to commence distribution of the value of the Vested Share of the Member’s Accounts held in the ESOP portion of the Plan not later than one year after the end of the Plan Year:
- (i) in which the Member separates from service on or after attaining age 65 or by reason of Disability or death; or
  - (ii) which is the fifth Plan Year following the Plan Year in which the Member otherwise separates from service, unless the Member is reemployed by the Company or any Associated Company before such year.
- (e) Notwithstanding the foregoing, in the event a Member or Deferred Member fails to file a claim for benefits in accordance with the preceding sentence, the Member or Deferred Member shall be deemed to have elected to defer distribution of his Accounts to as soon as administratively practicable following the date the Member terminated employment or attained age 70½, if later; provided that in no event shall payment commence later than the April 1 following the calendar year in which the Member terminated employment or attained age 70½, if later.



### 11.2 *Valuation Date and Conditions of Distribution*

- (a) The value of any distribution will be determined as of the Valuation Date on which a completed application for the distribution by the Member, Deferred Member or Beneficiary is received and processed by the Savings Plan Administrator (or its designee) or the next business day.
- (b) Application by the Member, Deferred Member or Beneficiary must be in a form or manner approved by the Benefits Administration Committee or its designee.
- (c) Generally, all funds distributed will be paid as soon as practicable following the applicable Valuation Date. If part of the distribution is to be paid in stock, the stock certificate will be distributed after the check representing the cash distribution has been distributed.

### 11.3 *Methods of Distribution*

After Termination of Employment occurs, and as soon as practicable following application by the Member, Deferred Member or Beneficiary, distributions under the Plan shall be made in the following manner:

- (a) All distributions from other than the ITT Stock Fund shall be made in cash.
- (b) Unless the Member, Deferred Member or Beneficiary elects to take ITT Stock for distributions from the ITT Stock Fund, a distribution from such fund shall be in cash. In all cases, fractional shares shall be paid in cash.
- (c) All distributions shall be made in the form of a lump sum payment, unless the Member, Deferred Member or Beneficiary elects otherwise, as provided below. All distributions shall be made as soon as practicable after receipt of the application by the Member, Deferred Member or Beneficiary in accordance with Section 11.2(b). However, with prior notice in a form or manner approved by the Benefits Administration Committee, distribution may be made in one of the installment methods of payment described in (i) or (ii) below, subject to the restrictions provided below or in Section 11.1(b).
  - (i) Provided the value of the Vested Share of the Member's, Deferred Member's or Beneficiary's Accounts is at least \$5,000, and the first payment is at least \$1,000, by payment in annual installments over a period elected by the Member, Deferred Member or Beneficiary. The period over which annual installments may be paid may not exceed the life expectancy of the Member, Deferred Member or Beneficiary, or if the Member or Deferred Member (for this purpose Deferred Member does not include a spouse Beneficiary) is married, and so elects, the joint life expectancy of the Member or Deferred Member and the Member's or Deferred Member's spouse. All such installments shall be determined as follows:
    - (A) The amount of the annual installments to be paid to each Member or Deferred Member (or Beneficiary in the event of the Member's or Deferred Member's death) making such an election shall be based upon the value of the Vested Share of his Accounts as of the Valuation Date coinciding with or next following the date of receipt by the Savings Plan Administrator or its designee of his completed application and each anniversary thereof, and shall be determined by multiplying such value by a fraction, the numerator of which shall be one

and the denominator of which shall be the number of unpaid annual installments.

- (B) Any Member or Deferred Member who is no more than 70 years old and who elects annual installment payments may, at any time thereafter, elect, by filing a request with the Savings Plan Administrator or its designee, to cancel annual installment payments. The Valuation Date applicable to such election shall be the business day coinciding with or next following the date on which his completed request is received and processed by the Savings Plan Administrator or its designee. Such Member or Deferred Member may at any time thereafter, make another payment election under the Plan, provided that he may elect only a lump sum payment or partial distributions.
  - (C) If a Member or Deferred Member's Beneficiary is not his spouse, and the Member is deceased, annual installment payments to such Beneficiary may not extend beyond the end of the calendar year which contains the fifth anniversary of the death of the Member or Deferred Member.
- (ii) Provided the value of the Vested Share of the Member's, Deferred Member's or Beneficiary's Accounts is at least \$5,000, and the first payment is at least \$1,000, by payment in annual installments over the Member's or Deferred Member's life expectancy or, if the Member or Deferred Member is married, and so elects, over the joint life expectancies of the Member or Deferred Member and the Member's or Deferred Member's spouse, as actuarially determined at the time of commencement of the initial installment and as redetermined annually thereafter. The amount of such installments will be based on the value of the Vested Share of his Accounts as of the Valuation Date coinciding with or next following the date of receipt by the Savings Plan Administrator or its designee of his application and each anniversary thereof, and shall be determined by multiplying such value by a fraction, the numerator of which shall be one and the denominator of which shall be the number of years and fraction thereof of his life expectancy based on his age and the mortality table adopted by the Benefits Administration Committee for such purpose at the time the installment is payable. Any Member or Deferred Member who is no more than 70 years old and who elects annual installment payments over his life expectancy may at any time thereafter elect to cancel such payments by filing a request with the Savings Plan Administrator or its designee. Such Member or Deferred Member may, at any time thereafter, make another payment election under the Plan. Life expectancy installments described in this paragraph are not available to a Beneficiary who is not the spouse of a Member or Deferred Member.

Installment payments under (i) or (ii) above shall be made in the form of ITT Stock or cash, or both, as provided in (a) and (b), above.

- (d) If a Member or Deferred Member elects a distribution other than installments as provided in (c)(i) or (c)(ii) above and the Member or Deferred Member dies after the Valuation Date applicable to such distribution but prior to negotiation of any check(s) comprising any portion of such distribution, then the distribution otherwise payable in cash shall be paid to his estate. If more than one check comprises the cash portion of such distribution and the Member or Deferred Member negotiates the first check but dies prior to the negotiation of any subsequent

check, then any subsequent check shall be paid to his estate. If a Member or Deferred Member elects a distribution and the Member or Deferred Member dies prior to the Valuation Date applicable to such distribution, then the distribution shall be paid to his Beneficiary.

- (e) If a Member or Deferred Member elects installment distributions as provided in (c)(i) or (c)(ii) above and the Member or Deferred Member dies before all the installments are paid, then the following provisions shall apply:
  - (iv) If the Member's or Deferred Member's Beneficiary is not his spouse, and if an installment is paid with a Valuation Date that occurred prior to the date of death of the Member or Deferred Member and prior to the Member's or Deferred Member's negotiation of the check comprising all or a portion of such installment, then such installment (or portion thereof) shall be paid to his estate; the remaining value of the Member's or Deferred Member's Accounts shall be paid to his Beneficiary at one time.
  - (v) If the Member's or Deferred Member's Beneficiary is not his spouse, such Beneficiary may request annual installment payments, provided that the number of installments does not extend beyond the end of the calendar year which contains the fifth anniversary of the death of the Member or Deferred Member.
  - (vi) If the Member's or Deferred Member's Beneficiary is his spouse, then such spouse Beneficiary may continue receiving payment of the deceased Member's or Deferred Member's Accounts pursuant to the same method of distribution elected by the Member or Deferred Member, except that the spouse's life expectancy shall be substituted for the life expectancy of the Member. The spouse Beneficiary may, at any time while receiving payment of such Accounts, elect, by filing a request with the Savings Plan Administrator or its designee, to cancel installment payments. Such spouse Beneficiary may at any time thereafter, elect a lump sum payment or partial distributions, subject to the provisions of Section 401(a)(9) of the Code.
- (f) The Vested Share of the Accounts of a Member who, following Termination of Employment, fails to apply for distribution of such Accounts, shall be paid in cash (or, if the Member so elects shares of ITT Stock) in the form of a lump sum payment, provided that the value of the Vested Share of such Accounts is \$5,000 or less on a Valuation Date no earlier than the next business day following his Termination of Employment, without regard to the value of the Member's Accounts at the time of an earlier distribution.

In the event a Member who is subject to the provisions of the immediately preceding paragraph and whose Vested Share of his Accounts is in excess of \$1,000 fails to make an affirmative election to either receive the lump sum payment in cash or have it directly rolled over to an eligible retirement plan pursuant to the provisions of Section 11.7 within such election period as shall be prescribed by the Benefits Administration Committee, the Benefits Administration Committee shall direct the Trustee to transfer such lump sum payment to an individual retirement plan (within the meaning of Section 7701(c)(37) of the Code) ("IRA") selected by the PFTIC; provided, however, that, for purposes of applying the \$1,000-threshold, a Member's Roth Account and Roth Rollover Account and the remainder of the Member's Accounts shall be treated as held under two separate plans. The IRA shall be maintained for the exclusive benefit of the Member on whose behalf such transfer is made. The transfer shall occur as soon as practicable following the end of the election period. The funds in the IRA shall be invested in an investment product designed to preserve principal and provide a

reasonable rate of return, whether or not such return is guaranteed, consistent with liquidity, as determined from time to time by the PFTIC. In implementing the provisions of this paragraph, the Benefits Administration Committee and/or the PFTIC as appropriate pursuant to the terms of this paragraph, shall:

- (i) enter into a written agreement with each IRA provider setting forth the terms and conditions applicable to the establishment and maintenance of the IRA in conformity with applicable law;
- (ii) furnish Members with notice of the Plan's automatic rollover provisions, including, but not limited to, a description of the nature of the investment product in which the assets of the IRA will be invested and how the fees and expenses attendant to the IRA will be allocated, and a statement that a Member may roll over the assets of the IRA to another eligible retirement plan. Such notice shall be provided to Members in such time and form as shall be prescribed by the Benefits Administration Committee in accordance with applicable law;
- (iii) keep records, when appropriate, of a Member's after-tax basis in the amount transferred to the IRA; and
- (iv) fulfill such other requirements of the safe harbor contained in Department of Labor Regulation §2550.404a-2 and, if applicable, the conditions of Department of Labor Prohibited Transaction Class Exemption 2004-16.

Alternative methods of distribution may apply to that portion of a Member's or a Deferred Member's Accounts attributable to a Prior Plan Account, as specified in the applicable appendices to the Plan.

#### *11.4 Death of Beneficiary*

Notwithstanding any provision of the Plan to the contrary, upon the death of a Beneficiary with Accounts remaining in the Plan, the remaining value of all such Accounts shall be paid in a lump sum distribution within one year of the Beneficiary's death to the Beneficiary selected by the Beneficiary, if any, or if no such Beneficiary has been named by the Beneficiary, the remaining value of all such Accounts shall be paid in a lump sum distribution within one year of the Beneficiary's death to the estate of the Beneficiary.

#### *11.5 Proof of Death and Right of Beneficiary or Other Person*

The Benefits Administration Committee may require and rely on such proof of death and such evidence of the right of any Beneficiary or other person to receive the undistributed value of the Accounts of a deceased Member, Deferred Member or Beneficiary as the Benefits Administration Committee may deem proper, and its determination of death and of the right of such Beneficiary or other person to receive payment shall be conclusive. Payment to any Beneficiary shall be final and fully satisfy and discharge the obligation of the Plan with respect to any and all Accounts of a deceased Member or Deferred Member.

In the event of a dispute regarding the account of a deceased Member or Deferred Member, the Benefits Administration Committee may make a final determination, or initiate or participate in any action or proceeding as may be necessary or appropriate to determine any Beneficiary under the Plan.

During the pendency of any action or proceeding, the Benefits Administration Committee may deposit an amount equal to the disputed payment with the court and such deposit shall relieve the Plan of all of its obligations with respect to any such disputed Accounts. Alternatively the Benefits Administration Committee, at its discretion, may direct any disputed accounts be invested in the Stable Value Fund or such other as designated by the PFTIC pending the resolution of any dispute regarding a deceased Member's or Deferred Member's Accounts.

#### 11.6 *Completion of Appropriate Notice*

Except as provided in this Section, if the value the Vested Share of a Member's Accounts exceeds \$5,000, an election by the Member or Deferred Member (for this purpose Deferred Member does not include a spouse Beneficiary) to receive a distribution prior to age 65 shall not be valid unless the written election is made after the Member or Deferred Member has received the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations and within a reasonable time before the effective date of the commencement of the distribution as prescribed by said regulations. Such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

- (a) the Benefits Administration Committee clearly informs the Member that he has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option); and
- (b) the Member, after receiving the notice under Sections 411 and 417 of the Code, affirmatively elects a distribution.

The Benefits Administration Committee may permit any notices to be given electronically, in accordance with procedures to be established in the Benefits Administration Committee's sole discretion.

