

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6058(a) of the Internal Revenue Code (the Code). ► Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2012 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information
For calendar plan year 2012 or fiscal plan year beginning <u>01/01/2012</u> and ending <u>12/31/2012</u>	
A This return/report is for:	☐ a multiemployer plan; ☐ a multiple-employer plan; or ☒ a single-employer plan; ☐ a DFE (specify) ____
B This return/report is:	☐ the first return/report; ☐ the final return/report; ☐ an amended return/report; ☐ a short plan year return/report (less than 12 months).
C If the plan is a collectively-bargained plan, check here.	☐
D Check box if filing under:	☒ Form 5558; ☐ automatic extension; ☐ the DFVC program; ☐ special extension (enter description)

Part II	Basic Plan Information —enter all requested information				
1a Name of plan <u>EXELIS SALARIED RETIREMENT PLAN</u>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">1b Three-digit plan number (PN) ►</td> <td style="width: 20%; text-align: center;"><u>001</u></td> </tr> <tr> <td colspan="2">1c Effective date of plan <u>01/01/1929</u></td> </tr> </table>	1b Three-digit plan number (PN) ►	<u>001</u>	1c Effective date of plan <u>01/01/1929</u>	
1b Three-digit plan number (PN) ►	<u>001</u>				
1c Effective date of plan <u>01/01/1929</u>					
2a Plan sponsor's name and address; include room or suite number (employer, if for a single-employer plan) <u>EXELIS INC.</u> <u>1650 TYSONS BLVD.</u> <u>MCLEAN, VA 22102</u>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>2b Employer Identification Number (EIN) <u>45-2083813</u></td> </tr> <tr> <td>2c Sponsor's telephone number <u>703-790-6300</u></td> </tr> <tr> <td>2d Business code (see instructions) <u>333200</u></td> </tr> </table>	2b Employer Identification Number (EIN) <u>45-2083813</u>	2c Sponsor's telephone number <u>703-790-6300</u>	2d Business code (see instructions) <u>333200</u>	
2b Employer Identification Number (EIN) <u>45-2083813</u>					
2c Sponsor's telephone number <u>703-790-6300</u>					
2d Business code (see instructions) <u>333200</u>					

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature. Signature of plan administrator	<u>10/13/2013</u> Date	<u>WILLIAM BONK</u> Enter name of individual signing as plan administrator
SIGN HERE	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address; include room or suite number. (optional) <u>DELOITTE TAX LLP</u> <u>1633 BROADWAY</u> <u>NEW YORK, NY 10019</u>			Preparer's telephone number (optional) <u>212-492-3600</u>

3a Plan administrator's name and address ☐ Same as Plan Sponsor Name ☒ Same as Plan Sponsor Address BENEFITS ADMINISTRATION COMMITTEE EXELIS INC.		3b Administrator's EIN 45-2083813
		3c Administrator's telephone number
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name		4b EIN 4c PN
5 Total number of participants at the beginning of the plan year		5 55767
6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).		
a Active participants.....		6a 9974
b Retired or separated participants receiving benefits.....		6b 22453
c Other retired or separated participants entitled to future benefits.....		6c 17584
d Subtotal. Add lines 6a , 6b , and 6c		6d 50011
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.....		6e 3280
f Total. Add lines 6d and 6e		6f 53291
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item).....		6g
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested.....		6h 167
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)		7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 1A 1E 1G 3H		
b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:		
9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor		9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)		
a Pension Schedules (1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☒ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary		b General Schedules (1) ☒ H (Financial Information) (2) ☐ I (Financial Information – Small Plan) (3) ☐ A (Insurance Information) (4) ☐ C (Service Provider Information) (5) ☒ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)

SCHEDULE SB (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Single-Employer Defined Benefit Plan Actuarial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6059 of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500 or 5500-SF.	OMB No. 1210-0110 2012 This Form is Open to Public Inspection
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For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012

► **Round off amounts to nearest dollar.**

► **Caution:** A penalty of \$1,000 will be assessed for late filing of this report unless reasonable cause is established.

A Name of plan <u>EXELIS SALARIED RETIREMENT PLAN</u>	B Three-digit plan number (PN) ►	<u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 or 5500-SF <u>EXELIS INC.</u>	D Employer Identification Number (EIN) <u>45-2083813</u>	
E Type of plan: ☒ Single ☐ Multiple-A ☐ Multiple-B		
F Prior year plan size: ☐ 100 or fewer ☐ 101-500 ☒ More than 500		

Part I	Basic Information		
1	Enter the valuation date:	Month <u>01</u>	Day <u>01</u> Year <u>2012</u>
2	Assets:		
	a Market value	2a	<u>3659838757</u>
	b Actuarial value	2b	<u>3756258769</u>
3	Funding target/participant count breakdown:	(1) Number of participants	(2) Funding Target
	a For retired participants and beneficiaries receiving payment.....	3a	<u>24487</u> <u>2528210786</u>
	b For terminated vested participants.....	3b	<u>18179</u> <u>582380825</u>
	c For active participants:		
	(1) Non-vested benefits.....	3c(1)	<u>94278273</u>
	(2) Vested benefits.....	3c(2)	<u>802537985</u>
	(3) Total active	3c(3)	<u>13101</u> <u>896816258</u>
	d Total	3d	<u>55767</u> <u>4007407869</u>
4	If the plan is in at-risk status, check the box and complete lines (a) and (b)		
	a Funding target disregarding prescribed at-risk assumptions	4a	
	b Funding target reflecting at-risk assumptions, but disregarding transition rule for plans that have been in at-risk status for fewer than five consecutive years and disregarding loading factor	4b	
5	Effective interest rate	5	<u>6.95</u> %
6	Target normal cost.....	6	<u>56345923</u>

Statement by Enrolled Actuary

To the best of my knowledge, the information supplied in this schedule and accompanying schedules, statements and attachments, if any, is complete and accurate. Each prescribed assumption was applied in accordance with applicable law and regulations. In my opinion, each other assumption is reasonable (taking into account the experience of the plan and reasonable expectations) and such other assumptions, in combination, offer my best estimate of anticipated experience under the plan.

