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ITT Inc.

Form 10-K

February 17, 2017

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**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, 2016

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 INC.

Incorporated in the State of Indiana 81-1197930

(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, 2016 was approximately \$2.9 billion. As of February 15, 2017, there were outstanding 88.4 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 2017 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. 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 the 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 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 on which you may access electronic copies of our SEC filings.

We make available free of charge at 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

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 Inc. 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 9,500 employees in approximately 35 countries and 2016 revenue of \$2.4 billion, which we derived from sales in more than 100 countries. In 2016, 63% of our sales were outside the U.S., including 30% from emerging markets. Accordingly, approximately half of our manufacturing facilities are outside of the U.S. in order to achieve strategic proximity to customers, further increase international sales and market share, and lower costs.

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, Environmental Control Systems (f/k/a 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 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 (herein referred to as Lean) 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.

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. This segment is 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 and end-user customers. IP's customers operate in global infrastructure and natural resource markets such as oil and gas, chemical and petrochemical, pharmaceutical, general industrial, mining, pulp and paper, food and beverage, and power generation. Brands include Goulds Pumps, Bornemann, Engineered Valves, PRO Services, and C'treat.

Industrial Products

The Industrial Products business designs and manufactures configured-to-order industry standards-based industrial pumps, valves, and equipment for both original equipment installations and replacement parts and pumps. These products include a broad portfolio of centrifugal process pumps and engineered industrial and sanitary valves.

Engineered Systems

The Engineered Systems business 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 positive displacement 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

The Aftermarket Solutions business 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 control and monitor 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 one-third 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 distributors and end-user customers.

The pump and valve markets served are highly competitive, especially in the last few years due to uncertainty and volatility in the oil and gas market. 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 overcapacity, fewer investment projects, and 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 original equipment

(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 or 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.

2

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 or 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 37% of 2016 MT revenue, however, approximately 45% of the Continental and TRW derived revenue is directly attributable to OES supply agreements signed directly with automakers. In addition, 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 OEM 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, for sale to both OEM 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.

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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's 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. These brands are known for high-performance, high-reliability solutions which withstand high vibrations and are resistant to dirt and fluids. 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 leader 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.

Oil and Gas

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 36% of 2016 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, OEMs, 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, rotorcraft, 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. Our 2015 acquisition of Environmental Control Systems (f/k/a Hartzell Aerospace) brings additional product capabilities in environmental control systems to CT Aerospace, 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, tin, and rubber, 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 fluctuations due to inflation of prices for raw materials and commodities. 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.

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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 \$785.3 and \$828.1 at December 31, 2016 and 2015, respectively. Total backlog by segment as of December 31, 2016 and 2015 was: IP - \$347.2 and \$410.9; MT - \$201.2 and \$198.2; ICS - \$102.0 and \$102.1; and CT - \$134.9 and \$116.9. We expect to satisfy nearly all December 31, 2016 backlog commitments during 2017.

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 2016, 2015 and 2014, we recognized R&D expenses of \$80.8, \$78.9, and \$76.6, respectively, which were 3.4%, 3.2%, and 2.9%, of revenues, respectively.

Cyclicity 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, 2016, we had approximately 9,500 employees, of which approximately 3,300 were located in the U.S. Approximately 20% 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 21% of ITT's total revenues. Although our relations with our employees are strong and we have not experienced any material strikes or work stoppages recently, we can provide no assurance that we will not experience these or other types of conflict 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

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).

On May 16, 2016, we consummated a corporate reorganization into a holding company structure. As a result of the reorganization ITT Inc., an Indiana corporation formed in 2016 that was previously a wholly owned subsidiary of ITT Corporation, became the publicly traded holding company of ITT Corporation and its subsidiaries and the successor issuer to ITT Corporation under Rule 12g-3(a) under the Securities Exchange Act of 1934 (Exchange Act). As the successor issuer, ITT Inc. common stock was deemed to be registered under Section 12(b) of the Exchange Act and ITT Inc. succeeded to ITT Corporation's obligation to file reports, proxy statements and other information required by the Exchange Act with the SEC. For additional information regarding the holding company reorganization, please refer to the Current Report on Form 8-K that we filed with the SEC on May 16, 2016.

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 Environmental Control Systems (f/k/a Hartzell Aerospace), a designer and manufacturer of products to support aerospace applications. Environmental Control Systems 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.

On January 26, 2017, we completed the acquisition of Axtone Railway Components (Axtone), a leading manufacturer of highly engineered and customized components for railway and other harsh-environment industrial markets. Axtone is not included in our 2016 results.

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

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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.

Subsidiaries of ITT, including ITT LLC (f/k/a ITT Corporation) and Goulds Pumps LLC (f/k/a Goulds Pumps, Inc.), have 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 certain ITT subsidiaries. We expect they will be sued in similar actions in the future. As such, 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. 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.

In addition, 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 cost, including potential recoveries, of resolving pending and unasserted asbestos claims. Changes in estimates related to these uncertainties may result in increases or decreases to the net asbestos liability, particularly if the quality, 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. The resolution of asbestos claims may take many years. 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 condition, results of operations, or cash flows in any given period.

As part of the 2011 spin-off, ITT Corporation (n/k/a ITT LLC) 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, but are not limited to, the overall strength of the global economy and our customers' confidence in local and global macroeconomic conditions, industrial spending, interest rates, and availability of commercial financing for our customers.

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 markets such as Mexico, South America, China, Russia, and the Middle East. In 2016, 63% 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, some of which could be impacted by changes in international trade agreements between the United States and other countries:

- 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 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 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 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.

Our business is impacted by our customers' 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 and other macroeconomic factors 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.

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., therefore, we are exposed to fluctuations in foreign currency exchange rates. The primary currencies to which we have exposure are the Euro, Chinese renminbi, British pound, Mexican peso, Czech koruna, and South Korean won. 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 or weakness of global economies and the impact of foreign 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 foreign currency 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 or weakening of the U.S. dollar against other major foreign currencies could adversely affect our results of operations.

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 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, defense, aerospace, and industrial markets. Our products provide enabling functionality for applications for which 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, or suspension or debarment from government contracting. 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 limited 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 inventory levels and strategic decisions, including pricing, capital deployment, 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 brake 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, or 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 also require 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 ERP 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.

