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ITT Inc.

Form 10-Q

August 03, 2018

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

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 Number: 001-05672**

ITT INC.

State of Indiana
(State or Other Jurisdiction)

81-1197930
(I.R.S. Employer)

of Incorporation or Organization) Identification Number)

1133 Westchester Avenue, White Plains, NY 10604

(Principal Executive Office)

Telephone Number: (914) 641-2000

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

Large accelerated filer Accelerated filer Non-accelerated
filer Smaller reporting company

Emerging growth company (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 1, 2018, there were 87.6 million shares of common stock (\$1 par value per share) of the registrant outstanding.

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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 events and future operating or financial performance.

We use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "future," "may," "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 our reports filed with the U.S. Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended December 31, 2017 (particularly under the caption "Risk Factors"), our Quarterly Reports on Form 10-Q (including Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q) and in other documents we file from time to time with the SEC.

The forward-looking statements included in this Quarterly Report on Form 10-Q (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 where you may access our reports, proxy statements and other information that we file with, or furnish to, the SEC.

We make available free of charge at www.itt.com (in the "Investors" section) copies of materials we file with, or furnish to, the SEC. We also use the Investor Relations page of our website at www.itt.com (in the "Investors" section) to disclose important information to the public.

Information contained on our website, or that can be accessed through our website, does not constitute a part of this Report. 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 is located at 1133 Westchester Avenue, White Plains, NY 10604 and the telephone number of this location is (914) 641-2000.

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)**

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

For the Periods Ended June 30	Three Months		Six Months	
	2018	2017	2018	2017
Revenue	\$696.8	\$630.9	\$1,386.1	\$1,256.7
Costs of revenue	470.8	425.9	935.9	848.6
Gross profit	226.0	205.0	450.2	408.1
General and administrative expenses	63.0	64.6	128.1	130.3
Sales and marketing expenses	43.4	43.8	86.9	86.9
Research and development expenses	25.8	22.6	50.5	45.0
Asbestos-related costs (benefit), net	13.5	14.9	(6.2)	29.8
Operating income	80.3	59.1	190.9	116.1
Interest and non-operating expenses, net	1.5	0.5	3.3	2.7
Income from continuing operations before income tax expense	78.8	58.6	187.6	113.4
Income tax expense	8.9	10.6	16.5	19.7
Income from continuing operations	69.9	48.0	171.1	93.7
(Loss) income from discontinued operations, including tax benefit of \$0.1, \$0.1, \$0 and \$0.2, respectively	—	(0.1)	0.1	(0.2)
Net income	69.9	47.9	171.2	93.5
Less: Income (loss) attributable to noncontrolling interests	0.2	0.1	0.3	(0.3)
Net income attributable to ITT Inc.	\$69.7	\$47.8	\$170.9	\$93.8
Amounts attributable to ITT Inc.:				
Income from continuing operations, net of tax	\$69.7	\$47.9	\$170.8	\$94.0
(Loss) income from discontinued operations, net of tax	—	(0.1)	0.1	(0.2)
Net income attributable to ITT Inc.	\$69.7	\$47.8	\$170.9	\$93.8
Earnings per share attributable to ITT Inc.:				
Basic:				
Continuing operations	\$0.80	\$0.54	\$1.95	\$1.06
Discontinued operations	—	—	—	—
Net income	\$0.80	\$0.54	\$1.95	\$1.06
Diluted:				
Continuing operations	\$0.79	\$0.54	\$1.93	\$1.05
Discontinued operations	—	—	—	—
Net income	\$0.79	\$0.54	\$1.93	\$1.05
Weighted average common shares – basic	87.5	88.5	87.8	88.4
Weighted average common shares – diluted	88.4	89.0	88.7	89.1
Cash dividends declared per common share	\$0.134	\$0.128	\$0.268	\$0.256

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

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(IN MILLIONS)

For the Periods Ended June 30	Three Months		Six Months	
	2018	2017	2018	2017
Net income	\$69.9	\$47.9	\$171.2	\$93.5
Other comprehensive (loss) income:				
Net foreign currency translation adjustment	(47.1)	42.5	(20.6)	61.7
Net change in postretirement benefit plans, net of tax impacts of \$0.4, \$0.4, \$0.8 and \$0.9, respectively	1.1	1.2	2.2	2.3
Other comprehensive (loss) income	(46.0)	43.7	(18.4)	64.0
Comprehensive income	23.9	91.6	152.8	157.5
Less: Comprehensive income (loss) attributable to noncontrolling interests	0.2	0.1	0.3	(0.3)
Comprehensive income attributable to ITT Inc.	\$23.7	\$91.5	\$152.5	\$157.8

Disclosure of reclassification adjustments to postretirement benefit plans

Reclassification adjustments (see Note 15):

Amortization of prior service benefit, net of tax expense of \$(0.3), \$(0.5), \$(0.5) and \$(1.0), respectively	\$(0.8)	\$(0.7)	\$(1.7)	\$(1.4)
Amortization of net actuarial loss, net of tax benefits of \$0.7, \$0.9, \$1.3 and \$1.9, respectively	1.9	1.9	3.9	3.7
Net change in postretirement benefit plans, net of tax	\$1.1	\$1.2	\$2.2	\$2.3

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

CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$449.6	\$ 389.8
Receivables, net	560.4	629.6
Inventories, net	393.5	311.9
Other current assets	175.1	147.4
Total current assets	1,578.6	1,478.7
Plant, property and equipment, net	506.1	521.7
Goodwill	879.9	886.8
Other intangible assets, net	145.3	156.2
Asbestos-related assets	322.6	304.0
Deferred income taxes	164.0	149.9
Other non-current assets	203.2	202.9
Total non-current assets	2,221.1	2,221.5
Total assets	\$3,799.7	\$ 3,700.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans and current maturities of long-term debt	\$210.7	\$ 163.6
Accounts payable	331.2	351.4
Accrued liabilities	397.7	384.4
Total current liabilities	939.6	899.4
Asbestos-related liabilities	781.6	800.1
Postretirement benefits	223.5	227.3
Other non-current liabilities	172.7	175.6
Total non-current liabilities	1,177.8	1,203.0
Total liabilities	2,117.4	2,102.4
Shareholders' equity:		
Common stock:		
Authorized – 250.0 shares, \$1 par value per share		
Issued and outstanding – 87.6 shares and 88.2 shares, respectively	87.6	88.2
Retained earnings	1,959.3	1,856.1
Total accumulated other comprehensive loss	(366.6)	(348.2)
Total ITT Inc. shareholders' equity	1,680.3	1,596.1
Noncontrolling interests	2.0	1.7
Total shareholders' equity	1,682.3	1,597.8
Total liabilities and shareholders' equity	\$3,799.7	\$ 3,700.2

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

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN MILLIONS)

For the Six Months Ended June 30

	2018	2017
Operating Activities		
Net income	\$171.2	\$93.5
Less: Income (loss) from discontinued operations	0.1	(0.2)
Less: Income (loss) attributable to noncontrolling interests	0.3	(0.3)
Income from continuing operations attributable to ITT Inc.	170.8	94.0
Adjustments to income from continuing operations:		
Depreciation and amortization	55.2	50.4
Equity-based compensation	10.2	7.3
Asbestos-related (benefit) costs, net	(6.2)	29.8
Asbestos-related payments, net	(30.8)	(30.7)
Changes in assets and liabilities:		
Change in receivables	(15.2)	(35.6)
Change in inventories	(22.8)	2.3
Change in accounts payable	(14.2)	(7.8)
Change in accrued expenses	(23.0)	(3.3)
Change in accrued and deferred income taxes	(11.7)	(3.1)
Other, net	7.0	(10.7)
Net Cash – Operating activities	119.3	92.6
Investing Activities		
Capital expenditures	(46.3)	(53.3)
Acquisitions, net of cash acquired	—	(113.7)
Other, net	0.9	2.5
Net Cash – Investing activities	(45.4)	(164.5)
Financing Activities		
Commercial paper, net repayments	(162.4)	9.4
Short-term revolving loans, borrowings	246.5	77.3
Short-term revolving loans, repayments	(23.5)	(100.0)
Long-term debt, issued	—	3.9
Long-term debt, repayments	(1.9)	(0.7)
Repurchase of common stock	(55.4)	(32.8)
Proceeds from issuance of common stock	4.7	6.5
Dividends paid	(12.0)	(11.6)
Other, net	(0.1)	0.1
Net Cash – Financing activities	(4.1)	(47.9)
Exchange rate effects on cash and cash equivalents	(8.6)	15.3
Net Cash – Operating activities of discontinued operations	(1.4)	(0.9)
Net change in cash and cash equivalents	59.8	(105.4)
Cash and cash equivalents – beginning of year (includes restricted cash of \$1.2 and \$1.2, respectively)	391.0	461.9
Cash and cash equivalents – end of period (includes restricted cash of \$1.2 and \$1.2, respectively)	\$450.8	\$356.5
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	\$1.1	\$2.1
Income taxes, net of refunds received	\$23.2	\$21.9

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

**CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)**

(IN MILLIONS)

For the Periods Ended June 30	Three Months		Six Months	
	2018	2017	2018	2017
Common Stock				
Common stock, beginning balance	\$87.4	\$88.7	\$88.2	\$88.4
Activity from stock incentive plans	0.2	0.1	0.5	0.5
Share repurchases	—	(0.8)	(1.1)	(0.9)
Common stock, ending balance	87.6	88.0	87.6	88.0
Retained Earnings				
Retained earnings, beginning balance	1,891.8	1,832.6	1,856.1	1,789.2
Cumulative adjustment for accounting change (See Note 2)	—	—	(4.1)	0.5
Net income attributable to ITT Inc.	69.7	47.8	170.9	93.8
Dividends declared	(11.8)	(11.4)	(23.7)	(22.8)
Activity from stock incentive plans	9.7	4.3	14.4	14.8
Share repurchases	(0.1)	(29.7)	(54.3)	(31.9)
Retained earnings, ending balance	1,959.3	1,843.6	1,959.3	1,843.6
Accumulated Other Comprehensive Loss				
Postretirement benefit plans, beginning balance	(136.5)	(144.1)	(137.6)	(145.2)
Net change in postretirement benefit plans	1.1	1.2	2.2	2.3
Postretirement benefit plans, ending balance	(135.4)	(142.9)	(135.4)	(142.9)
Cumulative translation adjustment, beginning balance	(184.1)	(286.8)	(210.6)	(306.0)
Net cumulative translation adjustment	(47.1)	42.5	(20.6)	61.7
Cumulative translation adjustment, ending balance	(231.2)	(244.3)	(231.2)	(244.3)
Total accumulated other comprehensive loss	(366.6)	(387.2)	(366.6)	(387.2)
Noncontrolling interests				
Noncontrolling interests, beginning balance	1.9	1.6	1.7	2.0
Income (loss) attributable to noncontrolling interests	0.2	0.1	0.3	(0.3)
Other	(0.1)	(0.1)	—	(0.1)
Noncontrolling interests, ending balance	2.0	1.6	2.0	1.6
Total Shareholders' Equity				
Total shareholders' equity, beginning balance	1,660.5	1,492.0	1,597.8	1,428.4
Net change in common stock	0.2	(0.7)	(0.6)	(0.4)
Net change in retained earnings	67.5	11.0	103.2	54.4
Net change in accumulated other comprehensive loss	(46.0)	43.7	(18.4)	64.0
Net change in noncontrolling interests	0.1	—	0.3	(0.4)
Total shareholders' equity, ending balance	\$1,682.3	\$1,546.0	\$1,682.3	\$1,546.0

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

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

NOTE 1

**DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND UPDATES TO
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Business

ITT Inc. is a diversified manufacturer of highly engineered critical components and customized technology solutions for the transportation, industrial, and oil and gas markets. 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 operates through three segments: Industrial Process, consisting of industrial pumping and complementary equipment; Motion Technologies, consisting of friction and shock and vibration equipment; and Connect & Control Technologies, consisting of electronic connectors, fluid handling, motion control and noise and energy absorption products. Financial information for our segments is presented in Note 3, Segment Information.

Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the SEC and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in ITT’s Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Annual Report) in preparing these unaudited financial statements, other than those described below. These financial statements should be read in conjunction with the financial statements and notes thereto included in our 2017 Annual Report.