SIGN HERE	Signature of actuary <u>SCOT MARTIN</u> Type or print name of actuary <u>BUCK CONSULTANTS, LLC</u> Firm name <u>500 PLAZA DRIVE</u> <u>SECAUCUS, NJ 07096-1533</u> Address of the firm	<u>09/18/2013</u> Date <u>11-04380</u> Most recent enrollment number <u>201-902-2502</u> Telephone number (including area code)
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If the actuary has not fully reflected any regulation or ruling promulgated under the statute in completing this schedule, check the box and see instructions ☐

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500 or 5500-SF.

Schedule SB (Form 5500) 2012
v. 120126

Part II Beginning of Year Carryover Prefunding Balances		(a) Carryover balance	(b) Prefunding balance
7	Balance at beginning of prior year after applicable adjustments (line 13 from prior year)	70502747	3425673
8	Portion elected for use to offset prior year's funding requirement (line 35 from prior year)	70502747	3425673
9	Amount remaining (line 7 minus line 8)	0	0
10	Interest on line 9 using prior year's actual return of <u>-0.78%</u>		
11	Prior year's excess contributions to be added to prefunding balance:		
a	Present value of excess contributions (line 38a from prior year)		61851815
b	Interest on (a) using prior year's effective interest rate of <u>6.22%</u> except as otherwise provided (see instructions)		-482444
c	Total available at beginning of current plan year to add to prefunding balance		61369371
d	Portion of (c) to be added to prefunding balance		61369371
12	Other reductions in balances due to elections or deemed elections	0	41571489
13	Balance at beginning of current year (line 9 + line 10 + line 11d – line 12)	0	19797882

Part III Funding Percentages			
14	Funding target attainment percentage	14	93.23 %
15	Adjusted funding target attainment percentage	15	93.23 %
16	Prior year's funding percentage for purposes of determining whether carryover/prefunding balances may be used to reduce current year's funding requirement	16	81.69 %
17	If the current value of the assets of the plan is less than 70 percent of the funding target, enter such percentage	17	%

Part IV Contributions and Liquidity Shortfalls					
18 Contributions made to the plan for the plan year by employer(s) and employees:					
(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees	(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees
04/12/2012	59000000	0			
01/15/2013	26261000	0			
08/30/2013	17637000	0			
Totals ►			18(b)	102898000	18(c) 0

19	Discounted employer contributions – see instructions for small plan with a valuation date after the beginning of the year:	
a	Contributions allocated toward unpaid minimum required contributions from prior years.	19a 0
b	Contributions made to avoid restrictions adjusted to valuation date	19b 0
c	Contributions allocated toward minimum required contribution for current year adjusted to valuation date	19c 98174091
20	Quarterly contributions and liquidity shortfalls:	
a	Did the plan have a "funding shortfall" for the prior year?	☒ Yes ☐ No
b	If line 20a is "Yes," were required quarterly installments for the current year made in a timely manner?	☒ Yes ☐ No
c	If line 20a is "Yes," see instructions and complete the following table as applicable:	

Liquidity shortfall as of end of quarter of this plan year			
(1) 1st	(2) 2nd	(3) 3rd	(4) 4th
0		0	0

Part V Assumptions Used to Determine Funding Target and Target Normal Cost

21 Discount rate:				
a Segment rates:	1st segment: 5.54%	2nd segment: 6.85%	3rd segment: 7.52 %	☐ N/A, full yield curve used
b Applicable month (enter code).....				21b 4
22 Weighted average retirement age				22 62
23 Mortality table(s) (see instructions) ☐ Prescribed - combined ☒ Prescribed - separate ☐ Substitute				

Part VI Miscellaneous Items

24 Has a change been made in the non-prescribed actuarial assumptions for the current plan year? If "Yes," see instructions regarding required attachment.	☒ Yes ☐ No
25 Has a method change been made for the current plan year? If "Yes," see instructions regarding required attachment.	☐ Yes ☒ No
26 Is the plan required to provide a Schedule of Active Participants? If "Yes," see instructions regarding required attachment.....	☒ Yes ☐ No
27 If the plan is subject to alternative funding rules, enter applicable code and see instructions regarding attachment.....	27

Part VII Reconciliation of Unpaid Minimum Required Contributions For Prior Years

28 Unpaid minimum required contributions for all prior years	28	0
29 Discounted employer contributions allocated toward unpaid minimum required contributions from prior years (line 19a).....	29	0
30 Remaining amount of unpaid minimum required contributions (line 28 minus line 29)	30	0

Part VIII Minimum Required Contribution For Current Year

31 Target normal cost and excess assets (see instructions):			
a Target normal cost (line 6)	31a	56345923	
b Excess assets, if applicable, but not greater than line 31a	31b	0	
32 Amortization installments:			
a Net shortfall amortization installment	Outstanding Balance	Installment	
b Waiver amortization installment	270946982	61585093	
	0	0	
33 If a waiver has been approved for this plan year, enter the date of the ruling letter granting the approval (Month _____ Day _____ Year _____) and the waived amount	33		
34 Total funding requirement before reflecting carryover/prefunding balances (lines 31a - 31b + 32a + 32b - 33)...	34	117931016	
	Carryover balance	Prefunding balance	Total balance
35 Balances elected for use to offset funding requirement.....	0	19797882	19797882
36 Additional cash requirement (line 34 minus line 35)	36	98133134	
37 Contributions allocated toward minimum required contribution for current year adjusted to valuation date (line 19c)	37	98174091	
38 Present value of excess contributions for current year (see instructions)			
a Total (excess, if any, of line 37 over line 36)	38a	40957	
b Portion included in line 38a attributable to use of prefunding and funding standard carryover balances	38b	40957	
39 Unpaid minimum required contribution for current year (excess, if any, of line 36 over line 37)	39	0	
40 Unpaid minimum required contributions for all years.....	40	0	

Part IX Pension Funding Relief Under Pension Relief Act of 2010 (See Instructions)