Information technology 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, but not limited to, those by computer hackers and cyber terrorists utilizing techniques such as phishing, ransomware or denial of service attacks. 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 or 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 or 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 LLC, 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."

UNRESOLVED STAFF COMMENTS

None.

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 # Area	Motion Technologies # Area	Interconnect Solutions # Area	Control Technologies # Area	Other # Area	Total # Area
Manufacturing:						
North America	31,109.0	3 278.3	1 357.8	3 182.6	— —	101,927.7
Europe	1 356.8	6 922.2	1 231.3	— —	— —	8 1,510.3
Asia	1 189.0	— —	1 13.4	— —	— —	2 202.4
South America	1 168.0	— —	— —	— —	— —	1 68.0
	61,722.8	9 1,200.5	3 602.5	3 182.6	— —	213,708.4
Non-Manufacturing:						
North America	3 112.5	— —	— —	— —	— —	3 112.5
Europe	— —	1 38.5	— —	— —	— —	1 38.5
Asia	— —	1 8.8	— —	— —	— —	1 8.8
	3 112.5	2 47.3	— —	— —	— —	5 159.8
Location	Number of Facilities - Leased					
	Industrial Process # Area	Motion Technologies # Area	Interconnect Solutions # Area	Control Technologies # Area	Other # Area	Total # Area
Manufacturing:						
North America	3 156.0	1 43.7	5 178.6	3 258.5	— —	12 636.8
Europe	— —	1 261.4	1 52.8	1 5.5	— —	3 319.7
Asia	2 221.5	1 341.7	1 294.4	— —	— —	4 857.6
South America	1 12.2	— —	— —	— —	— —	1 12.2
	6 389.7	3 646.8	7 525.8	4 264.0	— —	20 1,826.3
Non-Manufacturing:						
North America	18 432.4	3 62.8	1 5.0	— —	264.6	24 564.8
Europe	10 133.0	2 34.4	1 10.8	— —	13.2	14 181.4
Middle East	2 17.3	— —	— —	— —	— —	2 17.3
Asia	12 151.6	3 12.4	4 7.2	— —	211.9	21 183.1
South America	6 220.9	— —	— —	— —	— —	6 220.9
	48 955.2	8 109.6	6 23.0	— —	579.7	67 1,167.5

LEGAL PROCEEDINGS

From time to time, we are involved in litigation, claims, government inquiries, investigations and proceedings, including but not limited to those relating to environmental exposures, intellectual property matters, personal injury claims, regulatory matters, commercial and government contract issues, employment and employee benefit matters, commercial or contractual disputes, and securities matters.

Asbestos Proceedings

Subsidiaries of ITT, including ITT LLC and Goulds Pumps LLC, have been joined as a defendant with numerous other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain of their products sold 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. Frequently, the plaintiffs are unable to identify any ITT LLC or Goulds Pumps LLC products as a source of asbestos exposure. In addition, a large majority of claims pending against the Company's subsidiaries have been placed on inactive dockets because the plaintiff cannot demonstrate a significant compensable loss. Our experience to date is that a substantial portion of resolved claims have been dismissed without payment by the Company's subsidiaries.

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, a liability for potential future claims beyond the next 10 years is not reasonably estimable due to the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures and potential recoveries. As of December 31, 2016, we have recorded an undiscounted asbestos-related liability for pending claims and unasserted claims estimated to be filed over the next 10 years of \$954.3, which includes expected legal fees, and an associated asset of \$380.6, which represents estimated recoveries from insurers, resulting in a net exposure of \$573.7. See information provided in Note 18, Commitments and Contingencies, to the Consolidated Financial Statements for further information.

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. See information provided in Note 18, Commitments and Contingencies, to the Consolidated Financial Statements for further information.

Other Matters

The Company is responding to a civil subpoena from the Department of Defense, Office of the Inspector General, which was issued in the second quarter of 2015 as part of an investigation being led by the Civil Division of the U.S. Department of Justice. The subpoena and related investigation involve 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 government and producing documents responsive to the subpoena. The Company is unable to estimate the timing or outcome of this matter.

MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company, as of February 1, 2017, are listed below.

Name	Age	Current Title
Denise L. Ramos	60	Chief Executive Officer and President
Farrokh Batliwala	41	Senior Vice President and President, Control Technologies and Interconnect Solutions
Aris C. Chicles	55	Executive Vice President and President, Industrial Process
Victoria L. Creamer	47	Senior Vice President Human Resources
Steven C. Giuliano	47	Vice President and Chief Accounting Officer
Mary Beth Gustafsson	57	Senior Vice President, General Counsel and Chief Compliance Officer
Luca Savi	51	Executive Vice President and Chief Operating Officer
Thomas M. Scalera	45	Executive Vice President and Chief Financial Officer

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 is currently a director of the following public company: Phillips 66, since 2016 (Audit and Finance Committee, Nominating and Governance Committee and Public Policy Committee). She serves on 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 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. She also served on the board of the following public company within the last five years: Praxair, Inc. from 2014 to 2016.

Farrokh Batliwala has served as our Senior Vice President and President, Control Technologies and Interconnect Solutions since November 2016 and prior to that was the 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. In January 2017, we announced that Mr. Chicles will be resigning from his position and departing the Company. Mr. Chicles will continue to be employed by the Company to assist with an orderly transition of his responsibilities until March 30, 2017.

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. from 2005 to 2008, and held various other positions of increasing levels from 2001.

Luca Savi has served as our Executive Vice President and Chief Operating Officer since January 2017 and previously as Executive Vice President, Motion Technologies since February 2016. He joined ITT in November 2011 as Senior Vice President and President, Motion Technologies. 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 Executive Vice President and Chief Financial Officer since February 2016 and previously 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.

PART II**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").

	2016		2015	
	High	Low	High	Low
Three Months Ended:				
March 31	\$38.96	\$29.15	\$42.97	\$35.30
June 30	39.70	30.31	43.96	39.01
September 30	36.98	30.06	42.43	32.86
December 31	43.07	32.46	40.52	32.70

We declared dividends of \$0.124 and \$0.1183 per share of common stock in each of the four quarters of 2016 and 2015, respectively. In the first quarter of 2017, we declared a dividend of \$0.128 per share for shareholders of record on March 13, 2017. 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 9,805 holders of record of our common stock on February 15, 2017.