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

ITT’s quarterly financial periods end on the Saturday that is generally closest to the last day of the calendar quarter, except for the last quarterly period of the fiscal year, which ends on December 31st. For ease of presentation, the quarterly financial statements included herein are described as ending on the last day of the calendar quarter.

Certain prior year amounts have been reclassified or restated to conform to the current year presentation. For further information, refer to Note 2, Recent Accounting Pronouncements.

Update to Summary of Significant Accounting Policies

Revenue Recognition

Revenue is derived from the sale of products and services to customers. We recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

For product sales, we consider practical and contractual limitations in determining whether there is an alternative use for the product. For example, long-term design and build contracts are typically highly

customized to a customer's specifications. For contracts with no alternative use and an enforceable right to payment for work performed to date, including a reasonable profit if the contract were terminated at the customer's convenience, we recognize revenue over time. All other product sales are recognized at a point in time.

For contracts recognized over time, we use the cost-to-total cost method or the units of delivery method, depending on the nature of the contract, including length of production time.

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For contracts recognized at a point in time, we recognize revenue when control passes to the customer, which is generally based on shipping terms when title and risk and rewards pass to the customer. However, we also consider certain customer acceptance provisions as certain contracts with customers include installation, testing, certification or other acceptance provisions. In instances where contractual terms include a provision for customer acceptance, we consider whether we have previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria in assessing whether control has passed to the customer.

For service contracts, we recognize revenue as the services are rendered if the customer is benefiting from the service as it is performed, or upon completion of the service. Separately priced extended warranties are recognized as a separate performance obligation over the warranty period.

The transaction price in our contracts consists of fixed consideration and the impact of variable consideration including returns, rebates and allowances and penalties. Variable consideration is generally estimated using a probability-weighted approach based on historical experience, known trends and current factors including market conditions and status of negotiations.

When there is more than one performance obligation, the transaction price is allocated to the performance obligations based on the relative estimated standalone selling prices. If not sold separately, estimated standalone selling prices are determined considering various factors including market and pricing trends, geography, product customization and profit objectives. Revenue is recognized when the appropriate revenue recognition criteria for the individual performance obligations have been satisfied.

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

Shipping and handling activities are accounted for as activities to fulfill a promise to transfer a product to a customer. As such, shipping and handling activities are not evaluated as a separate performance qualification.

For most contracts, payment is due from the customer within 30 to 90 days after the product is delivered or the service has been performed. For design and build contracts, we generally collect progress payments from the customer throughout the term of the contract, resulting in contract assets or liabilities depending on the timing of the payments. Contract assets consist of unbilled amounts when revenue recognized exceeds customer billings. Contract liabilities consist of advance payments and billings in excess of revenue recognized.

Design and engineering costs for highly complex products to be sold under a long-term production-type contract are capitalized and amortized throughout the life of the related contract or anticipated contract. Other design and development costs are capitalized only if there is a contractual guarantee for reimbursement. Costs to obtain a contract (e.g., commissions) for contracts greater than one year are capitalized and amortized over the life of the related contract.

NOTE 2

RECENT ACCOUNTING PRONOUNCEMENTS

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

Accounting Pronouncements Recently Adopted

In May 2014, the FASB issued ASU 2014-09 amending the existing accounting standards for revenue recognition. The new standard was effective for ITT as of January 1, 2018. Most revenue streams are recorded consistently under both the new standard and the previous standard. However, the timing of revenue recognition of certain design and build contracts in our Industrial Process segment, recognized using the percentage of completion method under the previous standard, is now dependent on certain terms within the contract and therefore will vary based on the new guidance. ITT adopted this guidance using a modified retrospective approach. As of the date of adoption, we have recognized approximately

\$49 of revenue and \$5 of operating income on open contracts in our Industrial Process segment using the percentage of completion method that under the new guidance are recognized at a point in time, resulting in a cumulative adjustment to the opening balance in retained earnings of \$4, net of tax. The comparative information has not been restated and continues to be reported under the accounting guidance in effect in those periods. Additionally, the new guidance resulted in a change in balance sheet presentation. Certain progress payments, previously presented as a reduction of inventory, are now presented

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within accrued liabilities. Unbilled receivables, previously presented within receivables, net, are now presented within other current or non-current assets.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet related to the adoption of ASU 2014-09 is as follows:

	Balance as of December 31, 2017	Cumulative Effect of Adjustments	Balance as of January 1, 2018
Assets:			
Receivables, net	\$629.6	\$(71.9)	\$557.7
Inventories, net	311.9	66.3	378.2
Other current assets	147.4	43.2	190.6
Deferred income taxes	149.9	1.0	150.9
Liabilities:			
Accrued liabilities	384.4	43.7	428.1
Other non-current liabilities	175.6	(1.0)	174.6
Equity:			
Retained earnings	1,856.1	(4.1)	1,852.0

The impacts to our Consolidated Statements of Operation for the three and six months ended June 30, 2018, and our Consolidated Balance Sheet as of June 30, 2018 had we not adopted ASU 2014-09 are as follows:

As of or for the Periods Ended June 30, 2018	Three Months			Six Months		
	As Reported	Amounts under previous standard	Effect of Change	As Reported	Amounts under previous standard	Effect of Change
Statement of Operations						
Revenue	\$696.8	\$699.2	\$ 2.4	\$1,386.1	\$1,394.3	\$ 8.2
Costs of revenue	470.8	472.4	1.6	935.9	943.2	7.3
Income tax expense	8.9	8.7	0.2	16.5	16.7	0.2
Net income	69.9	70.5	0.6	171.2	171.9	0.7

Balance Sheets

Assets:						
Receivables, net				560.4	614.9	54.5
Inventories, net				393.5	324.0	(69.5)
Other current assets				175.1	150.3	(24.8)
Deferred income taxes				164.0	162.7	(1.3)
Liabilities:						
Accrued liabilities				397.7	350.8	(46.9)
Other non-current liabilities				172.7	173.7	1.0
Equity:						
Retained earnings				1,959.3	1,964.1	4.8

In March 2017, the FASB issued ASU 2017-07 which amends the Statement of Operations presentation for the components of net periodic benefit cost for entities that sponsor defined benefit pension and other postretirement plans. Under the ASU, entities are required to disaggregate the service cost component and present it with other current compensation costs for the related employees. All other components of net periodic benefit cost are no longer classified as an operating expense. In addition, only the service cost component will be eligible for capitalization on the balance sheet. The ASU requires a retrospective transition method to adopt the requirement to present service costs separately from the other components of net periodic benefit cost in the statements of operations, and a prospective transition method to adopt the requirement that prohibits capitalization of all components of net periodic benefit cost on the balance sheet except service costs. ITT adopted the ASU beginning in the first quarter of 2018. Service costs eligible for capitalization on the balance sheet in 2018 are considered immaterial. As a result of the adoption, our Consolidated Statement of Operations for the three and six months ended June 30, 2017 was restated as follows:

For the Three Months Ended June 30, 2017	Previously Reported	Effect of Change	Restated
Costs of revenue	\$426.5	\$(0.6)	\$425.9
General and administrative expenses	65.3	(0.7)	64.6
Sales and marketing expenses	43.9	(0.1)	43.8
Operating income	57.7	1.4	59.1
Interest and non-operating (income) expenses, net	(0.9)	1.4	0.5

For the Six Months Ended June 30, 2017	Previously Reported	Effect of Change	Restated
Costs of revenue	\$850.0	\$(1.4)	\$848.6
General and administrative expenses	131.5	(1.2)	130.3
Sales and marketing expenses	87.0	(0.1)	86.9
Research and development expenses	45.1	(0.1)	45.0
Operating income	113.3	2.8	116.1
Interest and non-operating (income) expenses, net	(0.1)	2.8	2.7

In November 2016, the FASB issued ASU 2016-18 which requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts on the of the Statement of Cash Flows. In addition, when cash and restricted cash are presented on separate lines on the Balance Sheet, an entity is required to reconcile the total cash, cash equivalents and restricted cash in the Statement of Cash Flows to the related line items in the Balance Sheet. The ASU requires a retrospective transition method and ITT adopted the ASU beginning in the first quarter of 2018.

In March 2016, the FASB issued ASU 2016-09 to simplify several aspects of the accounting standard for employee share-based payment transactions, including the classification of excess tax benefits and deficiencies and the accounting for employee forfeitures. ITT elected to adopt this guidance as of January 1, 2017 resulting in a cumulative-effect adjustment of \$1.0 to increase retained earnings. The increase to retained earnings was driven by previously unrecognized tax benefits due to net operating loss carryforwards of \$2.1, offset by a reduction in retained earnings of \$1.1, net of tax, due to a change in our accounting policy for the forfeiture of share-based compensation arrangements. For further information on our adoption of the new standard, refer to our 2017 Annual Report.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 impacting the accounting for leases intending to increase transparency and comparability of organizations by requiring balance sheet presentation of leased assets and increased financial statement disclosure of leasing arrangements. The revised standard will require entities to recognize a liability for their lease obligations and a corresponding asset representing the right to

use the underlying asset over the lease term. Lease obligations are to be measured at the present value of lease payments and accounted for using the effective interest method. The accounting for the leased asset will differ slightly depending on whether the agreement is deemed to be a financing or operating lease. For financing leases, the leased asset is depreciated on a straight-line basis and recorded separately from the interest expense in the statements of operations, resulting in higher expense in the earlier part of the lease term. For operating leases, the depreciation

and interest expense components are combined, recognized evenly over the term of the lease, and presented as a reduction to operating income. The ASU requires that assets and liabilities be presented or disclosed separately and classified appropriately as current and noncurrent. The ASU further requires additional disclosure of certain qualitative and quantitative information related to lease agreements. The ASU is effective for the Company beginning in the first quarter 2019, at which time we expect to adopt the new standard. We are currently assessing our existing lease agreements and related financial disclosures to evaluate the impact of these amendments on our financial statements.

NOTE 3

SEGMENT INFORMATION

The Company's segments are reported on the same basis used by our chief operating decision maker, for evaluating performance and for allocating resources. Our three reportable segments are referred to as: Industrial Process, Motion Technologies, and Connect & Control Technologies.

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

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

Connect & Control Technologies manufactures harsh-environment connector solutions and critical energy absorption and flow control components for the aerospace and defense, general industrial, medical, and oil and gas markets.

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

For the Three Months Ended June 30	Revenue		Operating Income ^(a)		Operating Margin	
	2018	2017	2018	2017	2018	2017
Industrial Process	\$203.2	\$192.3	\$23.4	\$15.3	11.5 %	8.0 %
Motion Technologies	330.3	290.1	55.5	52.1	16.8 %	18.0 %
Connect & Control Technologies	164.1	149.6	27.3	14.2	16.6 %	9.5 %
Total segment results	697.6	632.0	106.2	81.6	15.2 %	12.9 %
Asbestos-related costs, net	—	—	(13.5)	(14.9)	—	—
Eliminations / Other corporate costs	(0.8)	(1.1)	(12.4)	(7.6)	—	—
Total Eliminations / Corporate and Other costs	(0.8)	(1.1)	(25.9)	(22.5)	—	—
Total	\$696.8	\$630.9	\$80.3	\$59.1	11.5 %	9.4 %

For the Six Months Ended June 30	Revenue		Operating Income ^(a)		Operating Margin	
	2018	2017	2018	2017	2018	2017
Industrial Process	\$393.0	\$378.4	\$40.3	\$23.4	10.3 %	6.2 %
Motion Technologies	672.5	577.4	117.4	107.1	17.5 %	18.5 %
Connect & Control Technologies	322.0	302.9	50.3	30.9	15.6 %	10.2 %
Total segment results	1,387.5	1,258.7	208.0	161.4	15.0 %	12.8 %
Asbestos-related benefit (costs), net	—	—	6.2	(29.8)	—	—
Eliminations / Other corporate costs	(1.4)	(2.0)	(23.3)	(15.5)	—	—
Total Eliminations / Corporate and Other costs	(1.4)	(2.0)	(17.1)	(45.3)	—	—
Total	\$1,386.1	\$1,256.7	\$190.9	\$116.1	13.8 %	9.2 %

Operating income and operating margin for the three and six months ended June 30, 2017 has been (a) restated to reflect the adoption of ASU 2017-07. Refer to Note 2, Recent Accounting Pronouncements for further information.