#### 11.7 *Direct Rollover of Certain Distributions*

Notwithstanding any other provision of this Plan, with respect to any withdrawal or distribution from this Plan pursuant to Article 9 or this Article 11 which is determined by the Savings Plan Administrator or its designee to be an "eligible rollover distribution," the distributee may elect, at the time and in a manner prescribed by the Benefits Administration Committee for such purpose, to have the Plan make a "direct rollover" of all or part of such withdrawal or distribution to a maximum of two "eligible retirement plans" which accept such rollover. The following definitions apply to the terms used in this Section 11.7:

- (a) "Distributee" means:
  - (i) a Member or Deferred Member;
  - (ii) a Member's or Deferred Member's spouse Beneficiary;
  - (iii) a Member's or Deferred Member's spouse or former spouse who is the alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code with regard to the interest of the spouse or former spouse; and
  - (iv) a nonspouse Beneficiary.

- (b) “Eligible rollover distribution” is any withdrawal or distribution of all or any portion of an individual’s vested account balance owing to the credit of a distributee, except that the following distributions shall not be eligible rollover distributions:
- (i) any distribution that is one of a series of substantially equal periodic payments made for the life or life expectancy of the distributee, or for a specified period of ten years or more;
  - (ii) any distribution required under Section 401(a)(9) of the Code;
  - (iii) after-tax amounts (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities) unless such amount is rolled over or transferred (i.e., directly rolled) to an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, or a Roth individual retirement account described in Section 408A(b) of the Code; or transferred (i.e., directly rolled) to a qualified plan described in Section 401(a) of the Code or to an annuity plan described in Section 403(b) of the Code provided such plan agrees to separately account for such after-tax amount and earnings thereon;
  - (iv) any in-service withdrawal that is made on account of hardship;
  - (v) any distribution of Roth contributions unless such amount is rolled over to (A) a Roth IRA described in section 408A(b) of the Code or (B) a designated Roth account in an applicable retirement plan described in section 402A(e)(1) of the Code that separately accounts for amounts transferred (and earnings thereon) and, in either case, the rollover is permitted under section 402(c) of the Code; and
  - (vi) any other distribution that is not an eligible rollover distribution under the Code or regulations thereunder.
- (c) “Eligible retirement plan” means any of the following types of plans that accept the distributee’s eligible rollover distribution:
- (i) a qualified plan described in Section 401(a) of the Code;
  - (ii) an annuity plan described in Section 403(a) of the Code;
  - (iii) an individual retirement account or individual retirement annuity described in Section 408(a) or 408(b) of the Code, respectively;
  - (iv) an annuity contract described in Section 403(b) of the Code;
  - (v) an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan; and
  - (vi) a Roth IRA described in Section 408A of the Code

Notwithstanding the foregoing, with respect to a non-spouse Beneficiary, as defined in (a)(iv) above, an eligible retirement plan will only be an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, or a Roth individual retirement account described in Section 408A(b) of the Code (collectively, "IRA") that is established on behalf of the non-spouse Beneficiary and that will be treated as an inherited IRA pursuant to the provisions of Sections 402(c)(11) and 408(d)(3)(C)(ii) of the Code.

- (d) "Direct rollover" means a payment by the Plan directly to the eligible retirement plan specified by the distributee in cash and/or shares.

In the event that the provisions of this Section 11.7 or any part thereof cease to be required by law as a result of subsequent legislation or otherwise, this Section 11.7 or applicable part thereof shall be of no further force or effect without necessity of further amendment of the Plan.

#### 11.8 *Elective Transfers from Plan*

The Accounts of a Member or Deferred Member shall be eligible for an elective transfer to a like transferee employee plan in connection with an asset or stock acquisition, merger, or other similar transaction involving a change in employer of the Member or Deferred Member (i.e., an acquisition or disposition within the meaning of Treasury Regulation Section 1.410(b)-2(f)) or, with the permission of the Benefits Administration Committee, in connection with the Member or Deferred Member's transfer of employment to a different job for which service does not result in additional allocations under the Plan as set forth herein.

- (a) *Elective Transfer.* An elective transfer of a Member's or Deferred Member's Accounts between this Plan and another qualified plan maintained by a transferee shall be available only if the transfer meets the requirements of Section 414(l) of the Code and each of the following requirements have been met:

(i) *Voluntary Election*

(A) *Member Election*

The transfer must have been conditioned upon a voluntary, fully informed election by the Member or Deferred Member to transfer such Accounts to such transferee plan.

(B) *Benefit Retention Alternative*

In making the voluntary election provided for in this section, the Member or Deferred Member shall have had the option of retaining such Member's or Deferred Member's Accounts (including all optional forms of benefit) under this Plan. Restrictions may apply to the Member's or Deferred Member's Accounts as set forth in the applicable Appendices.

(C) *Spousal Election*

If Sections 401(a)(11) and 417 of the Code otherwise apply to the Accounts, the spousal consent requirements of such section must have been met with respect to the transfer of benefits.

(D) *Notice Requirement*

The notice requirement under Section 417 of the Code, if applicable, must have been met with respect to the Member or Deferred Member and spousal transfer election.

(ii) *Amount of Benefit Transferred*

The amount of the Accounts transferred, including the amount of any contemporaneous Section 401(a)(31) of the Code transfer to the transferee plan, must have equaled the entire balance of Accounts under the Plan of the Member or Deferred Member whose Accounts are being transferred.

(iii) *Benefit Under the Transferee Plan*

An elective transfer may be permitted even if the Member's or Deferred Member's Accounts are not fully vested, provided that the requirements of Section 411(a)(10) of the Code are satisfied by the transferee employee plan.

(b) *Status of Elective Transfer as Distribution*

The transfer of Accounts pursuant to the elective transfer rules of this Section generally is not treated as a distribution for purposes of Section 401(a) of the Code (except to the extent the Member is eligible to receive a full distribution of his Accounts under this Plan on the date of the transfer). In all cases, however, the transfer is not treated as a distribution for purposes of the minimum distribution requirements of Section 401(a)(9) of the Code.

11.9 *Elective Transfer to Plan*

The Plan shall accept elective transfers from plans qualified under Section 401(a) of the Code that result from an asset or stock acquisition, merger, or other similar transaction involving a change in employer of an individual who is eligible to become a Member (i.e., an acquisition or disposition within the meaning of Treasury Regulation Section 1.410(b)-2(f)) or, with the permission of the Benefits Administration Committee, in connection with the individual's transfer of employment to a different job for which service does not result in additional allocations under the Plan, provided that the elective transfer meets the requirements of Section 414(1) of the Code and Treasury Regulation Section 1.411(d)-(4), Q&A-3.

11.10 *Minimum Required Distributions*

Notwithstanding any other provision of this Article 11, all distributions from the Plan shall conform to the requirements of Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Distributions under this Article 11 shall meet the requirements of Treasury Regulation Sections 1.401(a)(9)-2 through 1.401(a)(9)-9. Such requirements shall be administered in accordance with the regulations issued under Section 401(a)(9) of the Code, as follows:

- (a) The portion of any distribution that constitutes a required minimum distribution under Section 401(a)(9) of the Code shall be the lesser of:
  - (i) the quotient obtained by dividing the Member's Accounts by the distribution period in the Uniform Lifetime Table set forth in Treasury Regulation Section 1.401(a)(9)-9,



using the Member's age as of the Member's birthday in the distribution calendar year; or

- (ii) if the Member's sole designated beneficiary for the distribution calendar year is the Member's spouse, and the spouse is more than ten years younger than the Member, the quotient obtained by dividing the Member's Accounts by the number in the Joint and Last Survivor Table set forth in Treasury Regulation Section 1.401(a)(9)-9, using the Member's and spouse's attained ages as of the Member's and the spouse's birthdays in the distribution calendar year.

The provisions of Section 401(a)(9) of the Code and the regulations thereunder shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

(b) For purposes of paragraph (a) above, the following definitions apply:

- (i) "Designated beneficiary" means the individual who is designated as the Beneficiary and is the designated beneficiary under Section 401(a)(9) of the Code and applicable Treasury Regulations. In the event a trust is designated as the beneficiary of the Member, the beneficiaries of the trust shall be deemed designated beneficiaries provided the applicable requirements set forth in Treasury Regulation Section 1.401(a)(9)-4 are met.
- (ii) "Distribution calendar year" means a calendar year for which a minimum distribution is required. For a Member who is a 5-percent owner in active service, the first distribution calendar year is the calendar year in which the Member attains age 70½. For a Member who is not a 5-percent owner, the first distribution calendar year is the later of the calendar year in which the Member attains age 70½ or the year in which the Member terminates employment.
- (iii) "Life expectancy" means life expectancy as computed by use of the Single Life Table in Treasury Regulation Section 1.401(a)(9)-9, Q & A-1.
- (iv) "Member's Accounts" means the balance of the Member's Accounts as of the last Valuation Date in the calendar year immediately preceding the distribution calendar year ("valuation calendar year") increased by the amount of contributions made and allocated or forfeitures allocated to the Member's Accounts as of dates in the valuation calendar year after such last Valuation Date and decreased by distributions made in the valuation calendar year after such last Valuation Date. The Member's Accounts for the valuation calendar year include any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

## ARTICLE 12

### MANAGEMENT OF FUNDS

#### 12.1 *Appointment of PFTIC*

As of January 1, 2016, the PFTIC shall consist of the individuals holding the following corporate titles with the Plan Sponsor as of such date:

- (a) Vice President and Treasurer;
- (b) Vice President and Chief Accounting Officer;
- (c) Vice President, Total Rewards;
- (d) Vice President and Chief Tax Officer;
- (e) Executive Director, Global Benefits & Wellness Programs; and
- (f) Accounting Manager.

Any member of the PFTIC may resign by delivering his written resignation to the Board of Directors and Secretary of the PFTIC and shall be deemed to resign when the member ceases to be employed by the Company and all Associated Companies. In the event that a member of the PFTIC resigns or is deemed to resign after January 1, 2016, his or her successor, if any, shall be an individual employed by the Plan Sponsor who is elected by a majority of the then current members of the PFTIC, provided that such elected individual agrees to serve as a member of the PFTIC.

#### 12.2 *Duties of PFTIC*

The PFTIC shall be responsible for the management of the assets of the Plan, except as otherwise expressly provided herein. The members of the PFTIC shall elect a Chairman from their number and a Secretary who may be, but need not be, one of the members of the PFTIC; may appoint from their number such committees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel and employ agents and such clerical and accounting services as they may require in carrying out the provisions of the Plan; and may allocate among themselves or delegate to other persons all or such portion of their duties hereunder as they in their sole discretion decide.

The PFTIC shall have the authority to appoint and provide for use of investment managers, and to establish one or more Trusts for the Plan pursuant to trust instruments approved or authorized by the PFTIC. In discharging its responsibility, the PFTIC shall evaluate and monitor the investment performance of the investment managers and the Trustee.

The PFTIC is designated a named fiduciary of the Plan within the meaning of Section 402(a) of ERISA.

#### 12.3 *Meetings*

The PFTIC shall hold meetings upon such notice, at such place or places, and at such time or times as it may determine. The action of at least a majority of the members of the PFTIC expressed from

time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the PFTIC and shall have the same effect for all purposes as if assented to by all members of the PFTIC at the time in office. No member of the PFTIC shall receive any compensation for his service as such.

#### *12.4 Compensation and Bonding*

The members of the PFTIC shall serve without compensation for their services as such. Except as may otherwise be required by law, no bond or other security need be required of any member in that capacity in any jurisdiction.

#### *12.5 Trust Fund*

All the funds of the Plan shall be held by a Trustee appointed from time to time by the PFTIC in one or more trusts under a trust instrument or instruments approved or authorized by the PFTIC for use in providing the benefits of the Plan; provided that no part of the corpus or income of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Members, Deferred Members and Beneficiaries.

#### *12.6 Benefit Statements*

A Member and a Deferred Member (or, in the event of the death of the Member or Deferred Member, a Beneficiary) shall be furnished with a statement setting forth the value of his Accounts, the Vested Share of his Accounts and such other information as required under Section 105(a) of ERISA. Such statement shall be furnished in the time and manner prescribed by Section 105(a) of ERISA and related guidance thereto.

#### *12.7 Fiscal Year*

The fiscal year of the Plan and the Trust shall end on the 31st day of December of each year or at such other date as may be designated by the PFTIC.

## ARTICLE 13

### ADMINISTRATION OF PLAN

#### 13.1 *Plan Administrator*

The responsibility for carrying out all phases of the administration of the Plan, except those connected with management of assets, shall be placed in a Benefits Administration Committee. The Benefits Administration Committee shall be the administrator of the Plan within the meaning of Section 3(16)(A) of ERISA and shall have authority and responsibility for general supervision of the administration of the Plan.