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 2017 Annual Meeting of Shareholders. During the fiscal year ended December 31, 2016, 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, 2016.

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE ⁽¹⁾	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS ⁽²⁾	MAXIMUM DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS ⁽²⁾
PERIOD				
10/1/2016 - 10/31/2016	0.1	35.69	0.1	\$ 170.6
11/1/2016 - 11/30/2016	—	—	—	\$ 170.6
12/1/2016 - 12/31/2016	—	—	—	\$ 170.6

(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. On December 16, 2008, our Board of Directors modified the provisions of the Share Repurchase Program to replace the original three-year term with an indefinite term. As of December 31, 2016, we had repurchased 20.4 shares for \$829.4, including commissions, under the 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, 2011 of \$100 with dividends reinvested

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
ITT Inc.	\$ 100.00	\$ 123.46	\$ 231.33	\$ 217.74	\$ 197.85	\$ 212.91
S&P 400 Mid-Cap	\$ 100.00	\$ 117.81	\$ 157.23	\$ 172.54	\$ 168.77	\$ 203.76
S&P 400 Capital Goods	\$ 100.00	\$ 125.52	\$ 177.44	\$ 177.88	\$ 168.08	\$ 221.75

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.

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)	2016 ^(a)	2015	2014	2013 ^(a)	2012
Results of Operations					
Revenue	\$2,405.4	\$2,485.6	\$2,654.6	\$2,496.9	\$2,227.8
Gross profit	758.2	809.1	866.4	799.8	680.2
<i>Gross margin</i>	31.5	% 32.6	% 32.6	% 32.0	% 30.5
Asbestos-related (benefit) costs, net ^(b)	(25.6)	(91.4)	3.9	32.8	50.9
Other operating costs	524.9	520.4	596.1	583.4	477.8
Operating income	258.9	380.1	266.4	183.6	151.5
<i>Operating margin</i>	10.8	% 15.3	% 10.0	% 7.4	% 6.8
Income tax expense (benefit) ^(c)	76.0	70.1	71.3	(309.6)	39.6
Income from continuing operations attributable to ITT Inc.	181.9	312.4	188.4	487.7	109.5
Income (loss) from discontinued operations, net of tax ^(d)	4.2	39.4	(3.9)	0.8	15.9
Net income attributable to ITT Inc.	\$186.1	\$351.8	\$184.5	\$488.5	\$125.4
Income from continuing operations per basic share	\$2.04	\$3.48	\$2.06	\$5.36	\$1.18
Income (loss) from discontinued operations per basic share	\$0.05	\$0.44	\$(0.04)	\$0.01	\$0.17
Net income per basic share	\$2.09	\$3.92	\$2.02	\$5.37	\$1.35
Income from continuing operations per diluted share	\$2.02	\$3.44	\$2.03	\$5.28	\$1.16
Income (loss) from discontinued operations per diluted share	\$0.05	\$0.44	\$(0.04)	\$0.01	\$0.17
Net income per diluted share	\$2.07	\$3.88	\$1.99	\$5.29	\$1.33
Dividends declared	\$0.496	\$0.4732	\$0.44	\$0.40	\$0.364
Financial Position					
Cash and cash equivalents ^(e)	\$460.7	\$415.7	\$584.0	\$507.3	\$544.5
Total assets ^(f)	3,601.7	3,723.6	3,631.5	3,740.2	3,386.1
Total debt and capital leases	216.3	248.5	8.5	48.9	26.9

On October 5, 2015, we acquired Wolverine, therefore our 2016 Consolidated Financial Statements include an additional nine months of operations compared to 2015 related to this acquisition. On November 28, 2012, we acquired Bornemann GmbH, therefore our 2013 Consolidated Financial Statements include an additional 11 months of operations compared to 2012 related to this acquisition.

The asbestos-related benefit in 2015 primarily reflects a \$100.7 benefit recognized related to a new single firm defense 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.

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.

During 2015, the Company recognized income from discontinued operations of \$39.4, principally related to the settlement of the U.S. income tax audit. Income from discontinued operations for 2012 include the results of the Shape Cutting Businesses which was disposed of and sold on November 13, 2012.

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 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.

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 Inc., through its worldwide subsidiaries, 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 2016, we faced a challenging market environment in many of our key end markets. Our primary focus was to manage these difficult markets, while advancing our long-term growth plans. During the year, we continued to gain market share and expand across geographies in the transportation end market and we realized the benefits from our on-going Lean transformation and cost actions across ITT which helped to mitigate the difficult conditions. We continued our structural reset in our Industrial Process segment to optimize and align the businesses and their respective cost structures to address the current market conditions. In relation to capital deployment, we executed \$70 of share repurchases and executed a plan to de-risk certain long-term obligations through a voluntary pension settlement program. We also reached an agreement to acquire Axtone Railway Components, a manufacturer of highly engineered and customized energy absorption solutions for railway and other harsh environment industrial markets which was completed on January 26, 2017.

Our 2016 results include:

A decline in revenue of \$80.2, or 3.2% (organic decline of \$180.5, or 7%), driven by challenges in the oil & gas, mining and general industrial markets, which were collectively down 21% on an organic basis. The impact of these headwinds was partially offset by organic top-line growth of 9% in the transportation markets, led by automotive brake pads.

Operating income and margin decreased \$121.2 and 450 basis points, respectively, as top-line headwinds noted above were only partially offset by the benefits from our Lean transformation and past restructuring actions, automotive brake pad share gains, and incremental operating income related to our acquisition of Wolverine. Further impacting operating income was a \$100.7 benefit recognized in 2015 from our estimate of future asbestos-related legal costs.

Income from continuing operations was \$2.02 per diluted share (\$2.32 per diluted share on an adjusted EPS basis).

During 2016, it was important to maintain the proper balance between delivering solid operating results, as well as advancing our strategic goals. The following highlights a few examples of strategic actions that occurred during the year that will help position us well for long-term value creation.