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	Total Assets		Capital Expenditures		Depreciation & Amortization	
For the Six Months Ended June 30	2018	2017 ^(b)	2018	2017	2018	2017
Industrial Process	\$1,004.4	\$1,025.7	\$1.8	\$12.4	\$13.7	\$13.5
Motion Technologies	1,170.9	1,140.4	40.0	34.3	28.7	22.0
Connect & Control Technologies	705.9	694.8	4.3	6.5	10.7	11.7
Corporate and Other	918.5	839.3	0.2	0.1	2.1	3.2
Total	\$3,799.7	\$3,700.2	\$46.3	\$53.3	\$55.2	\$50.4

(b) Amounts reflect balances as of December 31, 2017.

NOTE 4 REVENUE

The following table represents our revenue disaggregated by product category for the three and six months ended June 30, 2018.

For the Three Months Ended June 30, 2018	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total
Industrial pumps	\$153.2	\$ —	\$ —	\$ —	\$153.2
Oil & gas pumps and components	50.0	—	10.1	—	60.1
Vehicle components	—	284.4	—	(0.1)	284.3
Aerospace & defense components	—	2.7	96.1	—	98.8
Rail components	—	38.1	—	—	38.1
Industrial components and other	—	5.1	57.9	(0.7)	62.3
Total	\$203.2	\$ 330.3	\$ 164.1	\$ (0.8)	\$696.8

For the Six Months Ended June 30, 2018	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total
Industrial pumps	\$294.7	\$ —	\$ —	\$ —	\$294.7
Oil & gas pumps and components	98.3	—	19.1	—	117.4
Vehicle components	—	584.0	—	(0.1)	583.9
Aerospace & defense components	—	4.5	183.7	—	188.2
Rail components	—	77.1	—	—	77.1
Industrial components and other	—	6.9	119.2	(1.3)	124.8
Total	\$393.0	\$ 672.5	\$ 322.0	\$ (1.4)	\$1,386.1

Revenue recognized related to our Industrial Process segment primarily consists of pumps, valves and plant optimization systems and services which serve the general industrial, oil and gas, chemical and petrochemical, pharmaceutical, mining, pulp and paper, food and beverage, and power generation markets. Many of Industrial Process's products are highly engineered and customized to our customer needs and therefore do not have an alternative use. For these longer term design and build projects, if the contract states that we also have an enforceable right to payment, we recognize revenue over time using the cost-to-total-cost method as we satisfy the performance obligations identified in the contract. If no right to payment exists, revenue is recognized at a point in time, generally based on shipping terms. A majority of our design and build project contracts currently do not have a right to payment. For other pumps that do have an alternative use to us, revenue is recognized at a point in time. Revenue on service and repair contracts, representing approximately 3% of consolidated ITT revenue, is recognized after services have been agreed to by the customer and rendered or over the service period.

Our Motion Technologies segment manufactures brake pads, shims, shock absorbers, and damping and sealing technologies primarily for the transportation industry. Our Connect & Control Technologies segment manufactures a range of highly engineered connectors and specialized control components for critical applications. In both of these segments, most products have an alternative use. Therefore, revenue is recognized at a point in time when control passes to the customer. In certain circumstances, we have concluded we do not have an alternative use for the component product. In these cases, due to the short-term nature of the production process we use a units-of-delivery method of revenue recognition which faithfully depicts the transfer of control to the customer.

Contract Assets and Liabilities

Contract assets consist of unbilled amounts where revenue recognized exceeds customer billings. Contract liabilities consist of advance payments and billings in excess of revenue recognized. The following table represents our net contract assets and liabilities as of June 30, 2018.

	June 30, 2018	January 1, 2018	Change
Current contract assets	\$24.8	\$43.2	(42.6)%
Noncurrent contract assets	0.7	—	100.0 %
Current contract liabilities	(60.6)	(61.7)	(1.8)%
Net contract liabilities	\$(35.1)	\$(18.5)	89.7 %

During the six months ended June 30, 2018, the increase in our net contract liability of \$16.6, or 89.7%, was primarily due to higher customer billings. During the three and six months ended June 30, 2018, we recognized revenue of \$15.2 and \$46.1, respectively, related to contract liabilities at January 1, 2018.

For contracts greater than one year, the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of June 30, 2018 was \$44.4. Of this amount, we expect to recognize approximately \$15 to \$20 of revenue during 2018, and the remainder in 2019.

As of June 30, 2018, deferred contract costs were \$7.1, primarily related to pre-contract costs. During the three and six months ended June 30, 2018, we amortized \$0.2 and \$0.4, respectively, of deferred contract costs.

NOTE 5

RESTRUCTURING ACTIONS

The table below summarizes the restructuring costs presented within general and administrative expenses in our Consolidated Condensed Statements of Operations for the three and six months ended June 30, 2018 and 2017. We have initiated various restructuring activities throughout our businesses during the past two years, however there were no restructuring activities considered to be individually significant.

	Three		Six	
	2018	2017	2018	2017
For the Periods Ended June 30				
Severance costs	\$1.0	\$1.6	\$1.6	\$2.7
Other restructuring costs	0.2	0.1	0.5	1.6
Total restructuring costs	\$1.2	\$1.7	\$2.1	\$4.3
By segment:				
Industrial Process	\$(0.1)	\$0.4	\$—	\$1.7
Motion Technologies	0.9	0.6	1.3	0.8
Connect & Control Technologies	0.4	0.7	0.8	1.2
Corporate and Other	—	—	—	0.6

The following table displays a rollforward of the restructuring accruals, presented on our Consolidated Condensed Balance Sheet within accrued liabilities, for the six months ended June 30, 2018 and 2017.

For the Periods Ended June 30	2018	2017
Restructuring accruals - beginning balance	\$8.9	\$14.6
Restructuring costs	2.1	4.3
Cash payments	(4.2)	(8.9)
Foreign exchange translation and other	0.9	1.4
Restructuring accrual - ending balance	\$7.7	\$11.4
By accrual type:		
Severance accrual	\$6.8	\$9.6
Facility carrying and other costs accrual	0.9	1.8

NOTE 6 INCOME TAXES

For the three months ended June 30, 2018 and 2017, the Company recognized income tax expense of \$8.9 and \$10.6 and had an effective tax rate of 11.3% and 18.1%, respectively. For the six months ended June 30, 2018 and 2017, the Company recognized income tax expense of \$16.5 and \$19.7 and had an effective tax rate of 8.8% and 17.4%, respectively. The lower effective tax rate in 2018 is primarily due to tax benefits of \$21.6 from the reversal of a valuation allowance on German deferred tax assets and \$4.5 from a reduction to the provisional one-time tax charge associated with the 2017 U.S. tax reform.

Our effective tax rate in 2018 includes the impact of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") that was approved by Congress on December 20, 2017 and signed into law by the U.S. President on December 22, 2017. The Tax Act significantly changes the U.S. corporate income tax rules most of which are effective January 1, 2018. On December 22, 2017 the SEC issued guidance under Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act and therefore records provisional amounts under the Tax Act. The ultimate impact of the Tax Act may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions a company has made, additional regulatory guidance that may be issued, and actions a company may take as a result of the Tax Act.

Quantifying the impact of the Tax Act is subject to guidance and regulations to be issued by the U.S. Treasury and possible changes to state tax laws. The Company is currently unable to compute with certainty the impact of the Tax Act on its financial statements. The Company has performed provisional computations of the impact of the Tax Act and has recorded the provisional amounts in its 2017 financial statements. The Company has updated some of these provisional computations to account for further guidance from the United States Treasury Department. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date.

The Tax Act imposed a one-time tax on accumulated earnings of foreign subsidiaries as of December 31, 2017. In its 2017 financial statements, the Company recognized the provisional tax impacts resulting from the Tax Act. The Company has updated the provisional one-time tax amount to \$53.5 as compared to \$58 reported in December 31, 2017 financial statements.

The Company intends to distribute most earnings of its foreign subsidiaries to the U.S. in future years, and therefore is no longer asserting permanent reinvestment of these earnings outside the U.S. Further, the Company will provide for any U.S. state and foreign taxes on distributions of future earnings of its foreign subsidiaries as these earnings will not be considered permanently reinvested in the foreign countries.

The Company has performed provisional computations and has not provided deferred taxes on its remaining excess of financial reporting over tax bases of investments in its foreign subsidiaries that it intends to permanently reinvest outside the U.S. The Company anticipates that accumulated foreign

earnings of \$1.1 billion and future earnings of its foreign subsidiaries that are considered not permanently reinvested will be sufficient to meet its U.S. cash needs. In the event additional foreign funds are needed to support U.S. operations, and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. and foreign taxes.

The Tax Act limits the deductibility of compensation for certain senior officers. The Company has determined that certain deferred tax assets associated with officer compensation may not be deductible. The Company has therefore written off a provisional amount of \$2.8 of deferred tax assets relating to such compensation.

The Tax Act adopts a new rule "Global Intangible Low Taxed Income" (GILTI) that requires certain income of controlled foreign corporations to be subject to U.S. taxation. We are allowed under ASC 740 to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred or (2) factoring such amounts into the Company's measurement of its deferred taxes. Because of the complexity of these rules, and anticipated guidance from U.S. Treasury we will continue to evaluate the impact on the Company's financial statements. Therefore, we have not recorded any deferred taxes related to GILTI and have not made a policy decision regarding whether to record deferred taxes on GILTI.

The Company operates in various tax jurisdictions and is subject to examination by tax authorities in these jurisdictions. The Company is currently under examination in several jurisdictions including Canada, Czech Republic, Germany, Hong Kong, India, Italy, Mexico, the U.S. and Venezuela. The estimated tax liability calculation for unrecognized tax benefits considers 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. In addition, the settlement of any future examinations relating to the 2011 and prior tax years could result in changes in amounts attributable to the Company under its Tax Matters Agreement with Exelis Inc. and Xylem Inc. relating to the Company's 2011 spin-off of those businesses.

NOTE 7

EARNINGS PER SHARE DATA

The following table provides a reconciliation of the data used in the calculation of basic and diluted earnings per share from continuing operations attributable to ITT for the three and six months ended June 30, 2018 and 2017.

	Three Months		Six Months	
For the Periods Ended June 30	2018	2017	2018	2017
Basic weighted average common shares outstanding	87.5	88.5	87.8	88.4
Add: Dilutive impact of outstanding equity awards	0.9	0.5	0.9	0.7
Diluted weighted average common shares outstanding	88.4	89.0	88.7	89.1

There were no anti-dilutive shares underlying stock options excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2018. During the three and six months ended June 30, 2017 there were 0.4 anti-dilutive shares underlying stock options excluded from the computation of diluted earnings per share in both periods with a weighted average exercise price per share of \$42.30 and \$42.41, respectively. Anti-dilutive shares underlying stock options for the three and six months ended June 30, 2017 will expire between 2024 and 2025.

In addition, 0.1 of outstanding performance stock units (PSU) awards were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2018, and 0.3 of outstanding PSU awards were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2017, as the necessary performance conditions had not yet been satisfied.

NOTE 8 RECEIVABLES, NET

	June 30,	December 31,
	2018	2017
Trade accounts receivable (See Note 2)	\$ 553.6	\$ 601.4
Notes receivable	4.9	3.9
Other	17.9	40.4
Receivables, gross	576.4	645.7
Less: Allowance for doubtful accounts	(16.0)	(16.1)
Receivables, net	\$ 560.4	\$ 629.6

NOTE 9 INVENTORIES, NET

	June 30,	December 31,
	2018	2017
Finished goods	\$ 63.7	\$ 55.9
Work in process	84.4	54.8
Raw materials	208.0	184.4
Inventoried costs related to long-term contracts	37.4	38.1
Total inventory before progress payments	393.5	333.2
Less: Progress payments (see Note 2)	—	(21.3)
Inventories, net	\$ 393.5	\$ 311.9

NOTE 10 OTHER CURRENT AND NON-CURRENT ASSETS

	June 30,	December 31,
	2018	2017
Asbestos-related assets	\$ 64.7	\$ 64.7
Advance payments and other prepaid expenses	48.1	50.9
Short-term contract asset (see Note 2)	24.8	—
Prepaid income taxes	35.9	30.3
Other	1.6	1.5
Other current assets	\$ 175.1	\$ 147.4
Other employee benefit-related assets	\$ 114.7	\$ 111.3
Capitalized software costs	37.2	41.9
Environmental-related assets	23.3	24.5
Equity method investments	7.8	6.7
Other	20.2	18.5
Other non-current assets	\$ 203.2	\$ 202.9

NOTE 11**PLANT, PROPERTY AND EQUIPMENT, NET**

	June 30, 2018	December 31, 2017
Land and improvements	\$28.2	\$ 28.7
Machinery and equipment	1,043.5	1,039.9
Buildings and improvements	260.8	262.5
Furniture, fixtures and office equipment	73.7	74.5
Construction work in progress	57.7	58.4
Other	10.4	10.9
Plant, property and equipment, gross	1,474.3	1,474.9
Less: Accumulated depreciation	(968.2)	(953.2)
Plant, property and equipment, net	\$506.1	\$ 521.7

Depreciation expense of \$21.0 and \$19.2, and \$41.7 and \$37.5 was recognized in the three and six months ended June 30, 2018 and 2017, respectively.