#### 13.2 *Appointment of Benefits Administration Committee*

Effective January 1, 2016, the Benefits Administration Committee shall consist of the individuals holding the following corporate titles with the Plan Sponsor as of January 1, 2016:

- (a) Vice President and Treasurer;
- (b) Vice President and Chief Accounting Officer;
- (c) Vice President, Total Rewards;
- (d) Executive Director, Global Benefits & Wellness Programs; and
- (e) Accounting Manager.

Any member of the Benefits Administration Committee may resign by delivering his written resignation to the Board of Directors and Secretary of the Benefits Administration Committee and shall be deemed to resign when the member ceases to be employed by the Company and all Associated Companies. In the event that a member of the Benefits Administration Committee resigns or is deemed to resign after January 1, 2016, his or her successor, if any, shall be an individual employed by the Plan Sponsor who is elected by a majority of the then current members of the Benefits Administration Committee, provided that such elected individual agrees to serve as a member of the Benefits Administration Committee.

#### 13.3 *Powers of Benefits Administration Committee.*

- (a) The Benefits Administration Committee is designated a named fiduciary within the meaning of Section 402(a) of ERISA and shall have authority and responsibility for general supervision of the administration of the Plan. For purposes of the regulations under Section 404(c) of ERISA, the Benefits Administration Committee shall be the designated fiduciary responsible for safeguarding the confidentiality of all information relating to the purchase, sale and holding of employer securities and the exercise of shareholder rights appurtenant thereto. The Benefits Administration Committee shall safeguard such information pursuant to written procedures providing for such confidentiality. In addition, for purposes of avoiding any situation for undue employer influence in the exercise of any shareholder rights, the Benefits Administration Committee shall appoint an independent fiduciary, who shall not be affiliated with any sponsor of the Plan, to ensure the maintenance of confidentiality pursuant to the regulations under Section 404(c) of ERISA.

- (b) The Benefits Administration Committee shall have total and complete discretion to interpret the Plan, including, but not limited to, the discretion to (i) decide all questions arising in the administration, interpretation and application of the Plan including the power to construe and interpret the Plan; (ii) decide all questions relating to an individual's eligibility to participate in the Plan and/or eligibility for benefits and the amounts thereof; (iii) decide all facts relevant to the determination of eligibility for benefits or participation; and (iv) determine the amount, form and timing of any distribution to be made hereunder. In making its decisions, the Benefits Administration Committee shall be entitled to, but need not rely upon, information supplied by a Member, Deferred Member, Beneficiary, or representative thereof.
- (c) The members of the Benefits Administration Committee shall elect a Chairman from their number and a Secretary who may be, but need not be, one of the members of the Benefits Administration Committee; may appoint from their number such committees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel and employ agents and such clerical and accounting services as they may require in carrying out the provisions of the Plan; and may allocate among themselves or delegate to other persons all or such portion of their duties hereunder as they in their sole discretion decide. The Benefits Administration Committee may also delegate to any other person or persons the authority and responsibility of administering the Plan including, but not limited to, telephone access by voice response or representatives, and completing Plan transactions using forms or by other means, in accordance with the provisions of the Plan and any policies which, from time to time, may be established by the Benefits Administration Committee.
- (d) Subject to the limitations of the Plan, the Benefits Administration Committee from time to time shall establish rules or regulations for the administration of the Plan and the transaction of its business. The Benefits Administration Committee shall have full discretionary authority, except as to matters which the Board of Directors from time to time may reserve to itself, to interpret the Plan and to make factual determinations regarding any and all matters arising hereunder, including but not limited to, the right to determine eligibility for benefits, the right to construe the terms of the Plan and the right to remedy possible ambiguities, inequities, inconsistencies or omissions. The Benefits Administration Committee shall also have the right to exercise powers otherwise exercisable by the Board of Directors hereunder to the extent that the exercise of such powers does not involve the management of Plan assets nor, in the judgment of the Benefits Administration Committee, a substantial number of persons. In addition, where the number of persons is deemed to be substantial, the Benefits Administration Committee shall have the further right to exercise such powers as may be delegated to the Benefits Administration Committee by the Board of Directors.
- (e) Subject to applicable federal and state Law, all interpretations, determinations and decisions of the Benefits Administration Committee or the Board of Directors in respect of any matter hereunder shall be final, conclusive and binding on all parties affected thereby.

#### 13.4 Meetings

The Benefits Administration Committee shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine.

### *13.5 Action by Benefits Administration Committee*

The action of at least a majority of the members of the Benefits Administration Committee expressed from time to time, by a vote at a meeting or in writing without a meeting, shall constitute the action of the Benefits Administration Committee and shall have the same effect for all purposes as if assented to by all members of the Benefits Administration Committee at that time in office.

### *13.6 Compensation*

No member of the Benefits Administration Committee shall receive any compensation from the Plan for his services as such and, except as required by law, no bond or other security shall be required of him in such capacity in any jurisdiction.

### *13.7 Plan Assets*

The Trustee shall be appointed by the PFTIC and shall enter into an agreement with the PFTIC for the purpose of investing and reinvesting contributions designated for the ITT Stock Fund or other assets of the Plan as provided in Article 12. The PFTIC shall provide for the investing and reinvesting of contributions in designated investment funds as required herein. All benefits to which a Member, Deferred Member, or Beneficiary may be entitled from the Plan will be paid at the direction of the Benefits Administration Committee.

### *13.8 Powers and Duties*

The powers and duties of the Benefits Administration Committee, PFTIC and the Trustee with respect to each group's responsibilities under the Plan shall be specified herein or in a separate trust agreement.

### *13.9 Records*

The Benefits Administration Committee shall see that books of account are kept which show all receipts and disbursements and a complete record of the operation of the Plan, including records of each Member's and Deferred Member's Accounts.

### *13.10 Claims*

When any individual makes a claim for benefits under the Plan, such claim shall be handled under the claims and appeals procedures established by the Benefits Administration Committee.

## ARTICLE 14

### AMENDMENT AND TERMINATION

#### 14.1 *Amendment of Plan*

The Board of Directors or its delegate reserves the right at any time and from time to time, and retroactively if deemed necessary or appropriate to conform with governmental regulations or other policies, to modify or amend in whole or in part any or all of the provisions of the Plan; provided that no such modification or amendment (a) shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of Members, Deferred Members and Beneficiaries; or (b) shall increase the duties of the Trustee without its consent thereto in writing, other than to comport with changes in the Code, ERISA or the rules thereunder. Except as may be required to conform with governmental regulations, no such amendment shall adversely affect the rights of any Member or Deferred Member with respect to contributions made on his behalf prior to the date of such amendment.

However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan. Except to the extent permitted under Section 411(d)(6) of the Code and regulations issued thereunder, no amendment shall be made which has the effect of decreasing the balance of the Accounts of any Member or Deferred Member or of reducing the nonforfeitable percentage of the balance of the Accounts of a Member or Deferred Member below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted, or if later, the date on which the amendment becomes effective. In addition, no amendment shall be made that has the effect of eliminating or restricting an optional form of benefit to the extent it is protected under Section 411(d)(6) of the Code.

#### 14.2 *Termination of Plan*

- (a) The Plan is entirely voluntary. The Board of Directors reserves the right at any time to terminate the Plan or to suspend, reduce or partially or completely discontinue contributions thereto. In the event of such termination or partial termination of the Plan or complete discontinuance of contributions, the interests of Members and Deferred Members shall automatically become nonforfeitable.
- (b) Upon termination of the Plan, Before-Tax Savings and/or Roth Contributions, with earnings thereon, shall only be distributed to Members if (i) neither the Company nor an Associated Company establishes or maintains a successor defined contribution plan, and (ii) payment is made to the Members in the form of a lump sum distribution (as defined in Section 402(e)(4)(D) of the Code, without regard to subclauses (I) through (IV) of clause (i) thereof). For purposes of this paragraph, a "successor defined contribution plan" is a defined contribution plan (other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code ("ESOP") or a simplified employee pension as defined in Section 408(k) of the Code ("SEP")) which exists at the time the Plan is terminated or within the 12-month period beginning on the date all assets are distributed. However, in no event shall a defined contribution plan be deemed a successor plan if fewer than 2 percent of the employees who are eligible to participate in the Plan at the time of its termination are or were eligible to participate under another defined contribution plan of the Company or an Associated Company

(other than an ESOP or a SEP, as herein defined) at any time during the period beginning 12 months before and ending 12 months after the date of the Plan's termination.

#### *14.3 Merger or Consolidation of Plan*

The Board of Directors or its delegate may, in its sole discretion, merge this Plan with another qualified plan or transfer a portion of the Plan's assets or liabilities to another qualified plan, subject to any applicable legal requirement. The Plan may not be merged or consolidated with, nor may its assets or liabilities be transferred to, any other plan unless each Member, Deferred Member, or Beneficiary under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.



## ARTICLE 15

### TENDER OFFER

#### *15.1 Applicability*

The provisions of this Article 15 shall apply in the event any person, either alone or in conjunction with others, makes a tender offer, or exchange offer, or otherwise offers to purchase or solicits an offer to sell to such person one percent or more of the outstanding shares of a class of ITT Stock held by the Trustee hereunder (herein jointly and severally referred to as a "tender offer"). As to any tender offer, each Member and Deferred Member (or Beneficiary in the event of the death of the Member or Deferred Member) shall have the right to determine confidentially whether shares held subject to the Plan will be tendered.

#### *15.2 Instructions to Trustee*

In the event a tender offer for ITT Stock is commenced, the Benefits Administration Committee, promptly after receiving notice of the commencement of such tender offer, shall transfer certain of its recordkeeping functions to an independent recordkeeper. The functions so transferred shall be those necessary to preserve the confidentiality of any directions given by the Members and Deferred Members (or Beneficiary in the event of the death of the Member or Deferred Member) in connection with the tender offer. The Trustee may not take any action in response to a tender offer except as otherwise provided in this Article 15. Each Member, Deferred Member, and Beneficiary is, for all purposes of this Article 15, hereby designated a named fiduciary within the meaning of Section 402(a)(2) of ERISA with respect to the shares of ITT Stock allocated to his Accounts, determined as herein described. An individual's proportionate share of the ITT Stock Fund as to which he holds fiduciary status for purposes of responding to a tender or exchange offer shall be determined at the time such fiduciary rights are exercisable by multiplying the number of shares credited at that time to the ITT Stock Fund by a fraction, the numerator of which is the value (as of the Valuation Date designated by the Benefits Administration Committee for this purpose) of that part of the individual's Accounts invested in the ITT Stock Fund and the denominator of which is the aggregate value of all amounts allocated to the ITT Stock Fund. Each Member and Deferred Member (or Beneficiary in the event of the death of the Member or Deferred Member) may direct the Trustee to sell, offer to sell, exchange or otherwise dispose of the ITT Stock allocated to any such individual's Accounts in accordance with the provisions, conditions and terms of such tender offer and the provisions of this Article 15, provided, however, that such directions shall be confidential and shall not be divulged by the Trustee or independent recordkeeper to the Company or to any director, officer, employee or agent of the Company, it being the intent of this provision of Section 15.2 to ensure that the Company (and its directors, officers, employees and agents) cannot determine the direction given by any Member, Deferred Member or Beneficiary. Such instructions shall be in such form and shall be filed in such manner and at such time as the Trustee may prescribe. The confidentiality provision of this Section shall likewise apply to the directions given to, and actions taken by, the Trustee pursuant to Section 15.5.

#### *15.3 Trustee Action on Member Instructions*

The Trustee shall sell, offer to sell, exchange or otherwise dispose of the ITT Stock allocated to the Member's, Deferred Member's or Beneficiary's Accounts with respect to which it has received directions to do so under this Article 15 or as provided in Section 15.5. The proceeds of a disposition directed by a Member, Deferred Member or Beneficiary from his Accounts under this Article 15 shall

be allocated to such individual's Accounts and be governed by the provisions of Section 15.5 or other applicable provisions of the Plan and the trust agreements established under the Plan.

*15.4 Action With Respect to Members Not Instructing the Trustee or Not Issuing Valid Instructions*

To the extent to which Members, Deferred Members and Beneficiaries do not issue valid directions to the Trustee to sell, offer to sell, exchange or otherwise dispose of the ITT Stock allocated to their Accounts, such individuals shall be deemed to have directed the Trustee that such shares remain invested in ITT Stock subject to all provisions of the Plan, including Section 15.5 and the trust agreements established under the Plan.