We continued optimizing the cost structure of our Industrial Process segment to align with current market conditions. To date, we have successfully executed a reduction in headcount of approximately 30% in addition to reducing the number of operating locations.

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Our Motion Technologies segment continued to drive exceptional operating effectiveness thanks to benefits from the World-Class Manufacturing Excellence Program implemented nearly two years ago. In addition, we are starting to see benefits at our Interconnect Solutions facility in North America as we continue to improve operating efficiencies.

We successfully formed our new holding company structure and reorganization allowing us to better manage our legacy liabilities and associated insurance assets.

During the year, we expanded our geographic reach into new markets and capitalized on relationships with previous customers.

In North America, our Motion Technologies segment was awarded their largest copper-free platform and also produced other key strategic wins with the "Detroit 3" OEM's. In Asia, MT won business with a major Korean OEM for the first time, and two of MT's production facilities were certified by a major Korean Tier 1, which makes them the first non-Korean brake pad production site to receive this qualification. Further, the segment delivered an impressive 35% increase in new front-axle brake pad volumes which will expand our technological reach and accelerate future aftermarket demand.

At our Control Technologies segment, we won a \$50 multi-year contract with a key Aerospace customer and co-developed an innovative technology with that customer that reduces noise and vibration, while at the same time providing a more comfortable passenger experience and extending the lifespan of helicopter components.

We continued to deploy our capital in balanced and effective ways to both position us for long-term success and to return value to shareholders.

In order to meet growing demand in our Friction business in North America, we have continued to expand our footprint with the construction of a new plant in Mexico in addition to expanding existing facilities in Asia.

We returned \$114 to shareholders in the form of a solid quarterly dividend and share repurchases.

We agreed to acquire Axtone Railway Components in the fourth quarter of 2016, which is highly complementary to our KONI business. The acquisition closed on January 26, 2017.

As we enter 2017, we expect that continued uncertainty in global oil markets, incremental pricing pressures, rising commodity costs, a strengthening U.S. dollar, and uncertainty from new U.S.

Administration policies will provide challenges in the coming year, but we will continue to focus our attention on areas that are within our control. We will continue to progress our Lean transformation, and monitor and reduce our cost structure by taking approximately \$30 in restructuring and realignment actions in 2017. We also expect to realize significant benefits from our prior restructuring and productivity actions which will help to mitigate much of the uncertainty in our key end markets. In addition, we expect strong performances from our Automotive and Rail businesses to continue into 2017. We believe that the persistent volatility in the global macroeconomic environment, particularly in the oil and gas end market, may continue and that these conditions may have an impact on our businesses and financial results. Demand for our products that serve the oil and gas market, primarily pumps and connectors that represented approximately 10% of 2016 revenue, depend substantially on the level of expenditures by the oil and gas industry for development and production. These expenditures are generally dependent on the industry's view of future demand for oil and natural gas. Oil and gas prices have been volatile and have remained at low levels for a sustained period of time, 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 for our products. In addition, some of our customers are in regions with significant geopolitical instability, such as Venezuela. These conditions or worsening of economic conditions related to our business could result in the cancellation of contracts or impact the collectability of certain accounts and may have an adverse impact on our results of operations and financial condition, including but not limited to further restructuring and impairment charges.

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. We will continue to build out our pipeline of targets with a focus on close-to-core opportunities, like our most recent acquisitions of Axtone and Wolverine. The availability and timing of acquisition targets is of course unpredictable, so we may choose to return capital to shareholders through additional share repurchases of up to \$65 million during the year if targets are not actionable. In addition, we have increased our first quarter 2017 dividend by 3%; our fifth consecutive year of increases.

DISCUSSION OF FINANCIAL RESULTS

2016 VERSUS 2015

	2016	2015	Change
Revenue	\$2,405.4	\$2,485.6	(3.2)%
Gross profit	758.2	809.1	(6.3)%
<i>Gross margin</i>	31.5	% 32.6	% (110)bp
Operating expenses	499.3	429.0	16.4 %
<i>Operating expense to revenue ratio</i>	20.8	% 17.3	% 350 bp
Operating income	258.9	380.1	(31.9)%
<i>Operating margin</i>	10.8	% 15.3	% (450)bp
Interest and non-operating expenses (income), net	0.5	(2.2)	(122.7)%
Income tax expense	76.0	70.1	8.4 %
<i>Effective tax rate</i>	29.4	% 18.3	% 1,110 bp
Income from continuing operations attributable to ITT Inc.	181.9	312.4	(41.8)%
Income from discontinued operations, net of tax	4.2	39.4	(89.3)%
Net income attributable to ITT Inc.	\$186.1	\$351.8	(47.1)%

All comparisons included with the Discussion of Financial Results 2016 versus 2015 refer to results for the year ended December 31, 2016 compared to the year ended December 31, 2015, 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, 2016 and 2015.

	2016	2015	Change	Organic Revenue Growth ^(a)
Industrial Process	\$830.1	\$1,113.8	(25.5)%	(22.9)%
Motion Technologies	983.4	767.2	28.2 %	12.3 %
Interconnect Solutions	309.6	328.1	(5.6)%	(6.1)%
Control Technologies	287.0	281.2	2.1 %	— %
Eliminations	(4.7)	(4.7)	— %	— %
Total Revenue	\$2,405.4	\$2,485.6	(3.2)%	(7.3)%

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

Industrial Process

Industrial Process revenue for the year ended December 31, 2016 was \$830.1, reflecting a decrease of \$283.7, or 25.5%, including an unfavorable foreign currency translation impact of \$28.7. Organic revenue decreased 22.9%, reflecting challenging conditions within oil and gas, mining, and chemical and industrial markets that have driven lower demand for original equipment and replacement parts, as well as the postponement of customer maintenance activities. These challenging conditions resulted in a decline in revenue from project pumps, baseline pumps and aftermarket of 44%, 18% and 12%, respectively. Our revenues derived from the oil and gas market declined approximately 36%. Our revenue in the mining market was down approximately 41%, due to low metal prices as well as strong prior year bookings in Latin America. Revenue stemming from the chemical market declined approximately 15% globally, which reflects significant impacts within North America driven by a decline in large projects.