NOTE 12**GOODWILL AND OTHER INTANGIBLE ASSETS, NET***Goodwill*

The following table provides a rollforward of the carrying amount of goodwill for the six months ended June 30, 2018 by segment.

	Industrial Process	Motion Technologies	Connect & Control Technologies	Total
Goodwill - December 31, 2017	\$324.5	\$ 295.6	\$ 266.7	\$886.8
Adjustments to purchase price allocations	—	3.3	—	3.3
Foreign exchange translation	(6.0)	(3.5)	(0.7)	(10.2)
Goodwill - June 30, 2018	\$318.5	\$ 295.4	\$ 266.0	\$879.9

Goodwill adjustments to purchase price allocations are related to our acquisition of Axtone Railway Components (Axtone) in the first quarter of 2017. The acquired goodwill, representing the excess of the purchase price over the net assets acquired, has been adjusted to reflect the final fair value of the net assets acquired. Refer to Note 19, Acquisitions, for additional information.

Other Intangible Assets, Net

Information regarding our other intangible assets is as follows:

	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Customer relationships	\$164.4	\$(80.0)	\$84.4	\$166.2	\$(74.4)	\$91.8
Proprietary technology	53.9	(23.7)	30.2	54.4	(21.8)	32.6
Patents and other	12.6	(9.2)	3.4	13.5	(9.2)	4.3
Finite-lived intangible total	230.9	(112.9)	118.0	234.1	(105.4)	128.7
Indefinite-lived intangibles	27.3	—	27.3	27.5	—	27.5
Other intangible assets	\$258.2	\$(112.9)	\$145.3	\$261.6	\$(105.4)	\$156.2

Amortization expense related to finite-lived intangible assets was \$4.3 and \$4.6, and \$8.9 and \$9.2 for the three and six months ended June 30, 2018 and 2017, respectively.

NOTE 13**ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES**

	June 30, December 31,	
	2018	2017
Compensation and other employee-related benefits	\$129.5	\$ 147.2
Contract liabilities and other customer-related liabilities (see Note 2)	81.9	45.5
Asbestos-related liabilities	77.2	77.1
Accrued income taxes and other tax-related liabilities	34.1	36.1
Environmental liabilities and other legal matters	22.7	22.8
Accrued warranty costs	18.0	17.0
Other accrued liabilities	34.3	38.7
Accrued liabilities	\$397.7	\$ 384.4
Environmental liabilities	\$56.8	\$ 63.6
Compensation and other employee-related benefits	34.8	36.4
Deferred income taxes and other tax-related accruals	32.2	19.3
Other	48.9	56.3
Other non-current liabilities	\$172.7	\$ 175.6

NOTE 14**DEBT**

	June 30, December 31,	
	2018	2017
Commercial paper	\$—	\$ 162.4
Short-term loans	209.6	—
Current maturities of long-term debt and capital leases	1.1	1.2
Short-term loans and current maturities of long-term debt	210.7	163.6
Long-term debt and capital leases	7.2	8.3
Total debt and capital leases	\$217.9	\$ 171.9

Commercial Paper

As of June 30, 2018, there was no Commercial paper outstanding. As of December 31, 2017, Commercial paper had an associated weighted average interest rate of 2.09% and maturity terms less than one month from the date of issuance.

Short-term Loans

Short-term loans consist of outstanding borrowings under our \$500 Revolving Credit Agreement (the Revolving Credit Agreement). Outstanding borrowings under our Revolving Credit Agreement as of June 30, 2018 were denominated in Euros with an associated weighted average interest rate of 1.1%. As of December 31, 2017, we had no outstanding obligations under the Revolving Credit Agreement. Refer to the [Liquidity](#) section within "Item 2. Management's Discussion and Analysis," for additional information on the revolving credit facility as well as our overall funding and liquidity strategy.

NOTE 15 POSTRETIREMENT BENEFIT PLANS

The following table provides the components of net periodic benefit cost for pension plans and other employee-related benefit plans for the three and six months ended June 30, 2018 and 2017.

For the Three Months Ended June 30	2018			2017		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Service cost	\$0.4	\$0.2	\$0.6	\$0.6	\$0.2	\$0.8
Interest cost	2.8	1.1	3.9	3.0	1.2	4.2
Expected return on plan assets ^(a)	(3.4)	(0.1)	(3.5)	(3.7)	(0.1)	(3.8)
Amortization of prior service cost (benefit)	0.2	(1.3)	(1.1)	0.3	(1.5)	(1.2)
Amortization of net actuarial loss	1.5	1.1	2.6	1.8	1.0	2.8
Total net periodic benefit cost	\$1.5	\$1.0	\$2.5	\$2.0	\$0.8	\$2.8

For the Six Months Ended June 30	2018			2017		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Service cost	\$0.8	\$0.4	\$1.2	\$1.2	\$0.4	\$1.6
Interest cost	5.6	2.2	7.8	6.0	2.3	8.3
Expected return on plan assets ^(a)	(6.8)	(0.2)	(7.0)	(7.5)	(0.2)	(7.7)
Amortization of prior service cost (benefit)	0.4	(2.6)	(2.2)	0.5	(2.9)	(2.4)
Amortization of net actuarial loss	3.0	2.2	5.2	3.5	2.1	5.6
Total net periodic benefit cost	\$3.0	\$2.0	\$5.0	\$3.7	\$1.7	\$5.4

(a) Includes plan administrative expenses of \$0.9 and \$0.8, and \$1.8 and \$1.6 for the three and six months ended June 30, 2018 and 2017, respectively. The prior year plan administrative expenses have been reclassified from the service cost component line to conform to the current year presentation.

We made contributions to our global postretirement plans of \$6.8 and \$6.4 during the six months ended June 30, 2018 and 2017, respectively. We expect to make contributions of approximately \$7 to \$11 during the remainder of 2018, principally related to our other postretirement employee benefit plans.

Amortization from accumulated other comprehensive income into earnings related to prior service cost and net actuarial loss was \$1.1 and \$1.2, and \$2.2 and \$2.3, net of tax, during the three and six months ended June 30, 2018 and 2017, respectively. No other reclassifications from accumulated other comprehensive income into earnings were recognized during any of the presented periods.

NOTE 16 LONG-TERM INCENTIVE EMPLOYEE COMPENSATION

Our long-term incentive plan (LTIP) costs are primarily recorded within general and administrative expenses. The following table provides the components of LTIP costs for the three and six months ended June 30, 2018 and 2017.

For the Periods Ended June 30	Three Months		Six Months	
	2018	2017	2018	2017
Equity-based awards	\$ 5.7	\$ 3.6	\$10.2	\$7.3
Liability-based awards	0.7	0.4	0.8	0.9
Total share-based compensation expense	\$ 6.4	\$ 4.0	\$11.0	\$8.2

At June 30, 2018, there was \$24.5 of total unrecognized compensation cost related to non-vested equity awards. This cost is expected to be recognized ratably over a weighted-average period of 2.2 years. Additionally, unrecognized compensation cost related to liability-based awards was \$4.0, which is expected to be recognized ratably over a weighted-average period of 2.1 years.

Year-to-Date 2018 LTIP Activity

The majority of our LTIP awards are granted during the first quarter of each year and vest on the completion of a three-year service period. During the six months ended June 30, 2018, we granted the following LTIP awards as provided in the table below:

	# of Awards Granted	Weighted Average Grant Date Fair Value Per Share
Restricted stock units (RSUs)	0.3	\$52.94
Performance stock units (PSUs)	0.1	\$57.15

During the six months ended June 30, 2018 and 2017, 0.2 and 0.3 non-qualified stock options were exercised resulting in proceeds of \$4.7 and \$6.5, respectively. During both the six months ended June 30, 2018 and 2017, RSUs of 0.2 vested and were issued, respectively. During the six months ended June 30, 2018, PSUs of 0.1 that vested on December 31, 2017 were issued. There were no PSUs that vested on December 31, 2016 because the minimum performance requirements were not met.

NOTE 17**CAPITAL STOCK**

On October 27, 2006, a three-year \$1 billion share repurchase program was approved by the Board of Directors (the Share Repurchase Program). On December 16, 2008, the provisions of the Share Repurchase Program were modified by the Board of Directors to replace the original three-year term with an indefinite term. During the six months ended June 30, 2018 and 2017, we repurchased and retired 1.0 and 0.8 shares of common stock for \$50.0 and \$30.0, respectively, under this program. To date, the Company has repurchased 22.1 shares for \$909.4 under the Share Repurchase Program.

Separate from the Share Repurchase Program, the Company repurchased 0.1 shares during both the six months ended June 30, 2018 and 2017, respectively, for an aggregate price of \$5.4 and \$2.8, respectively, in settlement of employee tax withholding obligations due upon the vesting of RSUs and PSUs.

NOTE 18**COMMITMENTS AND CONTINGENCIES**

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

Asbestos Matters

Subsidiaries of ITT, including ITT LLC and Goulds Pumps LLC, have been sued, along with many other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims generally allege that certain products sold by our subsidiaries prior to 1985 contained a part manufactured by a third party (*e.g.*, a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. As of June 30, 2018, there were approximately 25 thousand pending claims against ITT subsidiaries, including Goulds Pumps LLC, filed in various state and federal courts alleging injury as a result of exposure to asbestos. Activity related to these asserted asbestos claims during the period was as follows:

For the Six Months Ended June 30 (in thousands)	2018
Pending claims – Beginning	26
New claims	2
Settlements	—
Dismissals	(3)
Pending claims – Ending	25

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

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

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

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

Asbestos-Related Costs, Net

As part of our ongoing review of our net asbestos exposure, each quarter we assess the most recent qualitative and quantitative data available for the key inputs and assumptions, comparing the data to expectations on which the most recent annual liability and asset estimates were calculated. Based on this evaluation, the Company determined that no change in the estimate was warranted for the quarter ended June 30, 2018 other than the incremental accrual to maintain a rolling 10-year forecast period.

During the first quarter of 2018, we entered into a settlement agreement with an insurer to settle responsibility for multiple insurance claims. Under the terms of the coverage-in-place agreement, the insurer agreed to an upfront payment to a Qualified Settlement Fund (QSF) for past costs in addition to providing coverage for certain future asbestos claims on specified terms and conditions. Insurance payments under the coverage-in-place agreement will be made to a QSF as claims are settled or adjudicated.

The following table provides a rollforward of the estimated asbestos liability and related assets for the six months ended June 30, 2018 and 2017.

For the Six Months Ended June 30	2018			2017		
	Liability	Asset	Net	Liability	Asset	Net
Beginning balance	\$877.2	\$368.7	\$508.5	\$954.3	\$380.6	\$573.7
Asbestos provision	32.0	6.1	25.9	34.8	5.0	29.8
Insurance settlement agreements	—	32.1	(32.1)	—	—	—
Net cash activity	(50.4)	(19.6)	(30.8)	(46.5)	(15.8)	(30.7)
Ending balance	\$858.8	\$387.3	\$471.5	\$942.6	\$369.8	\$572.8
Current portion	\$77.2	\$64.7		\$76.6	\$66.0	
Noncurrent portion	\$781.6	\$322.6		\$866.0	\$303.8	

Environmental Matters

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 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 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 or remediation. These sites include instances where we have been identified as a potentially responsible party under federal and state environmental laws and regulations.