41 If an election was made to use PRA 2010 funding relief for this plan:			
a Schedule elected	☐ 2 plus 7 years ☐ 15 years		
b Eligible plan year(s) for which the election in line 41a was made	☐ 2008 ☐ 2009 ☐ 2010 ☐ 2011		
42 Amount of acceleration adjustment	42		
43 Excess installment acceleration amount to be carried over to future plan years	43		

SCHEDULE D (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small>	DFE/Participating Plan Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ► File as an attachment to Form 5500.	OMB No. 1210-0110 2012 This Form is Open to Public Inspection.
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For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012

A Name of plan <u>EXELIS SALARIED RETIREMENT PLAN</u>	B Three-digit plan number (PN) ►	<u>001</u>
C Plan or DFE sponsor's name as shown on line 2a of Form 5500 <u>EXELIS INC.</u>	D Employer Identification Number (EIN) <u>45-2083813</u>	

Part I	Information on interests in MTIAs, CCTs, PSAs, and 103-12 IEs (to be completed by plans and DFEs) (Complete as many entries as needed to report all interests in DFEs)
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a Name of MTIA, CCT, PSA, or 103-12 IE: INV. MASTER TRUST OF EXELIS INC.

b Name of sponsor of entity listed in (a): EXELIS INC.

c EIN-PN <u>36-6668234-300</u>	d Entity code <u>M</u>	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) <u>4010231095</u>
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a Name of MTIA, CCT, PSA, or 103-12 IE:

b Name of sponsor of entity listed in (a):

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a Name of MTIA, CCT, PSA, or 103-12 IE:

b Name of sponsor of entity listed in (a):

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a Name of MTIA, CCT, PSA, or 103-12 IE:

b Name of sponsor of entity listed in (a):

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a Name of MTIA, CCT, PSA, or 103-12 IE:

b Name of sponsor of entity listed in (a):

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a Name of MTIA, CCT, PSA, or 103-12 IE:

b Name of sponsor of entity listed in (a):

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a Name of MTIA, CCT, PSA, or 103-12 IE:

b Name of sponsor of entity listed in (a):

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a Name of MTIA, CCT, PSA, or 103-12 IE:

a Name of MTIA, CCT, PSA, or 103-12 IE:**b** Name of sponsor of entity listed in (a):**c** EIN-PN**d** Entity
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code**e** Dollar value of interest in MTIA, CCT, PSA, or
103-12 IE at end of year (see instructions)

Part II Information on Participating Plans (to be completed by DFEs)

(Complete as many entries as needed to report all participating plans)

a Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
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plan sponsor**c** EIN-PN

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110 2012 This Form is Open to Public Inspection
For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012		
A Name of plan EXELIS SALARIED RETIREMENT PLAN	B Three-digit plan number (PN) ►	001
C Plan sponsor's name as shown on line 2a of Form 5500 EXELIS INC.	D Employer Identification Number (EIN) 45-2083813	

Part I	Asset and Liability Statement		(a) Beginning of Year	(b) End of Year
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.				
	Assets			
a Total noninterest-bearing cash	1a			
b Receivables (less allowance for doubtful accounts):				
(1) Employer contributions	1b(1)	190000000		43898000
(2) Participant contributions	1b(2)			
(3) Other	1b(3)			
c General investments:				
(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)			
(2) U.S. Government securities	1c(2)			
(3) Corporate debt instruments (other than employer securities):				
(A) Preferred	1c(3)(A)			
(B) All other	1c(3)(B)			
(4) Corporate stocks (other than employer securities):				
(A) Preferred	1c(4)(A)			
(B) Common	1c(4)(B)			
(5) Partnership/joint venture interests	1c(5)			
(6) Real estate (other than employer real property)	1c(6)			
(7) Loans (other than to participants)	1c(7)			
(8) Participant loans	1c(8)			
(9) Value of interest in common/collective trusts	1c(9)			
(10) Value of interest in pooled separate accounts	1c(10)			
(11) Value of interest in master trust investment accounts	1c(11)	3704695802		4010231095
(12) Value of interest in 103-12 investment entities	1c(12)			
(13) Value of interest in registered investment companies (e.g., mutual funds)	1c(13)			
(14) Value of funds held in insurance company general account (unallocated contracts)	1c(14)			
(15) Other	1c(15)			

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	3894695802	4054129095

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h	616320	191749
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	616320	191749

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	3894079482	4053937346
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income

		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	102898000	
(B) Participants	2a(1)(B)		
(C) Others (including rollovers)	2a(1)(C)		
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		102898000
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)		
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)		
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		0
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)		
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		0
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		392750198
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		
c Other income.....	2c		
d Total income. Add all income amounts in column (b) and enter total.....	2d		495648198

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	335790334	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3).....	2e(4)		335790334
f Corrective distributions (see instructions)	2f		
g Certain deemed distributions of participant loans (see instructions).....	2g		
h Interest expense.....	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines 2i(1) through (4).....	2i(5)		0
j Total expenses. Add all expense amounts in column (b) and enter total.....	2j		335790334

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d.....	2k		159857864
l Transfers of assets:			
(1) To this plan.....	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unqualified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? ☐ Yes ☒ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: **DELOITTE & TOUCHE LLP**

(2) EIN: **13-3891517**

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....

b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.).....

	Yes	No	Amount
4a		X	
4b		X	

	Yes	No	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.).....		X	
e Was this plan covered by a fidelity bond?.....	X		15000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.).....		X	
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.).....		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?.....		X	
l Has the plan failed to provide any benefit when due under the plan?		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.).....		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
 If "Yes," enter the amount of any plan assets that reverted to the employer this year..... ☐ Yes ☒ No Amount:

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)

5b(2) EIN(s)	5b(3) PN(s)

Part V Trust Information (optional)

6a Name of trust

6b Trust's EIN

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2012 This Form is Open to Public Inspection.
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For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012

A Name of plan <u>EXELIS SALARIED RETIREMENT PLAN</u>	B Three-digit plan number (PN) ▶ <u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>EXELIS INC.</u>	D Employer Identification Number (EIN) <u>45-2083813</u>

Part I	Distributions
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All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1	<u>0</u>
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): <u>36-3046063</u>		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3	<u>5916</u>