Orders for the year ended December 31, 2016 were \$779.1, reflecting a decrease of \$157.6, or 16.8% including unfavorable foreign currency translation impact of \$23.6. Organic orders decreased 14.3%, from the prior year, primarily due to the challenging market conditions which drove delays and cancellations of capital projects and customer maintenance and replacement activities. Partially offsetting these declines was a 27% increase in orders from the chemical market due to weak orders activity in the prior year.

Backlog

The level of order and shipment activity related to engineered pumps can vary significantly from period to period. Backlog as of December 31, 2016 was \$347.2, reflecting a decrease of \$63.7, or 15.5%. The decrease reflects lower project order intake due to global capital project delays and lower oil and gas and mining activity due to market uncertainty and volatility.

Motion Technologies

Motion Technologies revenue for the year ended December 31, 2016 was \$983.4, reflecting an increase of \$216.2, or 28.2% including incremental revenue of \$126.4 from the acquisition of Wolverine, which was completed in the beginning of the fourth quarter of 2015, and unfavorable foreign currency translation impact of \$4.7. Organic revenue increased \$94.5, or 12.3%, driven primarily by strength in automotive brake pads due to OEM share gains in China, Europe, and North America that increased OEM revenue approximately 21%. Sales grew in OES approximately 10% while sales in independent aftermarket were flat compared to the prior year. Sales from our KONI business were also flat as growth in our automotive FSD (frequency selective damping) shock absorber product line was offset by a decline in the China rail market.

Orders for the year ended December 31, 2016 were \$998.4, reflecting an increase of \$218.4, or 28.0%, including incremental orders of \$126.8 from the acquisition of Wolverine and unfavorable foreign currency translation impact of \$4.5. Organic orders grew \$96.1, or 12.3%, due to overall strength in Friction Technologies as recent automotive platform wins began to enter the production cycle as well as an expanding customer base. KONI orders increased approximately 5% due to strength in the U.S. defense market related to an existing position on a U.S. military platform as well as continued growth in the automotive FSD product line. This was slightly offset by a weaker China rail market.

Interconnect Solutions

Interconnect Solutions revenue for the year ended December 31, 2016 was \$309.6, reflecting a decrease of \$18.5, or 5.6%, which includes favorable foreign currency translation impact of \$1.5. Organic revenue decreased \$20.0, or 6.1%, compared to prior year, reflecting a decline in revenue derived from the oil and gas market of approximately 34% due to weak demand for upstream connectors as well as a decline in revenue stemming from the defense market of approximately 10%. This was partially offset by our revenues in the transportation and industrial markets which grew approximately 3% due to strength in applications for electric vehicles as well as medical products. Sales of end-of-life non-strategic connector platforms declined approximately 13%.

Orders for the year ended December 31, 2016 were \$309.5, reflecting a decrease of \$14.8, or 4.6%, including favorable foreign currency translation impact of \$1.3. Organic orders decreased \$16.1, or 5.0%, primarily due to weakness in the upstream oil and gas market and lower order activity in our defense business. In addition, orders for end-of-life connector platforms decreased approximately 7%.

Control Technologies

Control Technologies revenue for the year ended December 31, 2016 was \$287.0, reflecting an increase of \$5.8, or 2.1%. Organic revenue was flat, which excludes the first quarter 2016 incremental benefit from our 2015 acquisition of Hartzell Aerospace of \$8.8, as well as revenue of \$3.4 from the 2015 period generated by an industrial motors product line that was divested in May 2015 and favorable foreign currency translation impacts of \$0.5. Organic revenue for CT Aerospace increased 1% driven by higher defense program and aerospace aftermarket shipments, partially offset by difficult prior year comparisons in commercial aerospace OEM. Organic revenue for CT Industrial declined 1% due to general softness in process control and actuation products.

Orders received during the year ended December 31, 2016 were \$292.9, reflecting a decrease of \$1.4, or 0.5%. Organic orders declined \$10.6, or 3.6%, which excludes the incremental benefit from our 2015 acquisition of Hartzell Aerospace of \$13.4, orders from the prior year of \$4.6 associated with the industrial product line sold in May 2015 and favorable foreign currency translation of \$0.4. The decline in orders is primarily driven by weakness in CT Industrial as orders decreased approximately 9% due to weak upstream oil and gas demand, a difficult prior year comparison related to a large project, and general

industrial weakness.

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OPERATING EXPENSES

The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

	2016	2015	Change	
General and administrative expenses	\$274.1	258.3	6.1	%
Sales and marketing expenses	170.0	183.2	(7.2)	%
Research and development expenses	80.8	78.9	2.4	%
Asbestos-related (benefit) costs, net	(25.6)	(91.4)	(72.0)	%
Total operating expenses	\$499.3	\$429.0	16.4	%
By Segment:				
Industrial Process	\$212.3	\$221.6	(4.2)	%
Motion Technologies	139.0	101.5	36.9	%
Interconnect Solutions	75.4	93.4	(19.3)	%
Control Technologies	61.3	69.4	(11.7)	%
Corporate & Other	11.3	(56.9)	**	

** Resulting percentage not considered meaningful.

G&A expenses were \$274.1 for the year ended December 31, 2016, reflecting an increase of \$15.8, or 6.1%. The year-over-year increase was primarily impacted by incremental costs from the 2015 acquisition of Wolverine of \$14.6. In addition, a trade name impairment of \$4.1 recorded in 2016 in our Industrial Process segment as the result of challenging conditions experienced within the upstream oil and gas market, unfavorable foreign currency impacts of \$2.4 and a favorable prior year warranty resolution of approximately \$5 was nearly offset by lower incentive based compensation of \$5.7, as well as lower acquisition-related costs of \$3.3.

Sales and marketing expenses for the year ended December 31, 2016 were \$170.0, reflecting a decrease of \$13.2, or 7.2%, mainly due to focused cost reductions and lower headcount from our structural reset at Industrial Process, partially offset by incremental sales and marketing costs of \$3.7, related to our fourth quarter 2015 acquisition of Wolverine.