The following table provides a rollforward of the estimated environmental liability for the six months ended June 30, 2018 and 2017.

For the Six Months Ended June 30	2018	2017
Environmental liability - beginning balance	\$73.9	\$76.6
Change in estimates for pre-existing accruals	3.3	1.7
Accruals added during the period for new matters	2.0	—
Net cash activity	(12.2)	(5.3)
Foreign currency	0.1	0.1
Environmental liability - ending balance	\$67.1	\$73.1

We are currently involved with 33 active environmental investigation and remediation sites. At June 30, 2018, we have estimated the potential high-end liability range of environmental-related matters to be \$116.5.

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

Other Matters

The Company received a civil subpoena from the Department of Defense, Office of the Inspector General, in the second quarter of 2015 as part of an investigation being led by the Civil Division of the U.S. Department of Justice (DOJ). The subpoena and related investigation involve certain connector products manufactured by the Company's Connect & Control Technologies segment that are purchased or used by the U.S. government. In addition, in the third quarter of 2017, the Company learned that the Criminal Division of DOJ is also investigating this matter. The Company is cooperating with the government and has produced documents responsive to the subpoena to the Civil Division. Based on its current analysis following discussions with DOJ to resolve the civil matter, the Company has accrued \$5 as its current best estimate of the minimum amount of probable loss. It is reasonably possible that any actual loss related to this matter may be higher than this amount, but at this time management is unable to estimate a range of potential loss in excess of the amount accrued.

NOTE 19**ACQUISITIONS***Axtone Railway Components*

On January 26, 2017, we acquired 100% of the privately held stock of Axtone Railway Components (Axtone) for a purchase price of \$123.1, net of cash acquired. Axtone, which had 2016 revenue of approximately \$72, is a manufacturer of highly engineered and customized energy absorption solutions, including springs, buffers, and coupler components for the railway and industrial markets.

The final purchase price for Axtone is based on the net assets acquired and liabilities assumed as of January 26, 2017, with the excess of the purchase price of \$86 recorded as goodwill. The goodwill arising from this acquisition, which is not expected to be deductible for income tax purposes, has been assigned to the Motion Technologies segment.

Allocation of Purchase Price for Axtone

Cash	\$9.4
Receivables	11.5
Inventory	13.6
Plant, property and equipment	13.1
Goodwill	86.0
Other intangible assets	9.9
Other assets	5.5
Accounts payable and accrued liabilities	(15.2)
Postretirement liabilities	(4.2)
Other liabilities	(6.5)
Net assets acquired	\$123.1

Pro forma results of operations have not been presented because the acquisition was not deemed material at the acquisition date.

NOTE 20**SUBSEQUENT EVENTS**

On July 27, 2018, the Company completed the sale of excess property for a cash purchase price of \$41.0 and recorded a pre-tax gain of approximately \$40.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

ITT Inc. is a diversified manufacturer of highly engineered critical components and customized technology solutions for the transportation, industrial, and oil and gas markets. Building on our heritage of engineering, we partner with our customers to deliver enduring solutions to the key industries that underpin our modern way of life. We manufacture components that are integral to the operation of systems and manufacturing processes in our 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.

Our businesses share a common, repeatable operating model. Each business applies technology and engineering expertise to solve our customers' most pressing challenges. Our applied engineering aptitude enables a tight business fit with our customers given the critical nature of their applications. This in turn provides us with unique insight to our customer's requirements and enables us to develop solutions to assist our customers in achieving their business goals. Our technology and customer intimacy work in tandem to produce opportunities to capture long-lived original equipment manufacturer (OEM) platforms and aftermarket opportunities.

Our product and service offerings are organized into three segments: Industrial Process, Motion Technologies, and Connect & Control Technologies. See Note 3, Segment Information, in this Report for a summary description of each segment. Additional information is also available in our 2017 Annual Report within Part I, Item 1, "Description of Business".

All comparisons included within Management's Discussion and Analysis of Financial Condition and Results of Operations refer to the comparable three and six months ended June 30, 2017, unless stated otherwise.

DISCUSSION OF FINANCIAL RESULTS

Three and Six Months Ended June 30

For the Periods Ended June 30	Three Months				Six Months			
	2018	2017	Change		2018	2017	Change	
Revenue	\$696.8	\$630.9	10.4	%	\$1,386.1	\$1,256.7	10.3	%
Gross profit	226.0	205.0	10.2	%	450.2	408.1	10.3	%
<i>Gross margin</i>	32.4	%32.5	%(10	)bp	32.5	%32.5	%—	
Operating expenses	145.7	145.9	(0.1	%)	259.3	292.0	(11.2	%)
<i>Expense to revenue ratio</i>	20.9	%23.1	%(220	)bp	18.7	%23.2	%(450	)bp
Operating income	80.3	59.1	35.9	%	190.9	116.1	64.4	%
<i>Operating margin</i>	11.5	%9.4	%210	bp	13.8	%9.2	%460	bp
Interest and non-operating expenses, net	1.5	0.5	200.0	%	3.3	2.7	22.2	%
Income tax expense	8.9	10.6	(16.0	%)	16.5	19.7	(16.2	%)
<i>Effective tax rate</i>	11.3	%18.1	%(680	)bp	8.8	%17.4	%(860	)bp
Income from continuing operations attributable to ITT Inc.	69.7	47.9	45.5	%	170.8	94.0	81.7	%
(Loss) income from discontinued operations, net of tax	—	(0.1	)	(100.0%)	0.1	(0.2	)	150.0%
Net income attributable to ITT Inc.	69.7	47.8	45.8	%	170.9	93.8	82.2	%

Executive Summary

During the second quarter of 2018, our strong results reflect broad-based strength in end-markets and the progress we have made to improve operational execution across the organization. Sales volume growth, productivity gains and improved project performance drove a 230 basis point increase in segment operating margin and helped offset pressure from rising commodity costs. At Motion Technologies, we had several new automotive platform wins in the global OEM friction market, in addition to share gains in other key end-markets such as rotorcraft aftermarket and electric vehicle charging.

We also continue to deploy our capital in ways that fuel innovation and future growth. During the quarter, we ramped up production at our North American brake pad facility and continue to make investments in the development of the ITT Smart Pad. In addition, we are investing in a LEAN transformation of one of our key manufacturing facilities at our Industrial Process segment.

Our second quarter 2018 results include:

Revenue of \$696.8 increased \$65.9, or 10.4%, driven by the transportation end-markets on continued strength in OEM automotive brake pads, as well as solid growth in the aerospace and defense market. In addition, in the industrial end-market, strength in pumps used in the chemical market were partially offset by a decline in pumps from the oil and gas market due to difficult comparisons to prior year projects.

Organic revenue increased 6.9% compared to the prior year.

Orders of \$741.7 reflect a year-over-year increase of \$115.4, or 18.4%, due to projects in the oil and gas and chemical markets, as well as stronger activity for commercial aerospace components and connectors in the industrial and defense markets. In addition, continued share gains in global OEM automotive brake pads and electric vehicle connectors further contributed to the increase. Organic orders increased 14.7% compared to the prior year.

Operating income of \$80.3 increased \$21.2, or 35.9%, reflecting a 210 basis point increase to operating margin, due to an increase in segment operating income of \$24.6, or 30.1%. The increase in segment operating income was driven by higher sales volume at all segments, productivity improvements, and favorable impacts from foreign exchange impacts, partially offset by higher commodity costs and growth investments. Adjusted segment operating income increased \$19.0, or 21.3%. As a result of our operational improvements, coupled with higher sales volume, we were able to deliver a segment operating margin of 15.2%, which is a 230 basis point improvement compared to the previous year.

Income from continuing operations of \$0.79 per diluted share, increased \$0.25 over the prior year. Adjusted income from continuing operations was \$0.82 per diluted share, reflecting a \$0.17, or 26.2%, increase compared to the prior year.

Further details related to these results are contained elsewhere in the Discussion of Financial Results section. Refer to the section titled "Key Performance Indicators and Non-GAAP Measures" for reconciliations between GAAP and non-GAAP metrics.

REVENUE

For the Three Months Ended June 30	2018	2017	Change	Organic Revenue Growth ^(a)	
Industrial Process	\$203.2	\$192.3	5.7 %	5.3 %	%
Motion Technologies	330.3	290.1	13.9 %	7.1 %	%
Connect & Control Technologies	164.1	149.6	9.7 %	8.2 %	%
Eliminations	(0.8)	(1.1)	(27.3)%	—	
Revenue	\$696.8	\$630.9	10.4 %	6.9 %	%

For the Six Months Ended June 30	2018	2017	Change	Organic Revenue Growth ^(a)	
Industrial Process	\$393.0	\$378.4	3.9 %	2.6 %	%
Motion Technologies	672.5	577.4	16.5 %	5.8 %	%
Connect & Control Technologies	322.0	302.9	6.3 %	4.2 %	%
Eliminations	(1.4)	(2.0)	(30.0)%	—	
Revenue	\$1,386.1	\$1,256.7	10.3 %	4.5 %	%

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

Industrial Process

Revenue for the three and six months ended June 30, 2018 increased \$10.9, or 5.7%, and \$14.6, or 3.9%, respectively, which includes favorable foreign currency impacts of \$0.8 and \$4.8. Organic revenue during the three and six months ended June 30, 2018 increased \$10.1, or 5.3%, and \$9.8, or 2.6%, respectively. During the second quarter of 2018, the increase in organic revenue was driven primarily by a 14% increase in revenue from short-cycle baseline pumps due to stronger demand in the general industrial, chemical, and mining markets, as well as a 16% increase in industrial valves due to strength in the bio-pharmaceutical and chemical markets. In addition, aftermarket parts and service revenue increased 2%. These increases were partially offset by lower project pump revenue in the North American oil and gas market due to difficult comparisons in the prior year. During the six months ended June 30, 2018, the increase in organic revenue was primarily driven by a 4% increase in aftermarket parts and service, an 8% increase in industrial valves stemming from strength in the general industrial and chemical markets, and a 2% increase in short-cycle baseline pumps. Growth was partially offset by a 2% decline in project pump revenue resulting from weakness in prior year orders in the North American oil and gas market, partially offset by growth from global petrochemical projects.

Orders for the three and six months ended June 30, 2018 were \$237.4 and \$447.5, respectively, reflecting an increase of \$47.1, or 24.8%, and \$35.3, or 8.6%, which includes favorable foreign currency impacts of \$0.7 and \$5.2. Organic orders during the three and six months ended June 30, 2018 increased \$46.4, or 24.4%, and \$30.1, or 7.3%, respectively, driven by growth in each of our product categories. Organic orders for pump projects increased approximately 70% and 19%, for the quarter and year-to-date periods, respectively, driven by strength in the oil and gas and chemical markets. Short-cycle baseline pump organic orders increased approximately 10% and 5%, respectively, due to higher activity in Asia. Organic orders for valves increased approximately 28% and 17%, respectively, due to strength in North America and Asia. Aftermarket parts and service also contributed to the growth in orders during the second quarter increasing 9% compared to the prior year, but declined 1% during the six month period.

The level of order and shipment activity related to project pumps can vary significantly from period to period, which may impact year-over-year comparisons. Backlog as of June 30, 2018 was \$427.8, reflecting an increase of \$91.3, or 27.1%, from the December 31, 2017 level.

Motion Technologies

Revenue for the three months ended June 30, 2018 increased \$40.2, or 13.9%, which includes favorable foreign currency translation impacts of \$19.5. Revenue for the six months ended June 30, 2018 increased \$95.1, or 16.5%, which includes incremental revenue of \$5.5 from our January 2017 acquisition of Axtone and favorable foreign currency translation impacts of \$56.2. During the three and six months ended June 30, 2018, organic revenue increased \$20.7, or 7.1%, and \$33.4, or 5.8%, respectively, reflecting growth in automotive Friction of approximately

8% and 6%, respectively, due to share gains in OEM brake pads in China and North America. Organic revenue from our Wolverine business grew approximately 3% and 2%, respectively, due to stronger sales from brake shims. Organic revenue from our KONI-Axtone business increased approximately 5% and 4%, respectively, during the three and six months ended June 30, 2018 driven by the high-speed rail market in China and rail in Europe. Growth was partially offset by a decline in aftermarket brake pads of approximately 4% and 3% for the three and six months ended June 30, 2018, respectively, due to phasing and destocking in Europe.