*15.5 Investment of Plan Assets after Tender Offer*

To the extent possible, the proceeds of a disposition of ITT Stock in an individual's Accounts shall be reinvested in ITT Stock by the Trustee as expeditiously as possible in the exercise of the Trustee's fiduciary responsibility and shall otherwise be held by the Trustee subject to the provisions of the trust agreement, the Plan and any applicable note or loan agreement. In the event that ITT Stock is no longer available to be acquired following a tender offer, the Company may direct the substitution of new employer securities for the ITT Stock or for the proceeds of any disposition of ITT Stock. Pending the substitution of new employer securities or the termination of the Plan and trust, the Trust Fund shall be invested in such securities as the Trustee shall determine; provided, however, that, pending such investment, the Trustee shall invest the cash proceeds in short-term securities issued by the United States of America or any agency or instrumentality thereof or any other investments of a short-term nature, including corporate obligations or participations therein and interim collective or common investment funds.

## ARTICLE 16

### GENERAL AND ADMINISTRATIVE PROVISIONS

#### 16.1 *Relief from Liability*

The Plan is intended to constitute a Plan as described in Section 404(c) of ERISA and Title 29 of the Code of Federal Regulations Section 2550.404c-1. The Plan fiduciaries are relieved of any liability for any losses that are the direct and necessary result of investment instructions given by any Member, Deferred Member or Beneficiary.

#### 16.2 *Payment of Expenses*

- (a) Direct charges and expenses arising out of the purchase or sale of securities and taxes levied on or measured by such transactions, and any investment management fees, with respect to any Investment Fund, may be paid in part by the Company. Any such charges, expenses, taxes and fees not paid by the Company shall be paid from the Investment Fund with respect to which they are incurred.
- (b) An annual charge to the Trust Fund of up to 0.25% of the market value of the assets held by such Trust Fund may be charged and applied to satisfy expenses incurred in conjunction with Plan administration, including, but not limited to, Trustee, recordkeeping, and audit fees; the Company shall pay all other expenses reasonably incurred in administering the Plan, including expenses of the Benefits Administration Committee, the PFTIC and the Trustee, such compensation to the Trustee as from time to time may be agreed between the PFTIC and Trustee, fees for legal services, any investment management fees not paid pursuant to Section 16.2(a), and all taxes, if any.

#### 16.3 *Source of Payment*

Benefits under the Plan shall be payable only out of the Trust Fund, and the Company shall not have any legal obligation, responsibility or liability to make any direct payment of benefits under the Plan. Neither the Company nor the Trustee guarantees the Trust Fund against any loss or depreciation or guarantees the payment of any benefit hereunder. No person shall have any rights under the Plan with respect to the Trust Fund, or against the Company, except as specifically provided for herein.

#### 16.4 *Inalienability of Benefits*

Except as specifically provided in the Plan or as Section 401(a)(13) of the Code or other applicable law may otherwise require or as may be required under the terms of a qualified domestic relations order, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempts so to do shall be void, nor shall any such benefit be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of the person entitled to such benefit; and in the event that the Benefits Administration Committee shall find that any attempt has been made to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any of the benefits under the Plan of any Member, Deferred Member or Beneficiary who is or may become entitled to benefits hereunder, except as specifically provided in the Plan or as applicable law may otherwise require, then such benefit shall cease and terminate, and in that event the Benefits Administration Committee shall hold or apply the same to or for the benefit of such

Member, Deferred Member or Beneficiary who is or may become entitled to benefits hereunder, his spouse, children, parents or other blood relatives, or any of them.

A Member's benefit under the Plan shall be offset or reduced by the amount the Member is required to pay to the Plan under the circumstances set forth in Section 401(a)(13)(C) of the Code.

A Member's benefit under the Plan shall be distributed as required because of the enforcement of a federal tax levy made pursuant to Section 6331 of the Code or the collection by the United States on a judgment resulting from an unpaid tax assessment.

#### *16.5 No Right to Employment*

Nothing herein contained nor any action taken under the provisions hereof shall be construed as giving any Employee the right to be retained in the employ of the Company.

#### *16.6 Prevention of Escheat*

Notwithstanding the foregoing, if the Benefits Administration Committee is unable to locate any person to whom a payment is due under the Plan or any person fails to present a check for payment in a timely manner, the amount due such person shall be forfeited at such time as the Benefits Administration Committee shall determine in its sole discretion and pursuant to nondiscriminatory rules established for that purpose (but in all events prior to the time such payment would otherwise escheat under any applicable State law). If, however, such a person later files a claim for such payment before the Plan is terminated, the benefit will be reinstated and payment made without any interest earned thereon.

All forfeitures under the Plan that are not expressly provided for herein shall be used to reduce future Company contributions or pay Plan expenses.

#### *16.7 Uniform Action*

Action by the Benefits Administration Committee shall be uniform in nature as applied to all persons similarly situated, and no such action shall be taken which will discriminate in favor of any Members who are Highly Compensated Employees.

#### *16.8 Headings*

The headings of the sections in this Plan are placed herein for convenience of reference and in the case of any conflict, the text of the Plan, rather than such headings, shall control.

#### *16.9 Use of Pronouns*

The masculine pronouns as used herein shall be equally applicable to both men and women, and words used in the singular are intended to include the plural, whenever appropriate.

#### *16.10 Construction*

The Plan shall be construed, regulated and administered in accordance with the laws of the State of New York, subject to the provisions of applicable federal laws.

*16.11 Restrictions on Certain Directors and Executive Officers*

Members who are directors or executive officers (or the equivalent thereof) of ITT or an Associated Company may be subject to certain additional restrictions in connection with this Plan. The Benefits Administration Committee shall have procedures to address these restrictions, which shall be determined in consultation with ITT's securities lawyers.

## ARTICLE 17

### TOP-HEAVY PROVISIONS

#### 17.1 Definitions

The following definitions apply to the terms used in this Section:

- (a) “applicable determination date” means for the first Plan Year of the Plan, the last day of the Plan Year, and for any subsequent Plan Year, the last day of the preceding Plan Year;
- (b) “top-heavy ratio” means the ratio of (i) the value of the aggregate of the Accounts under the Plan for key employees to (ii) the value of the aggregate of the Accounts under the Plan for all key employees and non-key employees;
- (c) “key employee” means any employee or former employee (including any deceased employee) who at any time during the Plan Year that includes the applicable determination date was an officer of the Company or Associated Company having Statutory Compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner (as defined in Section 416(i)(1)(B)(i) of the Code) of the Company or Associated Company, or a 1-percent owner (as defined in Section 416(i)(1)(B)(ii) of the Code) of the Company or Associated Company having Statutory Compensation of more than \$150,000. The determination of who is a key employee will be made in accordance with Section 416(i) of the Code and the applicable regulations and other guidance of general applicability issued thereunder;
- (d) “non-key employee” means any Employee who is not a key employee;
- (e) “applicable Valuation Date” means the Valuation Date coincident with or immediately preceding the applicable determination date;
- (f) “required aggregation group” means any qualified plan(s) of the Company or an Associated Company (including plans that terminated within the five-year period ending on the applicable determination date) in which there are members who are key employees or which enable(s) any such plan to meet the requirements of Section 401(a)(4) or 410(b) of the Code; and
- (g) “permissive aggregation group” means each plan in the required aggregation group and any other qualified plan(s) of the Company or an Associated Company in which all members are non-key employees, if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.

### 17.2 *Determination of Top Heavy Status*

For purposes of this Section, the Plan shall be “top-heavy” with respect to any Plan Year if as of the applicable determination date the top-heavy ratio exceeds 60 percent. The top-heavy ratio shall be determined as of the applicable Valuation Date in accordance with Sections 416(g)(3) and (4) of the Code and Article 5 of this Plan, and shall take into account any contributions made after the applicable Valuation Date but before the last day of the Plan Year in which the applicable Valuation Date occurs. The determination of whether the Plan is top-heavy is subject to the following:

- (a) the Accounts under the Plan will be combined with the account balances or the present value of accrued benefits under each other plan in the required aggregation group and, in the Company’s discretion, may be combined with the account balances or the present value of accrued benefits under any other qualified plan in the permissive aggregation group;
- (b) the Accounts and accrued benefits for an employee as of the applicable determination date shall be increased by the distributions made with respect to the employee under the Plan and any plan aggregated with the Plan under Section 416(g)(2) of the Code during the one-year period (five-year period in the case of a distribution made for a reason other than severance from employment, death, or disability) ending on the applicable determination date;
- (c) distributions under any plan that terminated within the five-year period ending on the applicable determination date shall be taken into account if such plan contained key employees and, therefore, would have been part of the required aggregation group; and
- (d) if an individual has not performed services for the Company or an Associated Company at any time during the one-year period ending on the applicable determination date, such individual’s accounts and the present value of his or her accrued benefits shall not be taken into account.

### 17.3 *Minimum Requirements*

For any Plan Year with respect to which the Plan is top-heavy, an additional Company contribution shall be allocated on behalf of each Member (or each Employee eligible to become a Member) who is not a “key employee,” and who has not separated from service as of the last day of the Plan Year, to the extent that the amounts allocated to his Accounts as a result of contributions made on his behalf under Sections 5.1 and 5.2 for the Plan Year would otherwise be less than 3% of his Statutory Compensation. However, if the greatest percentage of Statutory Compensation contributed on behalf of a key employee under Sections 4.1, 4.7, 5.1, and 5.2 for the Plan Year (disregarding any contributions made under Section 5.5 for the Plan Year) would be less than 3%, such lesser percentage shall be substituted for “3%” in the preceding sentence. Notwithstanding the foregoing provisions of this Section 17.3, no minimum contribution shall be made with respect to a Member, or an Employee who is eligible to become a Member, if the required minimum benefit under Section 416(c)(1) of the Code is provided by any qualified defined benefit plan of the Company or an Associated Company.

## ARTICLE 18

### QUALIFIED DOMESTIC RELATIONS ORDERS

#### 18.1 *Applicability of Article*

The Benefits Administration Committee shall apply the provisions of this Article with regard to a Domestic Relations Order (as defined below) to the extent not inconsistent with Section 414(p) of the Code.

#### 18.2 *Establishment of Procedures*

The Benefits Administration Committee shall establish procedures, consistent with Section 414(p) of the Code, to determine the qualified status of any Domestic Relations Order (as defined below), to administer distributions under any Qualified Domestic Relations Order (as defined below), and to provide to the Member and the Alternate Payee(s) (as defined below) all notices required under Section 414(p) of the Code with respect to any Domestic Relations Order. Such procedures shall be binding on all Members and Alternate Payees.

#### 18.3 *Determination of Qualified Domestic Relations Order Status*

Within a reasonable period of time after the receipt of a certified copy of a Domestic Relations Order (or any modification thereof), the Benefits Administration Committee or its designee shall determine whether such order is a Qualified Domestic Relations Order. The Benefits Administration Committee shall have full and complete discretion to determine whether a domestic relations order constitutes a qualified domestic relations order and whether the Alternate Payee otherwise qualifies for benefits hereunder.

#### 18.4 *Establishment of Segregated Accounts and Payment Procedures*

##### (a) *Separate Account for Deferred Amounts*

If a Domestic Relations Order has been determined to be a Qualified Domestic Relations Order in accordance with Section 18.3, a separate account for the benefits of the Alternate Payee named in such order shall be established.

##### (b) *Temporary Holding Account*

If, during any period in which the issue of (i) whether a Domestic Relations Order is a Qualified Domestic Relations Order, or (ii) whether a proposed Domestic Relations Order would, if it were perfected as a Domestic Relations Order, be a Qualified Domestic Relations Order is being determined (by the Benefits Administration Committee, by a court of competent jurisdiction, or otherwise), the Alternate Payee would be entitled to any payment if the order has been determined to be a Qualified Domestic Relations Order, the Benefits Administration Committee shall separately account for, and may cause to be segregated in a separate account, all amounts which would have been payable to any Alternate Payee during such period if such order had been determined to be a Qualified Domestic Relations Order.

##### (c) *Payment from Temporary Holding Account in Certain Cases*



If, by the expiration of the 18-month period beginning on the date the first payment would be required to be made to an Alternate Payee under a Domestic Relations Order, either it has been determined that a Domestic Relations Order is not a Qualified Domestic Relations Order or the issue as to whether such order is a Qualified Domestic Relations Order has not been resolved, the Benefits Administration Committee shall cause to be paid all amounts which have been segregated (or separately accounted for) by reason of such order pursuant to paragraph (b) above, including any earnings having accrued thereon, to the person or persons who would have been entitled to such amounts if there had been no order. Notwithstanding the preceding sentence, if the Member or his or her Beneficiaries are not yet entitled, or have not elected, to receive benefit payments under the Plan, such amounts, including all earnings having accrued thereon, shall be restored to the Member's Accounts and invested in accordance with the investment election most recently submitted by the Member pursuant to Section 7.4.