R&D expenses for the year ended December 31, 2016 were \$80.8, reflecting an increase of \$1.9, or 2.4%. The increase was primarily driven by incremental costs of \$3.3 related to our acquisition of Wolverine in 2015. In addition, increased product development activities at Motion Technologies were offset by lower R&D spending at Control Technologies during 2016 due to the progress made on the development of a major aerospace program.

During 2016, we recognized a net asbestos-related benefit of \$25.6, compared to a benefit of \$91.4 in the prior year. The change is primarily due to a \$100.7 benefit recognized in 2015, reflecting a new single firm defense strategy and streamlined case management to assist in reducing asbestos related defense costs. This was partially offset by our annual remeasurement which resulted in a benefit of \$81.8 in 2016 compared to a benefit of \$44.8 in the prior year. 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

The following table illustrates the 2016 and 2015 operating income and operating margin by segments and at the consolidated level.

	2016	2015	Change
Industrial Process	\$33.5	\$141.2	(76.3)%
Motion Technologies	171.4	126.4	35.6 %
Interconnect Solutions	19.1	12.2	56.6 %
Control Technologies	46.1	42.4	8.7 %
Segment operating income	270.1	322.2	(16.2)%
Asbestos-related benefit (cost), net	25.6	91.4	(72.0)%
Other corporate costs	(36.8)	(33.5)	9.9 %
Total corporate and other (cost) benefit, net	(11.2)	57.9	(119.3)%
Total operating income	\$258.9	\$380.1	(31.9)%
Operating margin:			
Industrial Process	4.0	% 12.7	% (870)bp
Motion Technologies	17.4	% 16.5	% 90 bp
Interconnect Solutions	6.2	% 3.7	% 250 bp
Control Technologies	16.1	% 15.1	% 100 bp
Segment operating margin	11.2	% 13.0	% (180)bp
Consolidated operating margin	10.8	% 15.3	% (450)bp

Industrial Process operating income for the year ended December 31, 2016 decreased \$107.7, or 76.3%, to \$33.5 and resulted in an operating margin of 4.0%, reflecting a decline of 870 basis points. The decrease in operating income and margin was primarily the result of lower volume which negatively impacted operating income and operating margin by approximately \$132, or 1,150 bp, respectively. Further impacting operating income was unfavorable foreign currency impacts of \$9, lower contract profitability of approximately \$8, a trade name impairment of \$4.1 recorded during 2016 as the result of challenging conditions experienced within the upstream oil and gas market, favorable adjustments made in 2015 to reserves established in purchase accounting for a prior acquisition of \$6.7, and a favorable product warranty resolution during 2015 of approximately \$5. In addition, restructuring costs in 2016 increased \$8.3 compared to the prior year and pension settlement charges of \$3.4 were recorded in 2016. These items were partially offset by net savings from restructuring, Lean, sourcing, and cost control initiatives and lower incentive compensation of \$3.3.

Motion Technologies operating income for the year ended December 31, 2016 increased \$45.0, or 35.6%, to \$171.4 and resulted in an operating margin of 17.4%, reflecting an increase of 90 basis points. The increase in operating income was primarily driven by higher sales volumes providing approximately \$48, which was partially offset by unfavorable pricing and mix, as well as a gain of \$3 recorded in 2015 related to an insurance recovery and unfavorable foreign currency impacts of approximately \$3. Net savings from Lean, sourcing, and cost control initiatives was approximately \$26 and the 2015 acquisition of Wolverine provided a benefit of \$13.4.

Interconnect Solutions operating income for the year ended December 31, 2016 increased \$6.9, or 56.6%, to \$19.1 and resulted in an operating margin of 6.2%, reflecting an increase of 250 basis points. The result reflects net savings from restructuring, Lean, sourcing, and cost control initiatives of approximately \$13 as operational disruptions from the relocation of certain North American operations dissipated during 2016. In addition, restructuring costs and foreign currency impacts were favorable by \$6.2 and \$3, respectively, compared to the prior year. This was offset by a negative impact from sales volume, price and mix of approximately \$12 as well as higher postretirement-related costs primarily due to a \$5 benefit recognized in 2015 from a plan curtailment.

Control Technologies operating income for the year ended December 31, 2016 increased \$3.7, or 8.7%, to \$46.1 and resulted in an operating margin of 16.1%, reflecting an increase of 100 basis points. The increase in operating income was driven by net savings from restructuring, Lean, sourcing, and cost control initiatives of approximately \$5 and lower restructuring costs of \$3.9. In addition, an unfavorable legal

settlement impact of \$2 and an impairment charge of \$2 both associated with a non-core product line were recorded in 2015 which further contributed to the increase over the prior year. This was partially offset by incremental costs in 2016 of approximately \$5 associated with the relocation and consolidation of certain operations to an existing lower-cost facility and higher compensation related costs of approximately \$2.

Other corporate costs for the year ended December 31, 2016 increased \$3.3, or 9.9%, to \$36.8, primarily reflecting pension settlement costs of \$9.3 which was partially offset by lower environmental-related costs of approximately \$2 (see Note 18, Commitments and Contingencies, for additional information) as well as lower employee incentive-based costs of approximately \$5.

INTEREST AND NON-OPERATING EXPENSES (INCOME), NET

	2016	2015	Change
Interest (income) expense, net	\$(0.8)	\$(2.5)	(68.0)%
Miscellaneous expense (income), net	1.3	0.3	333.3 %
Total interest and non-operating expenses (income), net	\$0.5	\$(2.2)	(122.7)%

Interest (income) expense, net in 2016 reflects a \$1.7 unfavorable change compared to 2015, primarily due to the prior year reversal of accrued interest related to unrecognized tax benefits as well as additional interest expense associated with higher annual average outstanding borrowings from our revolving credit and commercial paper facilities during 2016. This was partially offset by an increase in 2016 interest income of \$1.7 due to refunds of interest earned by ITT on prepaid taxes to the Internal Revenue Service that exceeded the interest on tax deficiencies for prior year tax audits.

Miscellaneous expenses (income), net increased \$1.0 during 2016, primarily due to a \$1.6 receivable with Xylem and Exelis recognized in 2015 related to the settlement of the U.S. income tax audit.