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
----------------	--

4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?.....	☐ Yes	☒ No	☐ N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived)	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	☐ Yes	☐ No	☐ N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?.....	☐ Yes	☐ No	☒ N/A

Part III	Amendments
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9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box.....	☐ Increase	☒ Decrease	☐ Both	☐ No
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Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
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10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?.....	☐ Yes	☐ No
11 a Does the ESOP hold any preferred stock?	☐ Yes	☐ No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.).....	☐ Yes	☐ No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	☐ Yes	☐ No

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

- 14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	14a	
b The plan year immediately preceding the current plan year	14b	
c The second preceding plan year	14c	

- 15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	15a	
b The corresponding number for the second preceding plan year	15b	

- 16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	16a	
b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	

- 17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

- 18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

- 19** If the total number of participants is 1,000 or more, complete lines (a) through (c)

- a** Enter the percentage of plan assets held as:

Stock: 62% Investment-Grade Debt: 0% High-Yield Debt: 0% Real Estate: 0% Other: 38%

- b** Provide the average duration of the combined investment-grade and high-yield debt:

☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☒ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

- c** What duration measure was used to calculate line 19(b)?

☐ Effective duration ☒ Macaulay duration ☐ Modified duration ☐ Other (specify):

Exelis Salaried Retirement Plan

Sponsor EIN: 45-2083813
Plan No.: 001

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
and Independent Auditors' Report

EXELIS SALARIED RETIREMENT PLAN

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NOTE: All supplemental schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.	

INDEPENDENT AUDITORS' REPORT

To the Trustees of and Participants in
the Exelis Salaried Retirement Plan:

We have audited the accompanying financial statements of the Exelis Salaried Retirement Plan (the "Plan"), which comprise the statements of net assets available for pension benefits as of December 31, 2012 and 2011, and the related statements of changes in net assets available for pension benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets available for pension benefits as of December 31, 2012, and the changes therein for the year then ended and its financial status as of December 31, 2011, and the changes therein for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 11, 2013

EXELIS SALARIED RETIREMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR PENSION BENEFITS AS OF DECEMBER 31, 2012 AND 2011 (In thousands)

	2012	2011
ASSETS:		
Investments, at fair value — Plan's interest in the Master Trust	\$3,765,924	\$3,472,235
Employer contribution receivable	43,898	190,000
Net assets held in 401(h) account	<u>244,307</u>	<u>232,461</u>
Total assets	<u>4,054,129</u>	<u>3,894,696</u>
LIABILITIES:		
Accrued expenses	192	616
Accounts related to obligations of 401(h) account	<u>244,307</u>	<u>232,461</u>
Total liabilities	<u>244,499</u>	<u>233,077</u>
NET ASSETS AVAILABLE FOR PENSION BENEFITS	<u>\$3,809,630</u>	<u>\$3,661,619</u>

See notes to financial statements.

EXELIS SALARIED RETIREMENT PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PENSION BENEFITS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (In thousands)

	2012	2011
ADDITIONS:		
Plan's interest in the Master Trust investment activity	\$ 395,219	\$ (28,182)
Employer contributions	<u>102,898</u>	<u>240,000</u>
Total additions	<u>498,117</u>	<u>211,818</u>
DEDUCTIONS:		
Benefits paid to participants	335,790	287,393
Administrative expenses	<u>14,316</u>	<u>8,481</u>
Total deductions	<u>350,106</u>	<u>295,874</u>
NET INCREASE (DECREASE)	148,011	(84,056)
NET ASSETS AVAILABLE FOR PENSION BENEFITS:		
Beginning of year	<u>3,661,619</u>	<u>3,745,675</u>
End of year	<u>\$3,809,630</u>	<u>\$3,661,619</u>

See notes to financial statements.

EXELIS SALARIED RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (In thousands)

1. DESCRIPTION OF THE PLAN

The following description of the Exelis Salaried Retirement Plan (formerly, the ITT Salaried Retirement Plan) (the “Plan”) is provided for general information purposes only. Participants should refer to the Plan document for a more complete information.

On October 31, 2011, ITT Corporation (ITT) completed the previously announced spin-off (the “Spin-off”) of Exelis Inc. (the “Company” or “Exelis” or the “Plan Sponsor”) and Xylem Inc. (“Xylem”), formerly ITT’s Defense and Information Solutions and Fluid Technology segments, respectively. Prior to October 31, 2011, ITT sponsored the Plan. The sponsorship of the Plan was transferred from ITT to the Company at Spin-off and the Company became the new sponsor of the Plan. The ITT Salaried Retirement Plan was renamed to the Exelis Salaried Retirement Plan. All assets in the Investment Master Trust of ITT Corporation related to plans that continued to be sponsored by ITT and Xylem after the Spin-off were transferred to the master trusts of ITT and Xylem, respectively.

General — The Plan is a defined benefit plan covering salaried employees of the Company. Retirement income is provided through a percentage formula using final average compensation, benefit service, and an adjustment for social security. A summary description of the Plan is contained in the summary plan description that has been distributed to participants. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Master Trust — Effective October 31, 2011, the Investment Master Trust of ITT Corporation was transferred from ITT to the Company and renamed to the Investment Master Trust of Exelis Inc. (formerly, the Investment Master Trust of ITT Corporation) (the “Master Trust”). Under a trust agreement dated July 1, 1977, The Northern Trust Company (the “Trustee” or “Northern Trust”) serves as trustee of the Plan and administers the Plan’s investment assets. The Plan’s assets consist of an undivided interest in an investment account of the Master Trust, EIN 36-6668234, a master trust established by the Company and administered by the Trustee. The Master Trust includes the combined assets of the Plan as well as several other employee benefit plans of the Company. Although assets of the Plan are commingled in the Master Trust, the Trustee maintains supporting records for the purpose of allocating the net gain (loss) of the investment account to the participating plans. The net investment income (loss) of the investment assets is allocated by the Trustee to each participating plan based on the relationship of the interest of each plan to the total of the interests of the participating plans. A schedule of the Master Trust assets has been filed with the U.S. Department of Labor and includes the Plan’s proportionate share of such assets at December 31, 2012 and 2011.