(d) *Payment from Separate Account and Temporary Holding Account to Alternate Payee of Order if Determined to be a Qualified Domestic Relations Order*

If a Domestic Relations Order (or any modification thereof) is determined to be a Qualified Domestic Relations Order, the Benefits Administration Committee shall instruct the Trustee to apply, on a prospective basis, the terms and provisions of such Qualified Domestic Relations Order, and, in the event any amounts were segregated (or separately accounted for) by reason of such order pursuant to paragraph (b) above, the Benefits Administration Committee shall cause to be paid in accordance with the provisions of the Plan all amounts which have been so segregated (and have not been released pursuant to paragraph (c)) (or separately accounted for), including any earnings having accrued thereon, to the Alternate Payee(s) entitled thereto.

18.5 *Subsequent Determination of Order to be Applied Prospectively*

If a determination is made after the expiration of the 18-month period beginning on the date the first payment would be required to be made to an Alternate Payee under a Domestic Relations Order that such order (or any modification thereof) is a Qualified Domestic Relations Order, such order shall be applied prospectively only.

18.6 *Withdrawals, Distributions and Loans by or to Members.*

(a) *Withdrawals and Distributions*

A Member or Deferred Member shall not be permitted to withdraw from the Plan, nor shall there be distributed to a Member or Deferred Member, any amounts being held in a segregated account by reason of a Domestic Relations Order.

(b) *Loans*

In determining the maximum amount of any loan to a Member pursuant to Article 10, the Benefits Administration Committee shall not include any portion of the Member's Accounts being held in a segregated account (or being separately accounted for) by reason of a Domestic Relations Order.

### 18.7 *Earliest Commencement Date*

A Domestic Relations Order shall not fail to be a Qualified Domestic Relations Order merely because it provides for distribution to the Alternate Payee prior to the Member's Termination of Employment. Notwithstanding anything herein to the contrary, if the amount payable to the Alternate Payee under the Qualified Domestic Relations Order is less than \$5,000, such amount shall be paid in one lump sum as soon as practicable following the qualification of the order. If the amount exceeds \$5,000, it may be paid as soon as practicable following the qualification of the order if the Qualified Domestic Relations Order so provides and the Alternate Payee consents thereto; otherwise, it may not be payable before the earliest of the Member's Termination of Employment, the time such amount could otherwise be withdrawn under the terms of this Plan, or the Member's attainment of age 50.

### 18.8 *Definitions*

For purposes of this Article:

- (a) *Alternate Payee* shall mean any spouse, former spouse, child or other dependent of a Member (or a Deferred Member who actively participated in the Plan, a Merged Frozen Plan, a Merged Hartzell Plan, a Merged Plan, or the Merged Bargained Plan) who is recognized by a Domestic Relations Order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to such Member.
- (b) *Domestic Relations Order* shall mean any judgment, decree or order (including approval of a property settlement agreement) which:
  - (i) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child, or other dependent of a Member (or a Deferred Member who actively participated in the Plan, a Merged Frozen Plan, a Merged Hartzell Plan, a Merged Plan, or the Merged Bargained Plan); and
  - (ii) is made pursuant to a state domestic relations law (including a community property law).
- (c) *Qualified Domestic Relations Order* shall mean a Domestic Relations Order which meets the requirements of Section 414(p)(1) of the Code.

Notwithstanding anything contained herein to the contrary, Special Company Contributions shall be made under Section 5.2(b) as follows:

**A. Special DC Credit Contribution**

With respect to an Employee who:

- (i) was an "Employee" (as defined under the provisions of the ITT Salaried Retirement Plan as in effect immediately prior to October 31, 2011) on October 30, 2011 and becomes a Member of the Plan on October 31, 2011; and
- (ii) was not a participant in the ITT Salaried Retirement Plan in 2011 as a result of the restructuring of the ITT Corporation

the Company shall make a Special DC Credit Contribution to the Plan for the 2011 Plan Year.

Such Special DC Credit Contribution shall be equal to the amount that would have been contributed as a Core Contribution to the Plan if the Plan had been in effect prior to the October 31, 2011, based on the Salary such Employee received during the period beginning on the date he was most recently hired or rehired by ITT Corporation or one of its subsidiaries prior to October 31, 2011 and ending on October 31, 2011 and while he was an "Employee" (as defined in the ITT Salaried Retirement Plan as in effective immediately prior to October 31, 2011).

**B. Transition Credit Contributions**

The Company shall make Transition Credit Contributions subject to the following:

**1. Eligibility**

The following Employees shall be eligible for Transition Credit Contributions:

- (i) each Employee who was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011 and who becomes a Member of the Plan on October 31, 2011;
- (ii) each individual who was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011, who became an employee of Exelis Inc. on October 31, 2011, and who becomes an Employee immediately following termination of employment with Exelis Inc. and prior to March 1, 2012; and
- (iii) each individual who was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011, who became an employee of Xylem Inc. on October 31, 2011, and who becomes an Employee immediately following termination of employment with Xylem Inc. and prior to March 1, 2012.

**2. Amount**

- (i) With respect to a Member whose age and Service as of the first day of the applicable Plan Year, as defined below, total 60 to 69 points, the Company shall make a Transition Credit Contribution equal to three percent of the Member's Salary for the Plan Year.

- (ii) With respect to a Member whose age and Service as of the first day of the applicable Plan Year, as defined below, total 70 or more points, the Company shall make a Transition Credit Contribution equal to five percent of the Member's Salary for the Plan Year.

For purposes of the preceding provisions, a Member's age and Service shall be calculated on a basis uniformly applicable to all Members similarly situated as established by the Benefits Administration Committee.

### **3. Timing and Frequency**

Subject to paragraph 4 below, Transition Credit Contributions shall be made for each Plan Year and shall be made no later than the due for the corporate tax return for the Plan Year for which the Transition Credit Contributions are made. Notwithstanding the foregoing, if an eligible Member terminates employment during the Plan Year for which a Transition Credit Contribution is payable, such Member's Transition Credit Contribution for such Plan Year shall be made as soon as practicable following the end of the calendar year in which the Member terminates employment.

### **4. Duration**

Transition Credit Contributions shall be made beginning as of October 31, 2011 and until the earliest of:

- (i) October 31, 2016;
- (ii) a Member's commencement of his traditional pension plan (TPP) benefit from the ITT Salaried Retirement Plan;
- (iii) a change in control of ITT;
- (iv) a Member's termination of employment (regardless of whether the Member is subsequently reemployed); or
- (v) a Member's death.

The following Appendices B through H apply to certain Members or Deferred Members who had benefits transferred to the Plan from the ISP attributable to accounts that were transferred into the ISP from another qualified plan, as specified in the applicable Appendix.

## APPENDIX B

This Appendix B shall apply solely to Members and Deferred Members who formerly participated in the Allis-Chalmers Savings Plan (the "Allis-Chalmers Plan") and with respect to whom assets were transferred to the ISP from the Allis-Chalmers Plan. All service recognized under the Allis-Chalmers Plan for purposes of eligibility to participate and vesting shall be recognized hereunder as Service.

- A. Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment a Member or Deferred Member described above may elect to receive those amounts transferred from the Allis-Chalmers Plan to the ISP in the distribution forms described herein:
1. In installments at intervals not more frequently than once per calendar quarter over a period of years not exceeding the joint life expectancy of the Member or Deferred Member and his spouse, as determined under Section 72 of the Code and the regulations thereunder.
  2. In installments at intervals not more frequently than once per calendar quarter over a period of years which does not extend beyond the Member's or Deferred Member's life expectancy, calculated as follows:
    - (i) the fixed payment shall be determined annually at the time payments are to commence, and as of the first day of each succeeding Plan Year, by multiplying the amount transferred to the ISP from the Allis-Chalmers Plan by a fraction, the numerator of which is one, and the denominator is the Member's or Deferred Member's life expectancy as of the date of such determination, as determined under Section 72 of the Code and the regulations thereunder; and
    - (ii) then dividing the amount determined under (i) above, by the number of payments to be paid to the Member or Deferred Member during that Plan Year.
  3. By purchasing an annuity contract for the benefit of the Member or Deferred Member from a legal reserve life insurance company selected by the Company. If the Member or Deferred Member is married, such annuity contract shall be in the form of a qualified joint and survivor annuity unless the Member or Deferred Member, with his spouse's consent unless it is established to the satisfaction of the Benefits Administration Committee that the spouse cannot be located, elects another form of annuity contract and does not revoke such election within the 90-day period ending on the first day of the first period for which an amount is received as an annuity. Any election by a Member or Deferred Member to waive a qualified joint and survivor annuity must be in writing. The spouse's consent must be in writing, must acknowledge the effect of such election and be witnessed by a notary public. A qualified joint and survivor annuity means an annuity for the life of the Member or Deferred Member with a survivor annuity for the life of the spouse which is not less than 50 percent and not more than 100 percent of the annuity which is payable during the joint lives of the Member or Deferred Member and the spouse, and which is the actuarial equivalent of a single life annuity for the life of the Member or Deferred Member.

The Member or Deferred Member shall, no less than 30 days and no more than 90 days prior to the first day of the first period for which an amount is received as an annuity, be provided a written explanation of (i) the terms and conditions of the qualified joint and survivor annuity; (ii) the Member's or Deferred Member's right to make and the effect of an election to waive

the qualified joint and survivor annuity form of benefit; (iii) the rights of the Member's or Deferred Member's spouse; and (iv) the right to make, and the effect of, a revocation of a previous election to waive the qualified joint and survivor annuity. If an annuity form other than a qualified joint and survivor annuity is elected hereunder, such annuity may not be in a form that will provide for payments over a period extending beyond either the life of the Member or Deferred Member (or the lives of the Member or Deferred Member and his designated Beneficiary) or the life expectancy of the Member or Deferred Member (or the life expectancy of the Member or Deferred Member and his designated Beneficiary), and such other forms available under the annuity contract shall be so designed as to provide that at least 50 percent of the reserve that would be required to provide payments to the Member or Deferred Member in the normal form under the Plan will be applied to him over his normal life expectancy.

The Company shall cause the contract to be assigned or delivered to the person or persons then entitled to payment under it. Before the assignment or delivery of an annuity contract, such contract shall be rendered nontransferable except by surrender to the issuing insurance company.

4. A Member or Deferred Member may elect to receive the benefits to which this Appendix B applies in any combination of the forms enumerated herein.

**B.** Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, in the event a Member or Deferred Member dies before his benefit attributable to amounts transferred from the Allis-Chalmers Plan to the ISP, or any portion thereof, has been paid to him, the unpaid balance of such amount shall be paid to his designated Beneficiary as follows:

1. If the beneficiary is an individual or individuals, the amount described in paragraph (B) above shall be paid to such Beneficiary in one of the methods described in paragraph (A) above, as elected by such Beneficiary. In the case of a Beneficiary who elects to receive installments or an annuity, payments thereunder shall not extend beyond the life expectancy of the Beneficiary.
2. If the Beneficiary is other than an individual or individuals, the Member's or Deferred Member's benefit subject to this Appendix B shall be paid in a lump sum payment.

**C.** Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, in the event a Member or Deferred Member dies after installments have commenced, the remainder of his distributable benefit will be paid to his Beneficiary in a single lump sum except that such Beneficiary may elect to receive such benefit in the installment forms described in paragraph (A) above. If the Beneficiary so elects, installments shall be over a period of years not exceeding the number of years that installments would have continued to be paid to the Member or Deferred Member had he lived, provided the Member or Deferred Member had been receiving installments under subsection (A)(1) and over a period of years which does not extend beyond the Member's or Deferred Member's life expectancy on the day before the date of his death, provided the Member or Deferred Member has been receiving installments under subsection (A)(2).

**D.** Notwithstanding anything in this Appendix B to the contrary, single sum payments shall be made, installments shall commence, and annuity contracts shall be purchased not later than one year after the date of the Member's or Deferred Member's death. In the event a Beneficiary dies before he has received the entire amount payable to him under this Appendix B, the Beneficiary's beneficiary shall be paid the balance of the amount payable hereunder in a single lump sum payment within one year of the Beneficiary's death.

## APPENDIX C

This Appendix C shall apply solely to Members and Deferred Members who formerly participated in the ITT Higbie Manufacturing Company Retirement Profit-Sharing Plan (the "Higbie Plan") and with respect to whom assets and liabilities were transferred to the ISP from the Higbie Plan. All service recognized under the Higbie Plan for purposes of eligibility to participate and vesting were recognized under the ISP as Service.

A. Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment after attaining age 50 and 10 years of Service or attaining age 65, a Member described above may elect to receive those amounts transferred from the Higbie Plan to the ISP in the distribution forms described herein. Such amounts shall commence, as selected by the Member, as of the earlier of the Valuation Date next following a Member's Termination of Employment on or after his age 65 or any Valuation Date selected by the Member following the Member's attainment of age 50 and 10 years of Service but prior to the Valuation Date next following his age 65:

1. In approximately equal monthly or annual installments over a period not to exceed 10 years.
2. By purchasing an annuity contract for the benefit of the Member or Deferred Member from a legal reserve life insurance company selected by the Company. If the Member elects to receive his benefits hereunder in the form of an annuity and if the Member is married on the date benefits commence, such annuity contract shall be in the form of a 50 percent qualified joint and survivor annuity unless the Member, with his spouse's consent unless it is established to the satisfaction of the Benefits Administration Committee that the spouse cannot be located, elects another form of annuity contract and does not revoke such election within the 90-day period ending on the first day of the first period for which an amount is received as an annuity. Any election by a Member or Deferred Member to waive a qualified joint and survivor annuity must be in writing. The spouse's consent must be in writing, must acknowledge the effect of such election and be witnessed by a notary public. A qualified joint and survivor annuity means an annuity for the life of the Member with a survivor annuity for the life of the spouse which is not less than 50 percent and not more than 100 percent of the annuity which is payable during the joint lives of the Member and the spouse, and which is the actuarial equivalent of a single life annuity for the life of the Member. In the event the Member elects to receive his benefit hereunder in the form of an annuity other than a joint and survivor annuity with his spouse as Beneficiary, the value of the benefit payable to the Member under the annuity shall never be less than 51 percent of the total value of the benefits payable under the annuity to the Member and his Beneficiary.

The Member shall, no less than 30 days and no more than 90 days prior to the first day of the first period for which an amount is received as an annuity, be provided a written explanation of (i) the terms and conditions of the qualified joint and survivor annuity; (ii) the Member's or Deferred Member's right to make and the effect of an election to waive the qualified joint and survivor annuity form of benefit; (iii) the rights of the Member's or Deferred Member's spouse; and (iv) the right to make, and the effect of, a revocation of a previous election to waive the qualified joint and survivor annuity. If an annuity form other than a qualified joint and survivor annuity is elected hereunder, such annuity may not be in a form that will provide for payments over a period extending beyond either the life of the Member (or the lives of the Member and his designated Beneficiary) or the life expectancy of the Member (or the life expectancy of the Member and his designated Beneficiary), and such other forms available



under the annuity contract shall be so designed as to provide that at least 50 percent of the reserve that would be required to provide payments to the Member in the normal form under the Plan will be applied to him over his normal life expectancy.

- B.** In the event of the death of a Member or Deferred Member prior to commencing benefits hereunder, such benefit shall be paid to his Beneficiary as of the Valuation Date coincident with or next following the Member's or Deferred Member's date of death in a single sum payment or in installment payments, if the Member or Deferred Member has named one Beneficiary and has so elected, such amount shall be payable in 120 equal, as near as may be, monthly installments, with any funds remaining at the death of the Beneficiary to go to the Beneficiary's estate in one lump sum, or if no Beneficiary survives the Member or Deferred Member, such amounts shall be payable to the Member's or Deferred Member's estate in a single lump sum. In either case, the Member or Deferred Member may name one or more contingent Beneficiaries to take in full at such Member's or Deferred Member's death in the event the primary Beneficiary or Beneficiaries have not survived the Member or Deferred Member.
- C.** In the event of the death of a Member who is receiving installments pursuant to paragraph (A)(1) hereof and who has designated a Beneficiary to receive installment payments pursuant to paragraph (B) hereof, such Member's installment payments shall continue until the July 31 next following the Member's death and thereafter shall be payable pursuant to paragraph (B) above in 120 equal, as near as may be, monthly installments, with any amounts remaining at the death of the Beneficiary to go to the Beneficiary's estate in a single lump sum.

## APPENDIX D

This Appendix D shall apply solely to Members and Deferred Members who formerly participated in the General Motors Savings-Stock Purchase Program for Salaried Employees in the United States (the "GM Plan") and with respect to whom assets and liabilities were transferred to the ISP from the GM Plan. All service recognized under the GM Plan for purposes of eligibility to participate and vesting was recognized as Service under the ISP.

- A.** Subject to Section 11.3 with respect to a Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment, a Member or Deferred Member described above may elect to receive those amounts transferred from the GM Plan to the ISP in the distribution forms described herein:
1. In installment payments on a monthly, quarterly, semi-annual, or annual basis. Installments are to be paid in whole dollar amounts, with \$1,200 as the minimum annual installment. A Member or Deferred Member may change the timing, amount, or discontinue installment payments. Installment payments will commence:
    - (i) for monthly payments, the first of the month next following the month in which the Member's or Deferred Member's election is received by the Plan; and
    - (ii) for quarterly, semi-annual, and annual payments, not sooner than the month next following the month in which the Plan receives the Member's or Deferred Member's election.
  2. A Member or Deferred Member who has incurred a Termination of Employment may elect to withdraw a portion of the amounts hereunder at any time, but no more frequently than once per calendar year. In addition to any partial withdrawal, a Member or Deferred Member may elect, at any time, to receive a complete distribution of the amounts with respect to which this Appendix D applies.
- B.** A Member or Deferred Member shall be permitted to defer commencement of benefits hereunder until the April 1 next following the date such Member or Deferred Member attains age 70½.

## APPENDIX E

This Appendix E shall apply solely to Members and Deferred Members who formerly participated in the Goulds Pumps, Inc. Retirement Savings and Investment Plan (the "Goulds Plan") and with respect to whom assets and liabilities were transferred to the ISP from the Goulds Plan. All service recognized under the Goulds Plan for purposes of eligibility to participate and vesting was recognized as Service under the TSP.

- A. Subject to Section 11.3 with respect to a Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment a Member or Deferred Member described above may elect to receive those amounts transferred from the Goulds Plan to the Plan in installment payments on a monthly or quarterly basis, as the Member elects, over a term certain. The maximum length of the term certain shall be the joint life expectancy of the Member and his designated beneficiary. If the installments are to be distributed over the life expectancy of the Member or the joint life of the Member and his Beneficiary, the life expectancy or joint life expectancies, as applicable of such persons shall be calculated at the time distributions commence and shall not thereafter be recalculated. The initial value of the obligation for the installment payments shall be equal to the amount of the Member's Account balance. Distributions must satisfy the requirements of Section 401(a)(9)(G) of the Code.

## APPENDIX F

This Appendix F shall apply solely to Members who are Deferred Members who were employed at ITT Automotive Brake Systems (“Brakes”) or at ill Automotive Electrical Systems, Inc. (“ESP”).

- A.** Each Member who was employed at Brakes as of September 25, 1998, the closing date of the sale of Brakes, was 100% vested in his Accounts as of such date.
- B.** Each Member who was employed at ESI as of September 28, 1998, the closing date of the sale of ESI, was 100% vested in his Accounts as of such date.
- C.** Effective September 25, 1998, a Member employed at Brakes was permitted, between September 25, 1998 and the date of the trust to trust transfer of his Accounts to the qualified retirement plan sponsored by Continental AG, to reallocate the investment of amounts in his Company Contribution Account into any other fund offered by the ISP, regardless of the age of the Member.
- D.** Effective September 28, 1998, a Member employed at ESI was permitted, between September 28, 1998 and the date of the trust to trust transfer of his Accounts to the qualified retirement plan sponsored by Valeo, to reallocate the investment of amounts in his Company Contribution Account into any other fund offered by the ISP, regardless of the age of the Member. Amounts that were invested in the ITT Stock Fund on the date of the trust to trust transfer to the qualified retirement plan sponsored by Valeo were transferred in kind.

## APPENDIX G

This Appendix G shall apply solely to individuals who were salaried employees of Water Pollution Control Corporation (“WPCC”).

- A.** Each individual who was a salaried employee of WPCC on February 28, 1999 was an Employee for purposes of the ISP as of March 1, 1999.
- B.** In accordance with the terms and conditions of the Stock Purchase Agreement for WPCC dated January 3, 1999, an individual who became an Employee of ITT Corporation on March 1, 1999 as a result of ITT Corporation’s acquisition of WPCC was credited with all uninterrupted service rendered by such salaried employee while employed by WPCC prior to March 1, 1999. Such service was credited solely for the purposes of determining eligibility and vesting under the ISP and only to the extent such service was credited by WPCC under a qualified retirement plan for these purposes.

## APPENDIX H

This Appendix H shall apply solely to Members who are Deferred Members who were employed at Precision Die Casting ("PDC"), Pomona, or Palm Coast Utility ("PCUC").

- A.** Each Member who was employed at PDC as of March 13, 1998, was permitted to request an elective transfer to the ISP or a complete distribution through March 12, 2000. On or after March 13, 2000, such a Member was not be permitted to elect a transfer or distribution of his Accounts until the Member terminates employment with the buyer of PDC, dies or becomes Disabled. Effective March 13, 1998, such a Member also was not permitted to request a loan or a withdrawal (other than a full distribution prior to March 13, 2000) from his Accounts.
- B.** Each Member who was employed at Pomona as of September 25, 1998, was permitted to request an elective transfer to the ISP or a complete distribution through September 24, 2000. On or after September 25, 2000, such a Member was not be permitted to elect a transfer or distribution of his Accounts until the Member terminates employment with the buyer of Pomona, dies or becomes Disabled. Effective September 25, 1998, such a Member also was not permitted to request a loan or a withdrawal (other than a full distribution prior to September 25, 2000) from his Accounts.
- C.** Each Member who was employed at PCUC as of January 22, 1999, was permitted to request an elective transfer to the ISP or a complete distribution pursuant to Article 11 of his Accounts through January 21, 2001. On or after January 22, 2001, such a Member was not be permitted to elect a transfer or distribution of his Accounts until the Member terminates employment with the buyer of PCUC, dies or becomes Disabled. Effective January 22, 1999, such a Member also was not permitted to request a loan or a withdrawal (other than a full distribution prior to January 22, 2001) from his Accounts.

## APPENDIX I

This Appendix I shall apply solely to individuals whose accounts under a Merged Frozen Plan (listed below) were transferred to the Plan effective as of the close of business on December 31, 2012 (a “Prior Merged Frozen Plan Participant”):

ITT Koni Friction Products Savings Plan for Hourly Employees

ITT Engineered Valves CA Pure Flo Solutions Group Savings Plan for Hourly Employees

ITT Pure Flo Precision Savings Plan for Hourly Employees

**A. Account Transfers.** Notes receivable for participant loans, qualified domestic relations orders, beneficiary designations, and investment allocations associated with accounts transferred from the Merged Frozen Plans for Prior Merged Frozen Plan Participants also were transferred to the Plan.

**B. Vesting.** Notwithstanding the provisions of Article 6 of the Plan, and except as provided in Section 14.2(a) of the Plan, each Prior Merged Frozen Plan Participant shall have the Vested Share of his accounts transferred from the applicable Merged Frozen Plan determined as if the vesting provisions of the applicable Merged Frozen Plan as in effect on December 31, 2012 had continued in effect. For purposes of the preceding sentence, accounts transferred from the ITT Koni Friction Products Savings Plan for Hourly Employees shall be considered to be fully vested. The non-vested portion, if any, of the accounts transferred to the Plan from a Merged Frozen Plan for a Prior Merged Frozen Plan Participant shall be permanently forfeited and applied as described in Section 16.6 of the Plan on the date such Prior Merged Frozen Plan Participant incurs a Permanent Break in Service, if not forfeited earlier under the vesting provisions of the applicable Merged Frozen Plan. For this purpose, “Permanent Break in Service” shall have the meaning assigned to such term under the applicable Merged Frozen Plan as in effect on December 31, 2012.

## APPENDIX J

This Appendix J shall apply solely to individuals whose accounts under a Merged Plan listed below were transferred to the Plan effective as of the close of business on December 31, 2013 (a "Prior Merged Plan Participant") :

ITT Aerospace Controls Savings Plan for Hourly Employees  
ITT Control Technologies Savings Plan for Hourly Employees  
ITT Cannon Savings Plan for Hourly Employees  
ITT BIW Connector Systems Employees' Savings Plan  
ITT Engineered Valves -- Fabri Savings Plan for Hourly Employees

and to individuals whose accounts under the Pro Cast and Goulds Pumps Service Center Employees' Savings Plan (the "Pro Cast Plan", which is also a Merged Plan) were transferred to the Plan effective January 1, 2014 (a "Prior Pro Cast Plan Participant").

**A. Account Transfers.** Notes receivable for participant loans, qualified domestic relations orders, beneficiary designations, and investment allocations associated with accounts transferred from the Merged Plans for Prior Merged Plan Participants and Prior Pro Cast Plan Participants also were transferred to the Plan.