INCOME TAX EXPENSE

For the year ended December 31, 2016, the Company recognized income tax expense of \$76.0 representing an effective tax rate of 29.4%, compared to income tax expense of \$70.1, and an effective tax rate of 18.3% for 2015. The higher effective tax rate in 2016 is primarily driven by an increase in the deferred tax liability on foreign earnings which are not considered indefinitely reinvested, whereas the lower effective tax rate in 2015 was primarily driven by the settlement of a U.S. income tax audit and the release of valuation allowance on certain net deferred tax assets in China due to positive income in recent years. The Company continues to benefit from a larger mix of earnings in non-U.S. jurisdictions with favorable tax rates.

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 Argentina, Canada, Germany, Hong Kong, Italy, Mexico, 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 FROM DISCONTINUED OPERATIONS, NET OF TAX

Results from discontinued operations reflect a gain of \$4.2, net of tax, for the year ended December 31, 2016, primarily related to favorable resolutions of certain legacy liabilities in 2016. Results from discontinued operations for the year ended December 31, 2015 reflect a gain of \$39.4, principally related to the settlement of the U.S. income tax audit. 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.

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	% 530 bp
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 Inc.	312.4	188.4	65.8 %
Income (loss) from discontinued operations, net of tax	39.4	(3.9)	**
Net income attributable to ITT Inc.	\$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 ^(a)
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%, compared to 2014, which reflected the challenging oil and gas and industrial market conditions which 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 bookings in 2014 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 reflected 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 declined 18.1%, primarily reflecting the impact from lower oil prices which decreased the level of capital investment in the oil and gas markets and created difficult comparisons to 2014 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 experienced modest order improvement in the other general industrial markets, primarily the pulp and paper and power markets within North America and Latin America.

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 included 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 included 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 included an unfavorable foreign currency translation impact of \$1.7, as well as revenues of \$5.0 from 2014 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.

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 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 2014. 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 helped streamline the management of cases and significantly reduced 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	% 240	bp
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	% 20	bp
Consolidated operating margin	15.3	% 10.0	% 530	bp

** 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 reflected 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 was primarily related to an unfavorable impact of approximately

\$19 due to lower sales volume and 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 reflected 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 reflected a \$4.0 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 was 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 were not expected to be realized. Overall, the 2015 decrease in the valuation allowance of \$11.4 was primarily attributable to the release of valuation allowance in China.

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 included 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.

LIQUIDITY AND CAPITAL RESOURCES

Funding and Liquidity Strategy

We monitor our funding needs and design and execute strategies 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 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 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 \$100.0 and \$235.0 during 2016 and 2015, 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 2016 were \$44.6, compared to \$42.8 in 2015 and \$40.7 in 2014, reflecting per share amounts of \$0.496, \$0.4732, and \$0.44, respectively. In the first quarter of 2017, we declared a quarterly dividend of \$0.128 per share for shareholders of record on March 13, 2017.

We repurchased 2.0 shares of ITT common stock in both 2016 and 2015 at a cost of \$70.0 and \$80.0, respectively, through our share repurchase program. To date, under the program the Company has repurchased 20.4 shares for \$829.4.

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.

Commercial Paper

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 \$113.5 and \$94.5 of commercial paper outstanding as of December 31, 2016 and 2015, respectively. Our average daily outstanding commercial paper balance for the years ended 2016 and 2015 was \$127.5 and \$73.1, respectively, and the maximum outstanding commercial paper during each of those respective years was \$183.0 and \$180.0, respectively.

Credit Facilities

Our revolving \$500 credit agreement (the 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 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 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 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, 2016, we had \$100 outstanding under the Revolving Credit Agreement. Our interest coverage ratio and leverage ratio were within the

prescribed thresholds as of December 31, 2016. 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. On November 29, 2016, we amended the Revolving Credit Agreement to extend the maturity date from November 25, 2019 to November 25, 2021. The interest rate and fees associated with drawn amounts are unchanged.

Our credit ratings as of December 31, 2016 were as follows:

Rating Agency	Short-Term	Long-Term
	Ratings	Ratings
Standard & Poor's	A-2	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, 2016, 2015, and 2014.

	2016	2015	2014
Operating activities	\$240.7	\$229.7	\$244.7
Investing activities	(54.4)	(485.5)	(14.5)
Financing activities	(141.9)	120.4	(116.6)
Foreign exchange	(11.4)	(31.6)	(31.2)
Total net cash flow provided by (used in) continuing operations	\$33.0	\$(167.0)	\$82.4
Net cash provided by (used in) discontinued operations	12.0	(1.3)	(5.7)
Net change in cash and cash equivalents	\$45.0	\$(168.3)	\$76.7

Net cash provided by operating activities was \$240.7 for the year ended December 31, 2016, representing an increase of \$11.0, or 4.8%, from 2015. The change in net cash provided by operating activities is primarily driven by improvements in the working capital balance, especially as it relates to collections of past due accounts receivables. This was partially offset by lower segment operating income of approximately \$41, after adjustments for non-cash charges, such as depreciation and amortization as well as higher net income taxes paid of \$7.6, higher asbestos-related payments of \$6.9, and higher restructuring cash payments of \$5.9.

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 used in investing activities decreased from \$485.5 in 2015 to \$54.4 in 2016. The decrease is primarily due to our acquisitions of Wolverine for \$298.1 and Hartzell Aerospace for \$52.9 during 2015 as well as higher maturities of short-term investments (net of purchases) of \$124.5. This was offset by higher year-over-year capital expenditure spending of \$24.7 due to the construction of our Motion Technologies North American plant. In addition, the sale of an industrial product line in 2015 within our Control Technologies segment resulted in proceeds of \$8.9.

Net cash used in investing activities increased from \$14.5 in 2014 to \$485.5 in 2015, 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 for financing activities was \$141.9 for the year ended December 31, 2016, compared to net cash provided by financing activity in 2015 of \$120.4. The change reflects lower net borrowings from our revolving credit

facility and commercial paper program of \$200.6 and \$75.5, respectively. Partially offsetting this was a \$6.2 decrease in repurchases of ITT common stock and a \$6.1 increase in proceeds from the issuance of common stock.