Eligibility — All Company salaried employees that were hired prior to October 1, 2011, by ITT are eligible to participate upon the completion of one year of service and who are at least age 21.

Pension Benefits — Participants are eligible for monthly benefit payments upon reaching age 65. The normal monthly benefit payments are determined by multiplication of the participant’s final average compensation by a benefit rate, which depends upon the period of credited service, by the total number of years of credited service, not to exceed 40 years, less applicable social security offset.

Participants are eligible to receive early retirement benefits between the ages of 55 and 65 upon the completion of 10 years of service. Early retirement benefits are computed in a manner similar to normal retirement at age 65, except that they are reduced by certain factors, as outlined in the Plan document, for each month that the early retirement date precedes the normal retirement date.

Death and Disability Benefits — A married employee who is a vested participant is automatically covered by the vested spouse's benefit that provides for spousal survivorship benefits in the event of the employee's death prior to becoming eligible for early or normal retirement benefits. Also, a participant who is eligible for early or normal retirement is automatically covered by a preretirement survivor's benefit that provides for survivorship benefits payable to the participant's named beneficiary in the event of the participant's death prior to benefit commencement date.

Plan Amendments — Effective October 1, 2011, salaried employees first hired at ITT and certain of its subsidiaries that participate in the Plan on or after October 1, 2011, as well as those employees first transferred to salaried status at the Company on or after October 1, 2011, shall not be eligible to become a member of the Plan on or after January 1, 2012.

Eligible employees were given a choice, effective January 1, 2012, to continue to accrue future benefits under the Plan or become eligible to receive enhanced employer contributions under the defined contribution plan, the Salaried Investment and Savings Plan. Employees that chose to receive enhanced employer contributions under the defined contribution plan ceased accruing benefits under this plan effective January 1, 2012, and their final compensation was frozen as of December 31, 2011.

Effective as of August 16, 2011, a participant's right to make an annual prospective choice under the Plan between the pension equity plan formula and the applicable traditional pension plan (TPP) formula shall cease with respect to benefit service accruals earned for Plan years beginning on and after January 1, 2012.

Participants who, as of October 31, 2011, remained an ITT employee or became a Xylem employee shall continue to be credited with eligibility service under the provisions of the Plan during the period of his or her employment with Xylem or ITT beginning on October 31, 2011, and ending on the earlier of (1) October 31, 2016, (2) the date he or she terminates employment (including the date of his or her death) with Xylem or ITT, and (3) the last day of the month preceding his or her annuity starting date with respect to the TPP portion of his or her Plan benefit; provided, however, that any compensation received by such employee on or after October 31, 2011, during this period of eligibility service shall not be recognized for purposes of determining such member's final average compensation under the Plan.

401(h) Account — The Plan includes a medical benefit (health and welfare) component, in addition to normal retirement benefits, to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC or the "Code"). A separate account has been established and maintained in the Plan for the net assets related to the health and welfare component ("401(h) Account"). In accordance with Section 401(h) of the Code, the Plan's investments in the 401(h) Account may not be used for, or diverted to, any purpose other than providing health and welfare benefits to retirees and participants. Any assets transferred to the 401(h) Account from the Plan in a qualified transfer of excess pension plan assets (and any income allocable thereto) that are not used during the Plan year must be transferred out of the account to the Plan. The related obligations for health and welfare benefits are not included in this Plan's actuarial present value of accumulated plan benefits, but are reflected as obligations in the financial statements of Exelis Salaried Medical and Dental Plan, the Company's health and welfare benefit plan. Plan participants do not contribute to the 401(h) Account. Employer contributions or qualified transfers to the 401(h) Account are determined annually at the discretion of the Plan Sponsor.

In December 2012, the 401(h) Account was segregated into two 401(h) subaccounts. One for the funding designated for retiree medical expenses and the other for retiree prescription drug expenses. The Company began drawing down funds from the 401(h) Account to pay for qualified retiree medical and prescription costs in December 2012, and anticipates continuing drawing funds from the 401(h) Account going forward.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein; disclosure of contingent assets and liabilities; and the actuarial present value of accumulated plan benefits and changes therein at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties — The Plan, through the Master Trust, utilizes various investment instruments, including common stock, U.S. government securities, corporate debt instruments, limited partnerships, collective trust funds, and registered investment companies. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment Valuation and Income Recognition — The Plan's interest in the Master Trust is presented at fair value, which has been determined based on the fair value of the underlying investments of the Master Trust. Fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for description of valuation methods.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits — Benefit payments to participants are recorded upon distribution.

Administrative Expenses — Administrative expenses of the Plan are paid by the Master Trust on behalf of the Plan, as provided in the Plan document and the Master Trust agreement. Administrative expenses generally consist of consulting fees, auditing fees, recordkeeping fees, and investment management fees. The Plan Sponsor provides accounting and other administrative services to the Plan and Master Trust at no charge.

New Accounting Standard:

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASU No. 2011-04 also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU No. 2011-04 provides guidance on measuring the fair value of financial

instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU No. 2011-04 requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The effect of the adoption of ASU No. 2011-04 had no impact on the Plan's statements of net assets available for pension benefits and statements of changes in net assets available for pension benefits.

3. FAIR VALUE MEASUREMENTS

ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows: Level 1, which refers to securities valued using unadjusted quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market, but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. The Plan's financial statements as of December 31, 2012, were prepared with actual reported values for all Level 3 assets. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Transfers between Levels — The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for pension benefits.

Asset Valuation Techniques — Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

- *Domestic and International Equity Funds* — which include common and preferred stocks, domestic-listed and foreign-listed equity securities, open-ended and closed-ended mutual funds, exchange-traded funds (registered investment companies), are generally valued at the closing price reported on the major market on which the individual securities are traded at the measurement date. Also included within this asset category are common/collective trusts (CCTs) composed of common and preferred shares. CCTs are arrangements in which the funds of individual trusts are pooled to avail themselves of professional investment management and achieve greater diversification of investment, stability of income, or other investment objectives. CCTs are reported at net asset value (NAV) as of the measurement date. Fair value is estimated based on the NAV practical expedient described below. CCTs investing in common and preferred shares are classified as Level 2.
- *Private Equity Funds* — which include buyout, mezzanine, venture capital, distressed asset, commodities, real estate, and venture capital, are typically limited partnership investment structures and/or joint ventures. Private equity valuations are based on the valuation of the underlying investments, which include inputs such as cost, operating results, discounted future cash flows, and market-based comparable data. Private equity funds were valued using audited financial statements provided by the fund manager. Limited partnerships are valued at fair value by using the NAVs provided by the general partners and are updated, if necessary, using analytical procedures, appraisals, public market data, and/or inquiry of the general partners. The NAVs are determined based upon the fair values of the underlying investments in the funds.