Orders for the three months ended June 30, 2018 were \$327.6, reflecting an increase of \$38.7, or 13.4%, including favorable foreign currency translation impacts of \$20.7. Orders for the six months ended June 30, 2018 were \$697.5, reflecting an increase of \$121.3, or 21.1%, including incremental orders of \$17.7 from our January 2017 acquisition of Axtone and favorable foreign currency translation impacts of \$57.8. During the three and six months ended June 30, 2018, organic orders grew \$18.0, or 6.2%, and \$45.8, or 7.9%, respectively, reflecting continued strength in automotive OEM Friction brake pads. Orders to our Wolverine business increased approximately 3% in both periods due to strong order activity for aftermarket brake shims in Asia. In addition, KONI-Axtone orders in the second quarter of 2018 decreased approximately 3%, and increased approximately 13% during the first six months of 2018 due to timing for orders in the Eastern European rail market and the defense market in U.S. and Europe.

Connect & Control Technologies

Revenue for the three and six months ended June 30, 2018 increased \$14.5, or 9.7%, and \$19.1, or 6.3%, respectively, including favorable foreign currency translation impacts of \$2.3 and \$6.3. During the three and six months ended June 30, 2018, organic revenue increased \$12.2, or 8.2%, and \$12.8, or 4.2%, respectively. The increase in organic revenue in both periods was driven by sales growth in the aerospace and defense market of approximately 13% and 7%, respectively, stemming from commercial aerospace components, defense connectors and rotorcraft. In addition, continued strength in oil and gas connectors in the Middle East and U.S. drove revenue growth of 25% and 13% during the three and six months ended June 30, 2018, respectively. Revenue from the general industrial markets declined approximately 1% during the second quarter and was flat during the six month period as revenue growth from industrial connectors was offset by weaker process control components for the power and nuclear markets. Revenue in both prior year periods included unfavorable impacts from restrictions on the sales of certain military-specification connectors.

Orders for the three and six months ended June 30, 2018 were \$177.2 and \$359.0, respectively, reflecting an increase of \$29.4, or 19.9%, and \$48.8, or 15.7% versus the prior year, including favorable foreign currency translation impacts of \$2.1 and \$6.3. During the three and six months ended June 30, 2018, organic orders increased \$27.3, or 18.5%, and \$42.5, or 13.7%, respectively. The increase in both periods was driven by strong order activity in the aerospace and defense market which increased approximately 22% and 17%, respectively, compared to the prior year led by commercial aerospace components, platform wins in rotorcraft, and connectors used in defense applications. In addition, orders for oil and gas connectors increased 73% and 44%, respectively, due to strength in the Middle East and U.S. In the general industrial market, order activity increased 7% and 5%, respectively, due to continued momentum in the electric vehicle market and industrial connectors.

On July 11, 2017, the U.S. Defense Logistics Agency, Land and Maritime (DLA) issued a notice that it had removed our connectors business from the Qualified Products List (QPL) with respect to six military-specification connector products. At the time of this notice, these products had been subject to a previously-disclosed stop shipment/stop production order issued by DLA in the first quarter of 2017. Annual sales of these military-specification connectors are estimated to range from \$8 to \$10. The Company is making progress and seeking to restore its status on the QPL as expeditiously as possible, but is unable to estimate how long this process will take. At this time, there is uncertainty whether there will be any further negative impacts to our revenue and results of operations related to the QPL removal.

OTHER Tariffs

Recently, the U.S. government announced tariffs on manufactured goods imported from China related to Section 301 of the Trade Act of 1974 which may negatively impact certain products we sell in the U.S., including increasing the cost of certain parts and materials we purchase from China to include in our finished products. In addition, other countries have recently imposed tariffs or announced potential tariffs, which may impact our results and certain customers, markets or suppliers. Since announced, we have been managing the known impacts from these tariffs and will attempt to mitigate the potential tariff impacts and the impacts of higher input costs in 2018 through pricing and supply chain actions, efficient utilization of our global manufacturing footprint, and supplier negotiations

and diversification strategies. Tariffs and related impacts remain highly uncertain due to the current dynamic landscape. Therefore, we are unable to estimate the ultimate outcome tariffs will have on our results of operations, financial position and cash flows.

Russia Sanctions

The Department of Treasury recently implemented U.S. sanctions targeting certain Russian individuals and businesses. The impact of these sanctions on ITT's backlog has been minimal to date; however, we are unable to predict what impact these sanctions will have on any future business. The Company estimates its annual revenue which could be potentially impacted by these sanctions is up to \$15.

GROSS PROFIT

Gross profit for the three months ended June 30, 2018 and 2017 was \$226.0 and \$205.0, reflecting a gross margin of 32.4% and 32.5%, respectively. Gross profit for the six months ended June 30, 2018 and 2017 was \$450.2 and \$408.1, respectively, reflecting a gross margin of 32.5% during both periods. Productivity gains across all segments in 2018 were offset by unfavorable automotive pricing pressure and aftermarket sales mix as well as increased direct material costs due to higher commodity prices impacting our Motion Technologies and Connect & Control Technologies segments.

OPERATING EXPENSES

For the Periods Ended June 30	Three Months			Six Months		
	2018	2017	Change	2018	2017	Change
General and administrative expenses	\$63.0	\$64.6	(2.5)%	\$128.1	\$130.3	(1.7)%
Sales and marketing expenses	43.4	43.8	(0.9)%	86.9	86.9	—%
Research and development expenses	25.8	22.6	14.2%	50.5	45.0	12.2%
Asbestos-related costs (benefit), net	13.5	14.9	(9.4)%	(6.2)	29.8	(120.8)%
Total operating expenses	\$145.7	\$145.9	(0.1)%	\$259.3	\$292.0	(11.2)%
Total Operating Expenses By Segment:						
Industrial Process	\$40.4	\$41.4	(2.4)%	\$83.2	\$86.9	(4.3)%
Motion Technologies	45.7	41.0	11.5%	91.3	81.7	11.8%
Connect & Control Technologies	33.6	40.9	(17.8)%	67.6	78.0	(13.3)%
Corporate & Other	26.0	22.6	15.0%	17.2	45.4	(62.1)%

General and administrative (G&A) expenses for the three and six months ended June 30, 2018 decreased \$1.6, or 2.5%, and \$2.2, or 1.7%, respectively. The decrease in G&A expenses in both periods was primarily driven by a legal accrual of \$5 in the prior year, as well as favorable foreign currency impacts of \$4.1 and 3.4, and lower restructuring costs of \$0.5 and \$2.2, respectively. These benefits were partially offset by a \$3.8 environmental-related gain in the second quarter of 2017 and higher 2018 employee incentive compensation costs.

Sales and marketing expenses for the three months ended June 30, 2018 were flat compared to prior year. Higher overall selling and marketing costs of \$1.1 and \$2.8 during the three and six months ended June 30, 2018 at Motion Technologies associated with higher sales were offset by lower personnel costs at Industrial Process and lower commissions at Connect & Control Technologies. In addition, incremental costs of \$0.3 related to our acquisition of Axtone are included in the six months ended June 30, 2018.

Research and development expenses for the three and six months ended June 30, 2018 increased \$3.2, or 14.2%, and \$5.5, or 12.2%, primarily due to increased product development activities at our Motion Technologies operating segment.

Asbestos-related costs, net decreased \$1.4, or 9.4%, to \$13.5 during the three months ended June 30, 2018. During the six months ended June 30, 2018, we recorded an asbestos-related benefit of \$6.2 compared to asbestos-related costs of \$29.8 during the same period in 2017. The change during the six months ended June 30, 2018 was primarily due to a \$32.1 benefit from an insurance settlement recorded in the first quarter of 2018. See Note 18, Commitments and Contingencies, to the Consolidated Condensed Financial Statements for further information.

OPERATING INCOME

For the Periods Ended June 30	Three Months			Six Months		
	2018	2017	Change	2018	2017	Change
Industrial Process	\$23.4	\$15.3	52.9 %	\$40.3	\$23.4	72.2 %
Motion Technologies	55.5	52.1	6.5 %	117.4	107.1	9.6 %
Connect & Control Technologies	27.3	14.2	92.3 %	50.3	30.9	62.8 %
Segment operating income	106.2	81.6	30.1 %	208.0	161.4	28.9 %
Asbestos-related (costs) benefit, net	(13.5)	(14.9)	9.4 %	6.2	(29.8)	120.8 %
Other corporate costs	(12.4)	(7.6)	(63.2)%	(23.3)	(15.5)	(50.3) %
Total corporate and asbestos-related (costs) benefit	(25.9)	(22.5)	(15.1)%	(17.1)	(45.3)	62.3 %
Total operating income	\$80.3	\$59.1	35.9 %	\$190.9	\$116.1	64.4 %
Operating margin:						
Industrial Process	11.5 %	8.0 %	350 bp	10.3 %	6.2 %	410 bp
Motion Technologies	16.8 %	18.0 %	(120)bp	17.5 %	18.5 %	(100)bp
Connect & Control Technologies	16.6 %	9.5 %	710 bp	15.6 %	10.2 %	540 bp
Segment operating margin	15.2 %	12.9 %	230 bp	15.0 %	12.8 %	220 bp
Consolidated operating margin	11.5 %	9.4 %	210 bp	13.8 %	9.2 %	460 bp

Industrial Process operating income increased \$8.1, or 52.9%, and \$16.9, or 72.2%, during the three and six months ended June 30, 2018, respectively. Operating margin increased 350 basis points to 11.5% and 410 basis points to 10.3% for the three and six months ended June 30, 2018, respectively. The increase during both periods was primarily driven by benefits of approximately \$5 and \$7, respectively, from favorable volume, sales mix and pricing, as well as improved project execution. In addition, net savings of \$3 and \$6, respectively, from past restructuring, productivity and sourcing initiatives, and lower restructuring costs of \$0.5 and \$1.7, respectively, were partially offset by higher incentive compensation costs and higher strategic investment costs in lean initiatives. During the six months ended June 30, 2018, favorable foreign currency impacts were approximately \$1.

Motion Technologies operating income increased \$3.4, or 6.5% and \$10.3, or 9.6% for the three and six months ended June 30, 2018, respectively. Operating margin for the three and six months ended June 30, 2018 decreased 120 basis points to 16.8% and 100 basis points to 17.5%, respectively. The increase in operating income in both periods reflects benefits from higher sales volumes of approximately \$7 and \$12, respectively, favorable foreign currency impacts of approximately \$9 and \$18, respectively, and savings from productivity and sourcing initiatives. Partially offsetting the increase were higher commodity costs, price pressures, unfavorable aftermarket sales mix, and incremental investments to support new product developments and recent long-term global automotive platform wins.

Connect & Control Technologies operating income increased \$13.1, or 92.3%, and \$19.4, or 62.8% for the three and six months ended June 30, 2018, respectively. Operating margin increased 710 basis points to 16.6% and 540 basis points to 15.6% for the three and six months ended June 30, 2018, respectively. The increase in operating income for both periods reflects net operating productivity benefits of approximately \$4 and \$8, respectively, benefits from higher sales volume of approximately \$2 for both periods, partially offset by material cost headwinds and higher incentive compensation costs. In addition, prior year results include unfavorable impacts from certain military-specification connectors of approximately \$4 and a legal reserve of \$5.

Other corporate costs for the three and six months ended June 30, 2018 increased \$4.8 and \$7.8, respectively, driven by a \$3.8 environmental-related gain in 2017 as well as higher incentive compensation costs. These items were partially offset by favorable foreign currency impacts in both periods. In addition, during the six months ended June 30, 2018, restructuring costs decreased \$0.6.

INTEREST AND NON-OPERATING INCOME AND EXPENSES, NET

During the three months ended June 30, 2018 and 2017, we recognized net interest and non-operating expenses of \$1.5 and \$0.5, respectively. During the six months ended June 30, 2018 and 2017, we recognized net interest and non-operating expenses of \$3.3 and \$2.7, respectively. The increase in both periods was driven by interest income in the prior year associated with uncertain tax positions. During the six month period, the increase was partially offset by higher earnings in the current year from our ownership of companies accounted for under the equity method.