**B. Vesting.** Each Prior Merged Plan Participant who is an employee of the Company or an Associated Company on January 1, 2014 and each Prior Pro Cast Plan Participant (whether or not an employee) shall be fully vested in his accounts transferred from the applicable Merged Plan as of January 1, 2014. Each Prior Merged Plan Participant who is not an employee of the Company or an Associated Company on January 1, 2014, but later resumes employment as an employee of the Company or an Associated Company before incurring a Permanent Break in Service, shall become fully vested in his accounts transferred from the applicable Merged Plan as of the date he so resumes employment. The non-vested portion of the accounts transferred to the Plan from a Merged Plan for a Prior Merged Plan Participant who has not become fully vested as described in the prior provisions of this Section B shall be permanently forfeited and applied as described in Section 16.6 of the Plan on the date such Prior Merged Plan Participant incurs a Permanent Break in Service, or on such earlier date as of which forfeiture would have occurred if the vesting provisions of the applicable Merged Plan as in effect on December 31, 2013 had continued in effect. For this purpose, "Permanent Break in Service" shall have the meaning assigned to such term under the applicable Merged Plan as in effect on December 31, 2013.

**C. Participation.** A Prior Merged Plan Participant who is an active participant in a Merged Plan on December 31, 2013, and is an Employee on January 1, 2014, shall become a Contributing Member of the Plan on January 1, 2014, whose initial rate of Savings shall be determined pursuant to Section 4.1(a)(i)(B) of the Plan and whose initial investment election under Section 7.2 of the Plan shall be his investment election in effect under the Merged Plan on December 31, 2013.

**D. Company Contributions.** Prior Merged Plan Participants who become Members of the Plan shall be eligible for Company Matching Contributions and Company Core Contributions under the terms of the Plan.



**E. Repayment of Certain Withdrawals.** If a Prior Merged Plan Participant made a withdrawal from his matching employer contributions account under a Merged Plan that resulted in the forfeiture of a portion of such account, he shall be permitted to repay in full the amount received from his Merged Plan matching employer contributions account. Such repayment may be made at any time while the Prior Merged Plan Participant is a Member and before the date the Prior Merged Plan Participant incurs a Permanent Break in Service (as defined in Section B, above). Upon such repayment, the forfeited portion of the Prior Merged Plan Participant's matching employer contributions account under the Merged Plan shall be restored at the value of such forfeited amount as of the date the withdrawal was distributed. Any repaid amounts shall be invested in accordance with Section 7.2.

## APPENDIX K

This Appendix K shall apply solely to (1) individuals whose accounts under the ITT Engineered Valves -- Lancaster Savings Plan for Hourly Employees (the "Merged Bargained Plan") were transferred to the Plan effective as of the close of business on December 31, 2013 ("Prior Merged Bargained Plan Participants"), and (2) eligible Employees whose membership in this Plan is subject to the collective bargaining agreement with Local 36 of the Glass, Molders, Pottery, Plastics and Allied Workers International Union, AFL-CIO-CLC at the Lancaster, Pennsylvania location ("Union Employees").

**A. Account Transfers.** Notes receivable for participant loans, qualified domestic relations orders, beneficiary designations, and investment allocations associated with accounts transferred from the Merged Bargained Plan for Prior Merged Bargained Plan Participants also were transferred to the Plan.

**B. Participation.** A Prior Merged Bargained Plan Participant who is an active participant in the Merged Bargained Plan on December 31, 2013, and is an Employee on January 1, 2014, shall become a Contributing Member of the Plan on January 1, 2014, whose initial rate of Savings shall be determined pursuant to Section 4.1(a)(i)(B) of the Plan and whose initial investment election under Section 7.2 of the Plan shall be his investment election in effect under the Merged Bargained Plan on December 31, 2013. All other Union Employees shall be eligible to join the Plan in accordance with the provisions of Article 3 of the Plan.

**C. Company Contributions.** Subject to the provisions of this Appendix K, a Member who is a Union Employee is eligible for Company Matching Contributions and Company Core Contributions under the terms of the Plan. Notwithstanding the foregoing:

(i) a Union Employee who is a "Grandfathered Participant" (as defined below) shall not be eligible for Company Core Contributions under this Plan.

(ii) a Member who is a Union Employee not described in (i), above, and who is permanently and totally disabled (with the meaning of Section 22(e)(3) of the Code) shall continue to be eligible for allocations of Company Core Contributions while the Member is absent from employment due to long term disability, worker's compensation, or sickness and accident leave authorized by the Company, for up to two years if the Member is credited with less than 10 Years of Vesting Service under Section E, below, when the absence began and up to three years if the Member is credited with 10 or more Years of Vesting Service under Section E, below, when the absence began. For purposes of the allocations described in this paragraph, the Member shall be deemed to receive Salary during the absence at the base pay rate in effect for the Member when the absence began if that is larger than the Salary the Member actually receives during such absence.

Solely with respect to a Member who (1) is not a "Grandfathered Participant" (as defined below), (2) is a Union Employee who was eligible to participate in the Merged Bargained Plan on December 31, 2013, and (3) on January 1, 2014 is an eligible Union Employee, the Company shall contribute to the Trust Fund a "Special Transition Contribution" equal to 2 percent of the Member's Salary for the Plan Year. Special Transition Contributions shall be made for each Plan Year and shall be made no later than the due date for the corporate tax return for the Plan Year for which the Special Transition Contribution is made. Notwithstanding the foregoing, if an eligible Member terminates employment during the Plan Year for which a Special Transition Contribution is payable, such Member's Special Transition Contribution for such Plan Year shall be made as soon as practicable following the end of the calendar year in which the Member terminates employment. Special Transition Contributions shall be made beginning as of December 31, 2014 until the earliest to occur of: (a) December 31, 2017; (b) the Member's termination of employment regardless of whether the Member is subsequently reemployed; (c) the date the Member ceases to be a Union Employee

by reason of transfer to other employment with the Company or an Associated Company, or (d) the Member's death.

For purposes of this provision, "Grandfathered Participant" shall mean a Union Employee who, on May 17, 2013, has age and continuous service under the ITT Engineered Valves Pension Plan for Local 36 Hourly Employees at Lancaster, Pennsylvania equal to seventy (70) points or more.

**D. Definition of Salary.** "Salary" used to determine the amount of contributions to the Plan with respect to Members who are Union Employees shall be Salary (as defined in Section 2.65 of this Plan), except that incentive and bonus payments shall also be excluded.

**E. Vesting in Company Contributions.** Notwithstanding the provisions of Article 6 of the Plan, and except as provided in Section 14.2(a) of the Plan, the vesting schedule below shall apply (1) to the Merged Bargained Plan Matching Contributions Account of a Prior Merged Bargained Plan Participant whose account in the Merged Bargained Plan was transferred to this Plan on December 31, 2013, and who either (I) is an employee of the Company or an Associated Company on January 1, 2014 or (II) resumes employment as an employee of the Company or an Associated Company after January 1, 2014 and before incurring a Permanent Break in Service as defined in Section F below; and (2) to the Company Matching Account of a Member who is a Union Employee on or after January 1, 2014:

<u>Years of Vesting Service</u>	<u>Portion of affected Account in which the Member is Vested</u>
Less than 1	0%
1 but less than 2	33-1/3%
2 but less than 3	66-2/3%
3 or more	100%

In addition, a Member described in this Section E shall become fully vested in his Merged Bargained Plan Matching Employer Contributions Account and Company Matching Account upon the occurrence of the earliest of the following events while employed with the Company or an Associated Company:

- (i) the Member's death;
- (ii) the Member's attainment of age 65 (normal retirement age);
- (iii) the establishment of the Member's Permanent and Total Disability; or
- (iv) transfer to employment in which he is an Employee other than a Union Employee.

For purposes of this Section E, "Years of Vesting Service" equal the sum of (I) Years of Service earned under the Plan after December 31, 2013, plus (II) "Years of Service" credited under the Merged Bargained Plan for vesting purposes as of December 31, 2013.

The non-vested portion of the accounts transferred to the Plan from the Merged Bargained Plan for a Prior Merged Bargained Plan Participant who is not credited with an Hour Worked after December 31, 2013 shall be permanently forfeited on the date such Prior Merged Bargained Plan Participant incurs a Permanent Break in Service as defined in Section F, below.

**F. Effect of Termination or Rehire on Vesting.** If a Member described in (1) or (2) of Section E, above, terminates employment with the Company and all Associated Companies before becoming fully vested in all of his Accounts under the Plan, the following rules shall apply:

1. That portion of any Account in which the Member is not fully vested shall be accounted for separately from the Vested Share and shall be disposed of as provided in 2 and 3, below. If prior to termination of employment the Member receives a distribution (including a withdrawal) from any Account in which he is not fully vested at the time, his Vested Share of such Account shall be an amount (“X”) determined by the following formula:

$$X = P (AB + D) - D$$

For purposes of the formula,:

P = The Member’s vested percentage of such Account on the date distribution is to be made.

AB = The balance of such Account as of the Valuation Date immediately preceding the date distribution is to be made.

D = The amount of all prior distributions from such Account.

2. That portion of any Account that is not vested upon a Member’s termination of employment with the Company and all Associated Companies shall be disposed of as follows:

I. If the Member has no Vested Share in any Account upon his termination, the Member’s Accounts shall be deemed to have been distributed to him upon termination.

II. If the Member receives payment of his Vested Share of his Accounts because of his termination of participation, the non-vested balance remaining in the Member’s Accounts shall be forfeited and his Accounts closed as of the date the actual distribution is made to the Member. A distribution is deemed made because of a Member’s termination of participation in the Plan if it occurs prior to the end of the second Plan Year beginning on or after the Member’s termination of employment with the Company and all Associated Companies.

III. If neither I nor II above applies, the non-vested portion of the Member’s Accounts shall continue to be held in such Accounts and shall not be forfeited until the date the Member incurs a Permanent Break in Service. A “Permanent Break in Service” is a five-consecutive-year period beginning on a Member’s Severance Date during which the Member is not credited with an Hour Worked.

3. Whenever the non-vested portion of a Member’s Accounts is forfeited in accordance with 2, above, the amount of such forfeiture shall be applied as described in Section 16.6 of the Plan.

4. If a Member described in this Section F returns to employment with the Company or an Associated Company, his Years of Service for vesting purposes shall be determined as described in Section E; provided, however, that previously non-vested amounts shall be restored and become eligible to vest in the future only to the extent provided in 5, below.

5. If a Member who forfeited the non-vested portion of his Accounts under subparagraph I or II of 2, above, is reemployed by the Company or an Associated Company, such forfeited amounts shall be recredited to the Member’s Accounts, without adjustment for interim gains and losses experienced by the Plan:

I. If the Member returns to employment with the Company or an Associated Company before he incurs a Permanent Break in Service as defined in subparagraph III of 2, above, commencing after the date he received, or is deemed to have received, distribution of his Vested Share of his Accounts; and

II. If he received a distribution from the Plan subsequent to his termination of employment, he repays the full amount of the distribution attributable to his Accounts that were not fully vested.

Funds needed in any Plan Year to recredit the Accounts of a Member with prior forfeitures shall come first from forfeitures that arise during such Plan Year or shall be provided by the Company by way of a separate contribution. Repayments of forfeitures shall be invested in accordance with the Member's investment election for new contributions under Section 7.2 of this Plan.

**G. ADP and ACP Tests.** For any Plan Year in which at least one Union Employee is a Highly Compensated Employee, the ADP Test described in Section 4.1(d) of the Plan shall apply separately to Before-Tax Savings and Roth Contributions (other than Catch-Up Contributions) contributed for Union Employees for the Plan Year. For After-Tax Savings and Company Matching Contributions made for or on behalf of Union Employees, the ACP test is deemed to be satisfied for all Plan Years pursuant to Treasury Regulation Section 1.401(m)-1(b)(2).

**H. Repayment of Certain Withdrawals.** If a Prior Merged Bargained Plan Participant made a withdrawal from his matching employer contributions account under the Merged Bargained Plan that resulted in the forfeiture of a portion of such account, he shall be permitted to repay in full the amount received from his Merged Plan matching employer contributions account. Such repayment may be made at any time while the Prior Merged Bargained Plan Participant is a Member and before the date the Prior Merged Bargained Plan Participant incurs a Permanent Break in Service (as defined in Section F, above). Upon such repayment, the forfeited portion of the Prior Merged Bargained Plan Participant's matching employer contributions account under the Merged Bargained Plan shall be restored at the value of such forfeited amount as of the date the withdrawal was distributed. Any repaid amounts shall be invested in accordance with Section 7.2.

## APPENDIX L

This Appendix L shall apply solely to individuals whose accounts under a Merged Hartzell Plan (listed below) were transferred to the Plan effective as of the close of business on December 31, 2015 (a “Prior Merged Hartzell Plan Participant”):

AcousticFab, LLC 401(k) Plan  
Electrofilm Manufacturing Company, LLC 401(k) Plan  
Industrial Tube Company, LLC 401(k) Plan

**A. Account Transfers.** Notes receivable for participant loans and qualified domestic relations orders also were transferred from the Merged Hartzell Plans to the Plan for Prior Merged Hartzell Plan Participants.