- *Fixed-Income Investments* — which include U.S. government securities, are generally valued using pricing models that use verifiable, observable market data such as interest rates, benchmark yield, bids provided by brokers or dealers, or quoted prices of securities with similar characteristics. Also included within this asset category are CCTs composed of corporate bonds. CCTs are arrangements in which the funds of individual trusts are pooled to avail themselves of professional investment management and achieve greater diversification of investment, stability of income, or other investment objectives. CCTs are reported NAV as of the measurement date. Fair value is estimated based on the NAV practical expedient described below. CCTs investing in debt are classified as Level 2.
- *Hedge Funds* — which include equity long/short, event driven, fixed-income arbitrage, and global macro, are typically limited partnership investment structures. Limited partnership interests in hedge funds are primarily valued using a market approach based on NAV calculated by the funds and are not publicly available. Hedge funds were valued using audited financial statements provided by substantially all of the fund managers. Hedge funds that permit redemption on a quarterly or more frequent basis with 90 or fewer days' notice are generally classified within Level 2 of the fair value hierarchy; all other hedge funds are classified as Level 3.
- *Other* — is primarily composed of guaranteed insurance contracts valued at book value, which approximates fair value, and is calculated using the prior-year balance adjusted for investment returns and changes in cash flows.
- *Cash and Cash Equivalents* — are primarily composed of short-term money market funds valued at cost, which approximates fair value, or valued at quoted market prices of identical instruments.

A summary of the Master Trust's investments measured at fair value on a recurring basis, set forth by level within the fair value hierarchy, at December 31, 2012 and 2011, is as follows:

	December 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset category:				
Domestic equity:				
Large cap	\$ 406,789	\$ -	\$ -	\$ 406,789
Mid cap	408,053	34,780		442,833
Small/micro cap	43,658	42,828		86,486
Subtotal — domestic equity	858,500	77,608	-	936,108
International equity	311,377	185,730		497,107
Private equity:				
Buyout funds			899,549	899,549
Mezzanine funds			42,460	42,460
Venture capital funds			88,835	88,835
Distressed asset investments			238,242	238,242
Commodities and real estate			67,721	67,721
Subtotal — private equity	-	-	1,336,807	1,336,807
Fixed-income investments:				
U.S. government securities		527,596		527,596
Corporate bonds		47,402		47,402
Subtotal — fixed-income investments	-	574,998	-	574,998
Hedge funds		236,850	526,279	763,129
Other	1,744		9,507	11,251
Cash and cash equivalents	19,051	176,511		195,562
Total	<u>\$ 1,190,672</u>	<u>\$ 1,251,697</u>	<u>\$ 1,872,593</u>	4,314,962
Receivable — net				<u>32,637</u>
Total fair value of Plan assets				<u>\$ 4,347,599</u>

	December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset category:				
Domestic equity:				
Large cap	\$ 329,774	\$ 34,691	\$ -	\$ 364,465
Mid cap	273,688	30,889		304,577
Small/micro cap	<u>176,838</u>	<u>52,166</u>		<u>229,004</u>
Subtotal — domestic equity	<u>780,300</u>	<u>117,746</u>	<u>-</u>	<u>898,046</u>
International equity	<u>273,493</u>	<u>236,807</u>		<u>510,300</u>
Private equity:				
Buyout funds		32,226	927,226	959,452
Mezzanine funds			35,449	35,449
Venture capital funds			79,186	79,186
Distressed asset investments		12,032	241,653	253,685
Commodities and real estate			<u>56,604</u>	<u>56,604</u>
Subtotal — private equity	<u>-</u>	<u>44,258</u>	<u>1,340,118</u>	<u>1,384,376</u>
Fixed-income investments —				
Corporate bonds		<u>41,585</u>		<u>41,585</u>
Subtotal — fixed-income investments	<u>-</u>	<u>41,585</u>	<u>-</u>	<u>41,585</u>
Hedge funds		<u>284,570</u>	<u>651,595</u>	<u>936,165</u>
Other		<u>1,855</u>	<u>8,335</u>	<u>10,190</u>
Cash and cash equivalents	<u>12,245</u>	<u>217,097</u>		<u>229,342</u>
Total	<u>\$ 1,066,038</u>	<u>\$ 943,918</u>	<u>\$ 2,000,048</u>	4,010,004
Receivable — net				<u>2,497</u>
Total fair value of Plan assets				<u>\$ 4,012,501</u>

A reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011, is as follows:

	Hedge Fund	Private Equity	Other	Total
Beginning balance — January 1, 2012	\$ 651,595	\$ 1,340,118	\$ 8,335	\$ 2,000,048
Total gains and losses	(507)	(19,353)	1,092	(18,768)
Purchases	23,503	141,792	1,516	166,811
Sales	(140,123)		(1,583)	(141,706)
Settlements	(7,689)	(171,388)		(179,077)
Issuances	(4,000)	3,930	153	83
Transfers in/or out of Level 3 (a)	<u>3,500</u>	<u>41,708</u>	<u>(6)</u>	<u>45,202</u>
Ending balance — December 31, 2012	<u>\$ 526,279</u>	<u>\$ 1,336,807</u>	<u>\$ 9,507</u>	<u>\$ 1,872,593</u>

(a) In 2012, certain investments were reclassified due to refinements in the Plan's valuation process.

There were no other transfers between levels other than those indicated in the table above.