INCOME TAX EXPENSE

For the three months ended June 30, 2018 and 2017, the Company recognized income tax expense of \$8.9 and \$10.6 and had an effective tax rate of 11.3% and 18.1%, respectively. For the six months ended June 30, 2018 and 2017, the Company recognized income tax expense of \$16.5 and \$19.7 and had an effective tax rate of 8.8% and 17.4%, respectively. The lower effective tax rate in 2018 is primarily due to tax benefits of \$21.6 from the reversal of a valuation allowance on German deferred tax assets and \$4.5 from a reduction to the provisional one-time tax charge associated with the 2017 U.S. tax reform.

Our effective tax rate in 2018 includes the impact of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") that was approved by Congress on December 20, 2017 and signed into law by the U.S. President on December 22, 2017. The Tax Act significantly changes the U.S. corporate income tax rules most of which are effective January 1, 2018. On December 22, 2017 the SEC issued guidance under Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act and therefore records provisional amounts under the Tax Act. The ultimate impact of the Tax Act may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions a company has made, additional regulatory guidance that may be issued, and actions a company may take as a result of the Tax Act.

The Tax Act imposed a one-time tax on accumulated earnings of foreign subsidiaries as of December 31, 2017. In its 2017 financial statements, the Company recognized the provisional tax impacts resulting from the Tax Act. The Company has updated the provisional one-time tax amount to \$53.5 as compared to \$58 reported in December 31, 2017 financial statements.

The Tax Act limits the deductibility of compensation for certain senior officers. The Company has determined that certain deferred tax assets associated with officer compensation may not be deductible. The Company has therefore written off a provisional amount of \$2.8 of deferred tax assets relating to such compensation.

The Tax Act adopts a new rule "Global Intangible Low Taxed Income" (GILTI) that requires certain income of controlled foreign corporations to be subject to U.S. taxation. We are allowed under ASC 740 to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred or (2) factoring such amounts into the Company's measurement of its deferred taxes. Because of the complexity of these rules, and anticipated guidance from U.S. Treasury, we will continue to evaluate the impact on the Company's financial statements.

Therefore, we have not recorded any deferred taxes related to GILTI and have not made a policy decision regarding whether to record deferred taxes on GILTI.

LIQUIDITY

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 or our Revolving Credit Agreement. 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 our 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. The passage of the U.S. Tax Act will allow us greater flexibility around our global cash management strategy related to the amount and timing of transfers, and we will continue to support growth and expand in markets outside of the U.S. through the development of products, increased capital spending, and potentially the acquisition of foreign businesses. In connection with the Tax Act, we have estimated and updated a one-time U.S. provisional tax expense of \$53.5 on existing post-1986 foreign earnings and potential future distributions of such earnings to the U.S., however we expect that existing foreign tax credits, research and development tax credits, and net operating losses will offset most of this tax liability. Accordingly, we expect the net cash outflow resulting from this tax liability will be approximately \$15. Net cash distributions from foreign countries amounted to \$304.1 for the six months ended June 30, 2018 and \$111.8 for the year ended December 31, 2017. The timing and amount of any additional future distributions 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 of Directors deems relevant. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future. In the second quarter of 2018, we declared a dividend of \$0.134 per share for shareholders of record on June 11, 2018, which was paid on July 2, 2018. The dividend declared in the second quarter of 2018 is a 4.7% increase from the second quarter of 2017. During the six months ended June 30, 2018 and 2017, we repurchased and retired 1.0 and 0.8 shares of common stock for \$50 and \$30, respectively, under our \$1 billion share repurchase program. To date, under the program, the Company has repurchased 22.1 shares for \$909.4.

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 have access to the commercial paper market through programs in place in the U.S. and, beginning in the second quarter of 2018, Europe to supplement the cash flows generated internally and 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 it is cost effective to do so. As of June 30, 2018, we had no outstanding commercial paper. The average outstanding commercial paper balance during the six months ended June 30, 2018 was \$78.5. There have been no other material changes that have impacted our funding and liquidity capabilities since December 31, 2017.

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. The provisions of the Revolving Credit Agreement require that we maintain an interest coverage ratio, as defined therein, of at least 3.0 and a leverage ratio, as defined therein, of not more than 3.0. Outstanding borrowings of \$209.6 under our Revolving Credit Agreement as of June 30, 2018 were denominated in Euros, and our interest coverage ratio and leverage ratio were within the prescribed thresholds. In the event of certain ratings downgrades of the Company, to a level below investment grade, the direct and indirect significant U.S. subsidiaries of the Company would be required to guarantee the obligations under the Revolving Credit Agreement. The Revolving Credit Agreement matures in November 2021. In the second quarter of 2018, we revised our existing Revolving Credit Agreement to allow additional access to commercial paper markets in Europe.

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 from continuing operations, as well as net cash from discontinued operations, for the six months ended June 30, 2018 and 2017.

For the Six Months Ended June 30	2018	2017
Operating activities	\$119.3	\$92.6
Investing activities	(45.4)	(164.5)
Financing activities	(4.1)	(47.9)
Foreign exchange	(8.6)	15.3
Total net cash flow provided by (used in) continuing operations	61.2	(104.5)
Net cash used in discontinued operations	(1.4)	(0.9)
Net change in cash and cash equivalents	\$59.8	\$(105.4)

Net cash provided by operating activities was \$119.3 for the six months ended June 30, 2018 compared to \$92.6 for the six months ended June 30, 2017. The change in net cash provided by operating activities primarily reflects an increase in segment operating income of approximately \$51, after adjustments for non-cash charges, such as depreciation and amortization. In addition, net proceeds of \$16.9 from an insurance-related settlement during the six months ended June 30, 2018 were partially offset by higher incentive compensation and environmental payments in 2018, as well as unfavorable changes in working capital.

Net cash used by investing activities was \$45.4 for the six months ended June 30, 2018, compared to \$164.5 of cash used by investing activities during the same prior year period. The year-over-year decrease reflects the 2017 purchase of Axtone for \$113.7 (net of cash acquired), as well as lower capital expenditures which decreased \$7.0 primarily due to capacity expansion projects in the prior year.

Net cash used by financing activities was \$4.1 for the six months ended June 30, 2018 compared to \$47.9 for the six months ended June 30, 2017. The change was primarily driven by an increase in net borrowings of \$68.8, partially offset by an increase of \$20 in repurchases of ITT common stock as part of our Share Repurchase Plan. In addition, proceeds from employee stock option exercises declined by \$1.8.

Net cash used by discontinued operations was \$1.4 for the six months ended June 30, 2018 compared to net cash used by discontinued operation for the six months ended June 30, 2017 of \$0.9. The increase was primarily driven by higher payments for environmental remediation activities.

Asbestos

Based on the estimated undiscounted asbestos liability as of June 30, 2018 for claims filed or estimated to be filed over the next 10 years, we have estimated that we will be able to recover approximately 45% of the asbestos indemnity and defense costs from our insurers. Actual insurance reimbursements may vary significantly from period to period and the anticipated recovery rate is expected to decline over time due to gaps in our insurance coverage, reflecting uninsured periods, the insolvency of certain insurers, prior settlements with our insurers and our expectation that certain insurance policies will exhaust within the next 10 years. In the 10th year of our estimate, our insurance recoveries are currently projected to be approximately 18%. 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.

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 June 30, 2018.

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 2031.

Although asbestos cash outflows can vary significantly from year to year, our current net cash outflows for defense and indemnity, net of tax benefits, are projected to average \$20 to \$30 over the next five years and increase to an average of approximately \$35 to \$45 per year over the remainder of the projection period. Net cash outflows for defense and indemnity, net of tax, averaged \$16 over the past three annual periods. Total net asbestos cash outflows also include certain administrative costs such as legal related costs for insurance asset recoveries.

In light of the variables and uncertainties 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 2028.

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.

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 financial measures. In addition, we consider certain other 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 other 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 currentⁿ 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 three and six months ended June 30, 2018 are provided below.

Three Months Ended June 30	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total ITT
2018 Revenue	\$203.2	\$330.3	\$164.1	\$ (0.8)	\$696.8
Foreign currency translation	(0.8)	(19.5)	(2.3)	0.1	(22.5)
2018 Organic revenue	\$202.4	\$310.8	\$161.8	\$ (0.7)	\$674.3
2017 Revenue	\$192.3	\$290.1	\$149.6	\$ (1.1)	\$630.9
Organic growth	10.1	20.7	12.2	0.4	43.4
Percentage change	5.3 %	7.1 %	8.2 %		6.9 %

Six Months Ended June 30	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total ITT
2018 Revenue	\$393.0	\$672.5	\$322.0	\$ (1.4)	\$1,386.1
(Acquisitions)/divestitures, net	—	(5.5)	—	—	(5.5)
Foreign currency translation	(4.8)	(56.2)	(6.3)	0.1	(67.2)
2018 Organic revenue	\$388.2	\$610.8	\$315.7	\$ (1.3)	\$1,313.4
2017 Revenue	\$378.4	\$577.4	\$302.9	\$ (2.0)	\$1,256.7
Organic growth	9.8	33.4	12.8	0.7	56.7
Percentage change	2.6 %	5.8 %	4.2 %		4.5 %

Reconciliations of organic orders for the three and six months ended June 30, 2018 are provided below:

Three Months Ended June 30	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total ITT
2018 Orders	\$237.4	\$327.6	\$177.2	\$ (0.5)	\$741.7
Foreign currency translation	(0.7)	(20.7)	(2.1)	0.1	(23.4)
2018 Organic orders	\$236.7	\$306.9	\$175.1	\$ (0.4)	\$718.3
2017 Orders	\$190.3	\$288.9	\$147.8	\$ (0.7)	\$626.3
Organic growth	46.4	18.0	27.3	0.3	92.0
Percentage change	24.4 %	6.2 %	18.5 %		14.7 %

Six Months Ended June 30	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total ITT
2018 Orders	\$447.5	\$697.5	\$359.0	\$ (1.1)	\$1,502.9
(Acquisitions)/divestitures, net	—	(17.7)	—	—	(17.7)
Foreign currency translation	(5.2)	(57.8)	(6.3)	—	(69.3)
2018 Organic orders	\$442.3	\$622.0	\$352.7	\$ (1.1)	\$1,415.9
2017 Orders	\$412.2	\$576.2	\$310.2	\$ (1.7)	\$1,296.9
Organic growth	30.1	45.8	42.5	0.6	119.0
Percentage change	7.3 %	7.9 %	13.7 %		9.2 %

"adjusted segment operating income" is defined as operating income, adjusted to exclude special items that include, but are not limited to, restructuring costs, realignment costs, certain asset impairment charges, certain acquisition-related expenses, and unusual or infrequent operating items. Special items represent non-significant charges or credits that impact current results, which management views as unrelated to the Company's ongoing operations and performance. We believe that adjusted segment operating income is useful to investors and other users of our financial statements in evaluating ongoing operating profitability, as well as in evaluating operating performance in relation to our competitors.

Reconciliations of segment operating income to adjusted segment operating income for the three and six months ended June 30, 2018 and 2017 are provided below.

Three Months Ended June 30, 2018	Industrial Process	Motion Technologies	Connect & Control Technologies	Total Segment
Segment operating income	\$23.4	\$ 55.5	\$ 27.3	\$106.2
Restructuring costs	(0.1)	0.9	0.4	1.2
Acquisition-related expenses	—	0.9	—	0.9
Adjusted segment operating income	\$23.3	\$ 57.3	\$ 27.7	\$108.3

Six Months Ended June 30, 2018				
Segment operating income	\$40.3	\$ 117.4	\$ 50.3	\$208.0
Restructuring costs	—	1.3	0.8	2.1
Acquisition-related expenses	—	1.5	—	1.5
Adjusted segment operating income	\$40.3	\$ 120.2	\$ 51.1	\$211.6

Three Months Ended June 30, 2017	Industrial Process	Motion Technologies	Connect & Control Technologies	Total Segment
Segment operating income	\$15.3	\$ 52.1	\$ 14.2	\$81.6
Restructuring costs	0.4	0.6	0.7	1.7
Acquisition-related expenses	—	0.1	—	0.1
Realignment costs and other ^(a)	(0.3)	—	6.2	5.9
Adjusted segment operating income	\$15.4	\$ 52.8	\$ 21.1	\$89.3

Six Months Ended June 30, 2017				
Segment operating income	\$23.4	\$ 107.1	\$ 30.9	\$161.4
Restructuring costs	1.7	0.8	1.2	3.7
Acquisition-related expenses	—	0.8	—	0.8
Realignment costs and other ^(a)	1.1	—	7.3	8.4
Adjusted segment operating income	\$26.2	\$ 108.7	\$ 39.4	\$174.3

Realignment costs and other in 2017 primarily reflect a legal accrual of \$5 and costs associated with an action to move certain production lines in our Connect & Control Technologies segment, and costs associated with a management reorganization at our Industrial Process segment in the first quarter of 2017.