**B. Investment of Transferred Accounts.** Accounts transferred from a Merged Hartzell Plan to the Plan for a Prior Merged Hartzell Plan Participant initially shall be invested in accordance with the Prior Merged Hartzell Plan Participant’s investment election in effect under Section 7.2 of the Plan as of December 31, 2015, or, if there is no such election in effect, in the Target Retirement Fund that is appropriate based on the Prior Merged Hartzell Plan Participant’s year of birth. This initial investment election shall remain in effect unless and until the Prior Merged Hartzell Plan Participant elects to have all or part of his Accounts invested in or transferred to other Investment Funds pursuant to Section 7.4 of the Plan.

**C. Vesting.** Each Prior Merged Hartzell Plan Participant who is an employee of the Company or an Associated Company on January 1, 2016 shall be fully vested in his accounts transferred from the applicable Merged Hartzell Plan as of such date. Each Prior Merged Hartzell Plan Participant who is not an employee of the Company or an Associated Company on January 1, 2016, but later becomes an employee of the Company or an Associated Company before incurring five consecutive one-year Breaks in Service, shall become fully vested in his accounts transferred from the Prior Merged Hartzell Plan as of the date he so becomes an employee. The non-vested portion of the accounts transferred to the Plan from the Merged Hartzell Plan for a Prior Merged Hartzell Plan Participant who has not become fully vested as described in the prior provisions of this Section C shall be permanently forfeited and applied as described in Section 16.6 of the Plan on the date such Prior Merged Hartzell Plan Participant incurs five consecutive one-year Breaks in Service, or on such earlier date as of which forfeiture would have occurred if the vesting provisions of the applicable Merged Hartzell Plan as in effect on December 31, 2015 had continued in effect. For this purpose, “Break in Service” shall have the meaning assigned to such term under the applicable Merged Hartzell Plan as in effect on December 31, 2015.

## SUBSIDIARIES OF THE REGISTRANT

Set forth below are the names of subsidiaries, divisions and related organizations of ITT Corporation, 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).

Name	Jurisdiction In Which Organized	Name Under Which Performing Business
AcousticFab, LLC	Delaware	
AIMCO Industries, LLC	New York	
Bolton Insurance Co.	New York	
Carbon Industries, Inc.	West Virginia	
Computer & Equipment Leasing Corporation	Wisconsin	
Electrofilm Manufacturing Company LLC	California	
EnviroTech LLC	Delaware	
Goulds Mexico Holdings LLC	Delaware	
Goulds Pumps (IPG), Inc.	Delaware	Goulds Pumps
Goulds Pumps (NY), Inc.	New York	Goulds Pumps
Goulds Pumps (PA), Inc.	Delaware	Goulds Pumps
Goulds Pumps Administration, Inc.	New York	
Goulds Pumps, Incorporated	Delaware	Goulds Pumps
Goulds QSF LLC	Delaware	
Industrial Tube Company LLC	California	
Industries QSF LLC	Delaware	
International Motion Control Inc.	Delaware	
International Standard Electric Corporation	Delaware	
International Telephone & Telegraph Corp.	Delaware	
ITT Aerospace Controls LLC (fka New ITT Aerospace Controls LLC)	Delaware	
ITT Automotive Enterprises, Inc.	Delaware	
ITT Bornemann USA, Inc. (fka Bornemann Pumps Inc.)	Rhode Island	
ITT Cannon LLC	Delaware	Cannon
ITT Cannon Mexico, Inc.	Delaware	Cannon
ITT Community Development Corporation	Delaware	
ITT C'treat LLC	Delaware	C'Treat Offshore
ITT Engineered Valves, LLC	Delaware	
ITT Enidine Inc.	Delaware	Enidine
ITT Fluid Technology International, Inc.	Delaware	Goulds Pumps
ITT Goulds Pumps Inc. (fka GP Holding Company, Inc.)	Delaware	Goulds Pumps
ITT Industries Holdings, Inc.	Delaware	
ITT Industries Luxembourg S.a.r.l. (US BRANCH)	New York	
ITT International Holdings, Inc.	Delaware	
ITT Manufacturing Enterprises LLC	Delaware	
ITT Motion Technologies America, LLC (fka ITT Koni America LLC)	Delaware	Koni
ITT Torque Systems, Inc. (fka Cleaveland Motion Controls, Inc.)	Ohio	
ITT Water & Wastewater U.S.A., Inc.	Delaware	
ITT Water Technology (TX) LLC	Delaware	
Kentucky Carbon Corp.	West Virginia	

Name	Jurisdiction In Which Organized	Name Under Which Performing Business
Koni NA LLC	Delaware	Koni
Leland Properties, Inc.	Delaware	
Premium Seat Actuation LLC	Delaware	
Rule Industries LLC	Massachusetts	
TDS Corporate Services LLC	Delaware	
Venus Holdco LLC	Delaware	
WC Wolverine Holdings, Inc.	Delaware	
Wolverine Advanced Materials, LLC	Delaware	
Wolverine Automotive Holdings, Inc.	Delaware	
Standard Electric	Algeria	
Bombas Bornemann S.R.L.	Argentina	
Bombas Goulds Argentina S.A.	Argentina	Goulds Pumps
ITT Australia Holdings Pty Ltd	Australia	
ITT Blakers PTY Ltd (fka Paley Pty Ltd.)	Australia	Blakers
ITT Blakers Unit Trust	Australia	Blakers
ITT Cannon GmbH (BELGIUM BRANCH)	Belgium	
ITT Bombas Goulds do Brasil Ltda.	Brazil	Goulds Pumps
Wolverine Brasil Representacao Ltda.	Brazil	
Wolverine/Tekno Laminates and Composites Ltda.	Brazil	
9520597 Canada Limited (fka 1448170 Ontario Limited)	Canada	
9520937 Canada Ltd. (fka 1026128 Alberta Ltd)	Canada	Precision Pumps
Bornemann Inc.	Canada	
Goulds Pumps Canada, Inc.	Canada	Goulds Pumps
ITT Fluid Technology S.A.	Chile	Goulds Pumps
Bornemann Pumps & Systems Co. Ltd	China	
ITT (China) Investment Co. Ltd.	China	
ITT (China) Investment Co. Ltd. (SHANGHAI BRANCH)	China	
ITT (Shanghai) Fluid Technology Co., Ltd.	China	
ITT Cannon (Hong Kong) LTD	China	Cannon
ITT Cannon Electronics (Shenzhen) Co. Ltd	China	Cannon
ITT High Precision Manufactured Products (Wuxi) Co., Ltd.	China	
Shanghai Goulds Pumps Co. Ltd.	China	
WAM China Ltd.	China	
Wolverine Advanced Materials (Shanghai) Co., Ltd.	China	
Wolverine Advanced Materials Asia Limited	China	
Wolverine Press (Changshu) Co. Ltd.	China	
ITT Goulds Pumps Columbia S.A.S.	Colombia	Goulds Pumps
ITT Holdings Czech Republic s.r.o.	Czech Republic	
ITT Cannon GmbH (DENMARK BRANCH)	Denmark	
ITT Egypt LLC	Egypt	
ITT Industries France S.A.S.	France	
Koni France SARL	France	Koni
DITTHA GmbH	Germany	
ITT Bornemann GmbH	Germany	Bornemann
ITT Cannon GmbH	Germany	Cannon



Name	Jurisdiction In Which Organized	Name Under Which Performing Business
ITT Control Technologies EMEA GmbH (fka BE-Controls GmbH)	Germany	Cannon
ITT Germany Holdings GmbH	Germany	
ITT Motion Technologie GmbH (fka ITT Industries Vermögensverwaltung GmbH)	Germany	
Wolverine Advance Materials GmbH	Germany	
Goulds Pumps, Inc. (GREECE BRANCH)	Greece	
ITT Corporation India PVT. Ltd.	India	
Wolverine Advanced Materials LLC (INDIA BRANCH)	India	
PT ITT Fluid Technology Indonesia	Indonesia	
ITT Iran S.K.	Iran	
ITT Technical Services S.K.	Iran	
ITT Cannon Veam Italia s.r.l.	Italy	Cannon
ITT Italia s.r.l.	Italy	
ITT Italy Holdings Srl	Italy	
Enidine Kabashiki Gaisha	Japan	Enidine
Goulds Pumps, Inc. (JAPAN BRANCH)	Japan	
ITT Cannon, Ltd.	Japan	
Wolverine Japan KK	Japan	
Goulds Pumps Co. Ltd.	Korea, Republic of	Goulds Pumps
ITT Cannon Korea Ltd.	Korea, Republic of	Cannon
Bolton International RE S.C.A.	Luxembourg	
Bolton International S.C.A.	Luxembourg	
ITT Industries Global S.a.r.l.	Luxembourg	
ITT Industries Luxembourg S.a r.l.	Luxembourg	
ITT International Luxembourg S.a r.l.	Luxembourg	
ITT Investments Luxembourg S.a.r.l.	Luxembourg	
ITT Manufacturing Luxembourg S.a.r.l.	Luxembourg	
Bombas Goulds de Mexico S. De R.L.de C.V.	Mexico	Goulds Pumps
Bornemann S.A. DE C.V.	Mexico	
ITT Cannon de Mexico, S.A. de C.V.	Mexico	Cannon
EP Industries Europe B.V.	Netherlands	
European Pump Services B.V.	Netherlands	
ITT Japan B.V.	Netherlands	
ITT Korea Holding B.V.	Netherlands	
ITT Netherlands B.V.	Netherlands	
Koni BV	Netherlands	Koni
Goulds Pumps (NY), Inc. (PERU BRANCH)	Peru	
ITT Fluid Technology International, Inc. (RUSSIAN BRANCH)	Russia	
ITT Industries Rus LLC	Russia	
ITT Saudi Co.	Saudi Arabia	
Bornemann Pumps Asia Pte. Ltd.	Singapore	
ITT Fluid Technology Asia Pte Ltd.	Singapore	
ITT Fluid Technology International, Inc. (SOUTH AFRICA BRANCH)	South Africa	
ITT Industries Spain SL	Spain	
Goulds Pumps (NY), Inc., (TAIWAN BRANCH)	Taiwan	

Name	Jurisdiction In Which Organized	Name Under Which Performing Business
ITT Cannon (Hong Kong) LTD (TAIWAN BRANCH)	Taiwan	
ITT Fluid Technology International (Thailand) LTD.	Thailand	Goulds Pumps
Standard Technik Services	Turkey	
Bornemann Middle East FZE	United Arab Emirates	
ITT Cannon LLC (DUBAI BRANCH)	United Arab Emirates	
ITT Fluid Technology International, Inc. (DUBAI BRANCH)	United Arab Emirates	
Cleveland Motion Controls Ltd.	United Kingdom	
ITT Industries Holdings Limited	United Kingdom	
ITT Industries Limited	United Kingdom	
ITT Pure-Flo (UK) Ltd.	United Kingdom	
Bombas Goulds de Venezuela C.A.	Venezuela	Goulds Pumps
Distribuidora Arbos, C.A.	Venezuela	Goulds Pumps
Equipos Hidraulicos S.A.	Venezuela	

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-207006) and Registration Statements on Form S-8 (File Nos. 333-177604, 333-150934 and 333-105203) filed by ITT Corporation (the "Company") of our reports dated February 19, 2016 relating to the consolidated financial statements of the Company and subsidiaries, and the effectiveness of the Company's internal control over financial reporting appearing in the Annual Report on Form 10-K for the year ended December 31, 2015.

/s/ Deloitte & Touche LLP

Stamford, Connecticut

February 19, 2016

**CERTIFICATION OF DENISE L. RAMOS PURSUANT TO SEC. 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Denise L. Ramos, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 of ITT Corporation;

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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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/ DENISE L. RAMOS

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Denise L. Ramos

Chief Executive Officer and President

Date: February 19, 2016

**CERTIFICATION OF THOMAS M. SCALERA PURSUANT TO SEC. 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas M. Scalera, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 of ITT Corporation;

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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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/ THOMAS M. SCALERA

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Thomas M. Scalera  
Senior Vice President and  
Chief Financial Officer

Date: February 19, 2016

**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 Corporation (the "Company") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Denise L. Ramos, Chief Executive Officer and President 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/ DENISE L. RAMOS

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Denise L. Ramos

Chief Executive Officer and President

February 19, 2016

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 Corporation (the Company) on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Thomas M. Scalera, 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/ THOMAS M. SCALERA

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Thomas M. Scalera  
Senior Vice President and  
Chief Financial Officer

February 19, 2016

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.