	Hedge Fund	Private Equity	Other	Total
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses related to assets still held at December 31, 2012	<u>\$ 5,242</u>	<u>\$ 33,379</u>	<u>\$ 1,003</u>	<u>\$ 39,624</u>

	Hedge Fund	Private Equity	Other	Total
Beginning balance — January 1, 2011	\$ 726,927	\$ 1,252,982	\$ 8,876	\$ 1,988,785
Total gains and losses	(39,295)	(11,363)	(133)	(50,791)
Purchases	70,105	189,144	1,731	260,980
Sales	(158,293)		(2,273)	(160,566)
Settlements	(7,728)	(245,169)		(252,897)
Issuances	21,649	(1,273)	134	20,510
Transfers in/or out of Level 3 (b)	<u>38,230</u>	<u>155,797</u>		<u>194,027</u>
Ending balance — December 31, 2011	<u>\$ 651,595</u>	<u>\$ 1,340,118</u>	<u>\$ 8,335</u>	<u>\$ 2,000,048</u>

(b) In 2011, certain investments were reclassified due to refinements in the Plan's valuation process.

There were no other transfers between levels other than those indicated in the table above.

	Hedge Fund	Private Equity	Other	Total
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses related to assets still held at December 31, 2011	<u>\$ (60,828)</u>	<u>\$ 38,126</u>	<u>\$ (302)</u>	<u>\$ (23,004)</u>

Information regarding the nature and risks of the investments, including redemption restrictions for investments where fair value is based on the NAV, as of December 31, 2012 and 2011, is as follows:

	Fair Value		Redemption Frequency (If Eligible)	Redemption Notice Period (a)
	2012	2011		
Domestic equity:				
Large cap	\$ -	\$ 34,691	Daily	N/A
Mid cap	34,780	30,889	Daily	N/A
Small cap	42,828	52,166	Daily	N/A
Subtotal — domestic equity	77,608	117,746		
International equity	185,730	236,807	Daily	N/A
Private equity (b):				
Buyout funds	899,549	959,452	N/A	N/A
Mezzanine funds	42,460	35,449	N/A	N/A
Venture capital funds	88,835	79,186	N/A	N/A
Distressed asset investments	238,242	253,685	N/A	N/A
Commodities and real estate	67,721	56,604	N/A	N/A
Subtotal — private equity	1,336,807	1,384,376		
Fixed-income investments —				
Corporate bonds	47,402	41,585	Daily	N/A
Subtotal — fixed-income investments	47,402	41,585		
Hedge funds	763,129	936,165	Monthly, quarterly, and annually	3–91 days
Cash and cash equivalents	176,511	217,097	Daily	N/A
Total	<u>\$ 2,587,187</u>	<u>\$ 2,933,776</u>		

(a) Redemption restrictions vary by investment management agreement, but are based on the initial investment date and take into account liquidity terms, notice periods, redemption schedules, withdrawal with or without penalties, and lockups, if any. In certain cases, full redemption may be extended over a period of time.

(b) Limited partnership interests in private equity funds are not redeemable from the general partner. Private equity interests can be sold through a secondary sale to a third party.

Information regarding the unfunded commitments and redemption restrictions for partnerships and joint ventures held by the Plan as of December 31, 2012 and 2011, is as follows:

	Unfunded Commitments		Redemption Frequency (If Eligible)	Redemption Notice Period
	2012	2011		
Private equity (a):				
Buyout funds (b)	\$ 221,734	\$ 262,206	N/A	N/A
Distressed asset investments (c)	32,851	48,172	N/A	N/A
Venture capital funds (d)	32,710	40,093	N/A	N/A
Mezzanine funds (e)	31,685	31,755	N/A	N/A
Commodities (f)	1,983	7,528	N/A	N/A
Real estate (g)	<u>2,313</u>	<u>4,438</u>	N/A	N/A
Total	<u>\$ 323,276</u>	<u>\$ 394,192</u>		

- (a) Limited partnership interests in private equity funds are not redeemable from the general partner. Private equity interests can be sold through a secondary sale to a third party.
- (b) Buyout funds are partnership investment vehicles that take a controlling interest, primarily in private companies with the intent of developing them for future sale at a higher price to a strategic or financial buyer or through an initial public offering. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. These partnership vehicles are expected to be liquidated over the next three to 10 years.
- (c) Distressed asset investments are partnership investment vehicles that purchase debt or preferred equity instruments of companies that are distressed, near bankrupt, or bankrupt. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. These partnership vehicles are expected to be liquidated over the next seven to nine years.
- (d) Venture capital funds are partnership investment vehicles that provide seed or growth capital to start-ups and early stage companies, usually in high-growth industries, such as information and clean technology, health care, and biotechnology. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. These partnership vehicles are expected to be liquidated over the next six to nine years.
- (e) Mezzanine private equity funds provide mezzanine loans to companies that need capital, but do not want to sell or dilute their equity interests. Mezzanine loans are subordinated debt or preferred equity securities that represent a claim on the borrower's assets, which is senior to the common equity, but subordinate to senior secured and unsecured debt. The nature of the investments in this category is that distributions are received through coupon payments and the liquidation of the underlying assets of the fund. These partnership vehicles are expected to be liquidated over the next eight to 10 years.
- (f) Commodities are partnership investment vehicles that invest in businesses engaged in commodity-related sectors, including as energy, natural resources, and agriculture. Investments are realized through the sale of the underlying assets to a strategic or financial buyer, or through an initial public offering.

- (g) Real estate investments are partnership investment vehicles that invest in commercial, industrial, and residential real estate. Investments are realized through the sale of the underlying assets to a strategic or financial buyer.

4. FUNDING POLICY

Contributions to provide benefits under the Plan are made solely by the Company. The Company's funding policy is to make cash contributions to the Plan in amounts as determined by the Plan's independent actuary. The Company met the minimum funding requirements of ERISA for the years ended December 31, 2012 and 2011.

5. ACCUMULATED PLAN BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to service rendered by employees as of the valuation date. Accumulated plan benefits include benefits expected to be paid to (1) retired or terminated employees, (2) beneficiaries of employees who have died, and (3) present employees or their beneficiaries. The actuarial present value of accumulated plan benefits is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements, such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The following amounts were calculated as of the latest actuarial valuation date, which was January 1, 2012.