"adjusted income from continuing operations" and "adjusted income from continuing operations per diluted share" are defined as income from continuing operations attributable to ITT Inc. and income from continuing operations attributable to ITT Inc. per diluted share, adjusted to exclude special items that include, but are not limited to, asbestos-related costs, restructuring costs, realignment costs, certain asset impairment charges, certain acquisition-related expenses, income tax settlements or adjustments, and unusual or infrequent non-operating items. Special items represent significant charges or credits, on an after-tax basis, that impact current results, which management views as unrelated to the Company's ongoing operations and performance. The after-tax basis of each special item is determined using the jurisdictional tax rate of where the expense or benefit occurred.

We believe that adjusted income from continuing operations is useful to investors and other users of our financial statements in evaluating ongoing operating profitability, as well as in evaluating operating performance in relation to our competitors.

A reconciliation of adjusted income from continuing operations, including adjusted income from continuing operations per diluted share, is provided below.

For the Periods Ended June 30	Three Months		Six Months	
	2018	2017	2018	2017
Income from continuing operations attributable to ITT Inc.	\$69.7	\$47.9	\$170.8	\$94.0
Net asbestos-related costs (benefit), net of tax (benefit) expense of (\$3.1), (\$5.5), \$1.5 and (\$11.0), respectively	10.4	9.4	(4.7)	18.8
Restructuring costs, net of tax benefit of \$0.2, \$0.4, \$0.4 and \$1.3, respectively	1.0	1.3	1.7	3.0
Realignment (benefit) costs, net of tax expense (benefit) of \$0.1, (\$1.0), \$0.1 and (\$2.7), respectively ^(a)	(0.2)	1.9	(0.4)	4.8
Tax-related special items ^(b)	(9.0)	(3.2)	(27.2)	(6.3)
Acquisition-related costs, net of tax benefit of \$0.3, \$0.0, \$0.4 and \$0.3, respectively	0.6	0.1	1.1	0.5
Other unusual or infrequent items, net of tax expense of \$0.0 \$1.4, \$0.0 and \$1.4, respectively ^(c)	(0.1)	0.5	(0.1)	0.5
Adjusted income from continuing operations attributable to ITT Inc.	\$72.4	\$57.9	\$141.2	\$115.3
Income from continuing operations attributable to ITT Inc. per diluted share	\$0.79	\$0.54	\$1.93	\$1.05
Adjusted income from continuing operations attributable to ITT Inc. per diluted share	\$0.82	\$0.65	\$1.59	\$1.29

(a) Realignment cost (benefit) for all periods primarily relate to our sale of excess property. Realignment costs in 2017 also include costs associated with a management reorganization at our Industrial Process segment in the first quarter of 2017, and costs associated with an action to move certain production lines in our Connect & Control Technologies segment.

(b) Tax-related special items during the second quarter of 2018 primarily relate to a tax benefit on undistributed foreign earnings. Tax-related special items during the six months ended June 30, 2018 are due to the release of a valuation allowance on deferred tax assets in Germany and adjustments to our provisional tax estimate associated with the Tax Act. Tax-related special items for the three and six months ended June 30, 2017 primarily relate to a tax benefit on undistributed foreign earnings and tax benefits on uncertain tax positions, offset by tax expense related to the distribution of foreign earnings.

(c) Other unusual or infrequent items in 2017 primarily consist of a legal accrual of \$5, income of \$3.8 related to an amendment to the environmental QSF and interest income from the reversal of uncertain tax position taken in prior years.

"adjusted free cash flow" is defined as net cash provided by operating activities less capital expenditures, adjusted for cash payments for restructuring costs, realignment actions, net asbestos cash flows and other significant items that impact current results which management views as unrelated to the Company's ongoing operations and performance. Due to other financial obligations and commitments, including asbestos expenses, the entire free cash flow may not be available for discretionary purposes. We believe that adjusted free cash flow provides useful information to investors as it provides insight into the primary cash flow metric used by management to monitor and evaluate cash flows generated by our operations. A reconciliation of adjusted free cash flow is provided below.

For the Six Months Ended June 30	2018	2017
Net cash provided by operating activities	\$119.3	\$92.6
Capital expenditures	(46.3)	(53.3)
Insurance settlement agreement, net	(16.9)	—
Net asbestos cash flows	30.8	30.7
Restructuring cash payments	4.2	8.8
Other ^(a)	(0.1)	6.2
Adjusted free cash flow	\$91.0	\$85.0

(a) Other primarily relates to the sale of excess property in both periods.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Consolidated Condensed Financial Statements for information on recent accounting pronouncements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of ITT's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. ITT believes the most complex and sensitive judgments, because of their significance to the Consolidated Condensed Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2017 Annual Report describes the critical accounting estimates that are used in the preparation of the Consolidated Condensed Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes, other than those described below, concerning ITT's critical accounting estimates as described in our 2017 Annual Report.

Revenue Recognition

Revenue is derived from the sale of products and services to customers. We recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. For product sales, other than certain long-term construction and production type contracts where we have no alternative use for the product and have an enforceable right to payment, we recognize revenue at the time control passes to the customer, generally when products are shipped and the contractual terms have been fulfilled.

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

For contracts recognized at a point in time, provisions for estimated losses, if any, on uncompleted arrangements, are recognized in the period in which such losses are determined. These estimates are subject to uncertainties and require significant judgment and may consider historical performance, the complexity of the work to be performed, the estimated time to complete the project, and other economic factors such as inflation.

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

Warranty accruals are established using historical information on the nature, frequency and average cost of warranty claims and estimates of future costs. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. While we engage in extensive product quality programs and processes, we base our estimated warranty obligation on product warranty terms offered to customers, ongoing product failure rates, materials

usage, service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of our baseline experience and associated overhead costs. If actual product failure rates, repair rates or any other post-sales support costs differ from these estimates, revisions to the estimated warranty liability would be required.

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For certain highly complex contracts, design, engineering and other preproduction costs may be capitalized if the costs relate directly to a contract or anticipated contract that the entity can specifically identify, the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future and the costs are expected to be recovered. In addition to direct labor and materials to fulfill a contract or anticipated contract, we exercise judgment in determining which costs are allocated, including allocations of contract management and depreciation of tooling used to fulfill the contract. Additionally, overall contract profitability is estimated in determining cost recoverability.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Effective July 1, 2018, Argentina was determined to be a highly inflationary economy and we have changed the functional currency of our operations in Argentina to the U.S. dollar as a result. The impact of revaluing our monetary assets and liabilities is not expected to be material.

There has been no other material change in the information concerning market risk as stated in our 2017 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting during the last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues and commercial or contractual disputes and acquisitions or divestitures. Descriptions of certain legal proceedings to which the Company is a party are contained in Note 18, Commitments and Contingencies to the Consolidated Condensed Financial Statements included in Part I, Item 1 of this Report and are incorporated by reference herein. Such descriptions include the following recent developments:

Asbestos Proceedings

Subsidiaries of ITT, ITT LLC and Goulds Pumps LLC, are 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 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 variables and uncertainties inherent in the long-term projection of the Company's asbestos exposures and potential recoveries. As of June 30, 2018, we have recorded an undiscounted asbestos-related liability for pending claims and unasserted claims estimated to be filed over the next 10 years of \$858.8, including expected legal fees, and an associated asset of \$387.3 which represents estimated recoveries from insurers, resulting in a net asbestos exposure of \$471.5.

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 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 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 or remediation. These sites include instances where we have been identified as a potentially responsible party under federal and state environmental laws and regulations.

Other Matters

The Company received a civil subpoena from the Department of Defense, Office of the Inspector General, in the second quarter of 2015 as part of an investigation being led by the Civil Division of the U.S. Department of Justice (DOJ). The subpoena and related investigation involve certain connector products manufactured by the Company's Connect & Control Technologies segment that are purchased or used by the U.S. government. In addition, in the third quarter of 2017, the Company learned that the Criminal Division of DOJ is also investigating this matter. The Company is cooperating with the government and has produced documents responsive to the subpoena to the Civil Division. Based on its current analysis following discussions with DOJ to resolve the civil matter, the Company has accrued \$5 as its current best estimate of the minimum amount of probable loss. It is reasonably possible that any actual loss related to this matter may be higher than this amount, but at this time management is unable to estimate a range of

potential loss in excess of the amount accrued.

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ITEM 1A. RISK FACTORS

Reference is made to the risk factors set forth in Part I, Item 1A, "Risk Factors," of our 2017 Annual Report, which are incorporated by reference herein. There have been no material changes with regard to the risk factors disclosed in such report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Purchases of equity securities by the issuer and affiliated purchasers***

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS) PERIOD	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⁾
4/1/2018 - 4/30/2018	—	\$	—	\$ 90.6
5/1/2018 - 5/31/2018	—	\$	—	\$ 90.6
6/1/2018 - 6/30/2018	—	\$	—	\$ 90.6

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

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 June 30, 2018, we had repurchased 22.1 shares for \$909.4, including commissions, under the Share Repurchase

(2) 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

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

This disclosure is made pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 which added subsection (r) to Section 13 of the Exchange Act (Section 13(r)). Section 13(r) requires an issuer to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in certain activities, transactions or dealings relating to Iran. Disclosure of such activities, transactions or dealings is required even when conducted outside the United States by non-U.S. persons in compliance with applicable law, and whether or not such activities are sanctionable under U.S. law.

In its 2012 Annual Report, ITT described its acquisition of all the shares of Joh. Heinr. Bornemann GmbH (Bornemann) in November 2012, as well as certain activities of Bornemann in Iran and the wind down of those activities in accordance with a General License issued on December 26, 2012 (the General License) by the Office of Foreign Assets Control. As permitted by the General License, on or before March 8, 2013, Bornemann completed the wind-down activities and ceased all activities in Iran. As required to be disclosed by Section 13(r), the gross revenues and operating income to Bornemann from its Iranian activities subsequent to its acquisition by ITT were Euros 2.2 million and Euros 1.5 million, respectively. Prior to its acquisition by ITT, Bornemann issued a performance bond to its Iranian customer in the amount of Euros 1.3 million (the Bond). Bornemann requested that the Bond be canceled prior to March 8, 2013; however, the former customer refused this request and as a result the Bond remains outstanding. Bornemann did not receive gross revenues or operating income, or pay interest, with respect to the Bond in any subsequent periods through June 30, 2018, however, Bornemann did pay fees of approximately Euros 5 thousand during the six months ended June 30, 2018 and approximately Euros 11 thousand during 2017 to the German financial institution which is maintaining the Bond.

ITEM 6. EXHIBITS

EXHIBIT

NUMBER DESCRIPTION

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|--------|--|
| (10.1) | <u>Second Amendment to Five-Year Competitive Advance and Revolving Credit Facility Agreement, dated as of June 1, 2018, among ITT Inc. and the lenders party thereto</u> |
| (31.1) | <u>Certification pursuant to Rule 13a-14(a)/15d-14 (a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| (31.2) | <u>Certification pursuant to Rule 13a-14(a)/15d-14 (a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| (32.1) | <u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| (32.2) | <u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |

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|-------|--|
| (101) | The following materials from ITT Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Statements of Operations, (ii) Consolidated Condensed Statements of Comprehensive Income, (iii) Consolidated Condensed Balance Sheets, (iv) Consolidated Condensed Statements of Cash Flows, (v) Consolidated Condensed Statements of Changes in Shareholders' Equity, and (vi) Notes to Consolidated Condensed Financial Statements |
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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ITT Inc.

(Registrant)

By: /s/ STEVEN C. GIULIANO
Steven C. Giuliano
Vice President and Chief Accounting Officer
(Principal accounting officer)
August 3, 2018