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 provided by discontinued operations for the year ended December 31, 2016 of \$12.0 is primarily related to net receipts during 2016 of \$14.8 related to the settlement of the U.S. income tax audit in 2015 that was reimbursed by Xylem and Exelis in accordance with the Tax Matters Agreement. 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.

Asbestos

Based on the estimated undiscounted asbestos liability as of December 31, 2016 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 tenth year of our estimate, our insurance recoveries are currently projected to be approximately 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, 2016, the Company has entered into coverage-in-place agreements and policy buyout agreements representing approximately 46% 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 certain coverage, those overall limits were not reached by the estimated liability recorded by the Company at December 31, 2016.

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 2030.

Although asbestos cash outflows can vary significantly from year to year, our current net cash outflows, net of tax benefits, averaged \$13 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 \$30 to \$40 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 2026.

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, 2016 and 2015.

	2016				2015			
	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	\$262.2	\$ 0.9	\$ 6.1	\$269.2	\$278.1	\$ 0.9	\$ 7.9	\$286.9
Projected benefit obligation	312.3	79.9	138.8	531.0	339.9	78.0	143.4	561.3
Funded status	\$(50.1)	\$(79.0)	\$(132.7)	\$(261.8)	\$(61.8)	\$(77.1)	\$(135.5)	\$(274.4)

The funded status of our U.S. pension plans improved by \$11.7 during 2016 primarily due to discretionary company contributions. Our non-U.S. pension plans, which are typically not funded due to local regulations, had a decrease in funded status of \$1.9 during 2016 due to the decrease 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, 2016, 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 2016 and 2015, we contributed \$12.8 and \$12.4 to our global pension plans, respectively. During 2016 and 2015 we made discretionary contributions to our U.S. pension plans of \$7.8 and \$7.5, respectively. We anticipate making contributions to our global pension plans of \$4.0 during 2017.

The funded status of our other employee-related defined benefit plans improved \$2.8 during 2016 primarily due to lower than expected benefit payments and mortality improvements. We contributed \$6.2 to our other employee-related defined benefit plans during both 2016 and 2015. We currently estimate that the 2017 contributions to our other employee-related defined benefit plans will be approximately \$9.0. 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, 2016, 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 \$400, as well as general market access to longer-term markets. Our commercial paper program is supported by the 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, 2016 and 2015.

	2016	2015
Current portion of long-term debt and capital leases	\$0.8	\$1.2
Non-current portion of long-term debt and capital leases	2.0	2.8
Total long-term debt and capital leases	\$2.8	\$4.0

Contractual Obligations

ITT's commitment to make future payments under long-term contractual obligations was as follows, as of December 31, 2016:

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	\$3.0	\$ 1.0	\$ 1.1	\$ 0.7	\$ 0.2
Operating leases	156.7	22.8	39.4	31.5	63.0
Purchase obligations ^(a)	85.3	74.3	10.9	0.1	—
Other long-term obligations ^(b)	110.1	16.1	30.7	30.5	32.8
Total	\$355.1	\$ 114.2	\$ 82.1	\$ 62.8	\$ 96.0

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 \$954.3 and \$36.9, respectively, in our Consolidated Balance Sheet at December 31, 2016. 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.

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.

Other long-term obligations include amounts recorded on our December 31, 2016 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 through various orders and agreements with state and federal oversight agencies. At December 31, 2016, our recorded environmental liability was \$76.6.

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, 2016, consist of indemnities related to acquisition and disposition agreements and certain third-party guarantees.

Indemnities

Since our founding 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 LLC agreed to provide certain indemnifications and cross-indemnifications among ITT LLC, 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 LLC, Exelis and Xylem agreed to certain cross-indemnifications with respect to other liabilities and obligations. ITT LLC 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 LLC; such claims are included in our estimate of asbestos liabilities.

Guarantees

We have \$146.5 of guarantees, letters of credit and similar arrangements outstanding at December 31, 2016, 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, 2016 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 a variety of key performance indicators including revenue, segment operating income and margins, earnings per share, order growth, and backlog, some of which are non-GAAP. In addition, we consider certain measures to be useful to management and investors when evaluating our operating performance for the periods presented. These measures provide a tool for evaluating our ongoing 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, acquisitions, dividends, 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. 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, 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. Management believes that reporting organic revenue and organic orders provides useful information to investors by helping identify underlying trends in our business and facilitating easier comparisons of our revenue performance with prior and future periods and to our peers.

Reconciliations of organic revenue for the years ended December 31, 2016 and 2015 are provided below.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT
2016 Revenue	\$830.1	\$983.4	\$309.6	\$287.0	\$ (4.7)	\$2,405.4
(Acquisitions)/divestitures, net	—	(126.4)	—	(5.4)	—	(131.8)
Foreign currency translation	28.7	4.7	(1.5)	(0.5)	0.1	31.5
2016 Organic revenue	\$858.8	\$861.7	\$308.1	\$281.1	\$ (4.6)	\$2,305.1
2015 Revenue	1,113.8	767.2	328.1	281.2	(4.7)	2,485.6
Organic (decline)/growth	(22.9)%	12.3 %	(6.1)%	— %		(7.3)%
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
2014 Revenue	1,208.3	769.4	392.8	290.5	(6.4)	2,654.6
Organic growth/(decline)	(2.4)%	9.1 %	(11.3)%	(10.4)%		(1.2)%

Reconciliations of organic orders for the years ended December 31, 2016 and 2015 are provided below.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT
2016 Orders	\$779.1	\$998.4	\$309.5	\$292.9	\$ (5.1)	\$2,374.8
(Acquisitions)/divestitures, net	—	(126.8)	—	(8.8)	—	(135.6)
Foreign currency translation	23.6	4.5	(1.3)	(0.4)	0.1	26.5
2016 Organic orders	\$802.7	\$876.1	\$308.2	\$283.7	\$ (5.0)	\$2,265.7
2015 Orders	936.7	780.0	324.3	294.3	(4.7)	2,330.6
Organic (decline)/growth	(14.3)%	12.3 %	(5.0)%	(3.6)%		(2.8)%
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
2014 Orders	1,214.2	797.0	388.4	289.2	(5.8)	2,683.0
Organic growth/(decline)	(18.1)%	6.6 %	(11.4)%			