The actuarial present value of accumulated plan benefits as of January 1, 2012, is as follows:

Vested accumulated plan benefits:	
Retired participants and/or beneficiaries currently receiving benefits	\$2,180,353
Other participants	<u>1,094,298</u>
Total vested accumulated plan benefits	3,274,651
Nonvested accumulated plan benefits	<u>69,386</u>
Total actuarial present value of accumulated plan benefits	<u><u>\$3,344,037</u></u>

The changes in the actuarial present value of the Plan's accumulated plan benefits for the year ended January 1, 2012, are as follows:

Actuarial present value of accumulated plan benefits at January 1, 2011	\$3,217,221
Increase (decrease) during the year attributable to:	
Benefits accumulated	134,864
Assumption changes	2,450
Benefits paid	(287,393)
Interest	<u>276,895</u>
Actuarial present value of accumulated plan benefits at January 1, 2012	<u><u>\$3,344,037</u></u>

The actuarial cost method used to measure the present value of accumulated plan benefits is the accrued benefit method. The significant actuarial assumptions used in the January 1, 2012, valuations were:

- For 2012, the mortality assumption was updated according to the projection specified in Internal Revenue Service (IRS) Regulation 1.430(h) (3)-1, applied on a static basis, and projected seven years from the valuation date for annuitants and 15 years for nonannuitants, whereas for 2011, the mortality assumption was based on the UP-94 mortality table (scale AA projected 16 years) with special mortality table used for the period after disability.
- Retirement age: Age 65.
- Investment return was 9% per annum for 2012.
- Discount rate was 9% per annum for 2012.

Actuarial assumptions for the period before normal retirement include factors for mortality, termination of employment, early retirement, and disability.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits. The actuarial present value and the actuarial value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change that may have an impact on the Plan contributions. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that certain changes in these estimates and assumptions could be material to the financial statements.

6. INTEREST IN MASTER TRUST

The net investments of the Master Trust at December 31, 2012 and 2011, are summarized as follows:

	2012	2011
Assets:		
Investments:		
CCTs	\$ 389,078	\$ 515,110
Common and preferred stocks	1,009,053	999,748
U.S. government securities	527,596	
Partnerships/joint ventures	1,510,065	1,536,403
Hedge funds	552,289	646,357
Registered investment companies	213,760	196,578
Cash and cash equivalents	113,121	115,808
	<u>4,314,962</u>	<u>4,010,004</u>
Receivable — net	<u>32,637</u>	<u>2,497</u>
Total assets of the Master Trust	<u>\$4,347,599</u>	<u>\$4,012,501</u>
Plan's interest in net assets of the Master Trust	<u>\$3,765,924</u>	<u>\$3,472,235</u>
Plan's interest in the Master Trust as a percentage of the total	<u>86.62 %</u>	<u>86.54 %</u>
401(h) Account's interest in net assets of the Master Trust	<u>\$ 244,307</u>	<u>\$ 232,461</u>
401(h) Account's interest in the Master Trust as a percentage of the total	<u>5.62 %</u>	<u>5.79 %</u>

The net investment earnings of the Master Trust for the years ended December 31, 2012 and 2011, are summarized as follows:

	2012	2011
Net appreciation (depreciation) in fair value of investments:		
CCTs	\$ (2,634)	\$ (25,944)
Common and preferred stocks	167,673	(57,882)
U.S. government securities	78,320	
Corporate bonds and notes		(2)
Partnerships/joint ventures	147,905	111,303
Hedge funds	(14,673)	(27,494)
Registered investment companies	26,158	(54,512)
Other	<u>10,943</u>	<u>(18,802)</u>
Net appreciation (depreciation) in fair value of investments	413,692	(73,333)
Interest income	1,723	1,848
Dividend income	26,005	23,910
Other income	25,725	25,767
Administrative expenses	<u>(30,640)</u>	<u>(27,450)</u>
Investment income of the Master Trust	<u>\$ 436,505</u>	<u>\$ (49,258)</u>
Plan's interest in the Master Trust investment income	<u>\$ 395,219</u>	<u>\$ (28,182)</u>
401(h) Account's interest in the Master Trust's investment income	<u>\$ 11,847</u>	<u>\$ (2,132)</u>

7. EXEMPT PARTY-IN-INTEREST TRANSACTIONS

Certain Master Trust investments are shares of registered investment companies managed by the Trustee. These assets and related transactions qualify as exempt party-in-interest transactions.

Certain administrative functions are performed by officers and employees of the Company (who may also be a participant in the Plan) at no cost to the Plan or Master Trust. These transactions are not deemed prohibited party-in-interest transactions because they are covered by the statutory administrative exemptions from the IRC and ERISA's rules on prohibited transactions.

8. FEDERAL INCOME TAX STATUS

The IRS has determined and informed the Company by a letter dated June 25, 2002, that the Plan and related trust are designed in accordance with the applicable sections of the IRC. The Plan has been amended since receiving the determination letter; however, the Plan administrator believes that the Plan is currently designed and is currently being operated in compliance with the applicable requirements of the IRC, and the Plan and related trust continue to be tax exempt. On January 31, 2011, ITT filed a Plan restatement with the IRS and is awaiting their determination. Therefore, no provision for income taxes has been included in the Plan's financial statements.

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2011 because of the Spin-off. The Company became the Plan's sponsor effective October 31, 2011. ITT, the prior sponsor of the Plan, may be subject to income tax examinations for years prior to 2011. The Company and ITT entered into a tax matters agreement, which generally provides that ITT shall indemnify Exelis for consolidated income taxes relating to any pre-Spin-off period up to a certain amount.

9. PLAN TERMINATION

Although it has not expressed any intention to do so, the Company has the right under the Plan, in certain circumstances, to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event that the Plan is terminated, the net assets of the Plan will be allocated for payment of plan benefits to the participants in an order of priority determined in accordance with ERISA, applicable regulations thereunder, and the Plan document.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination, subject to a statutory ceiling on the amount of an individual's monthly benefit.

Whether all participants receive their benefits should the Plan be terminated at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide those benefits, the priority of those benefits to be paid, and the level and type of benefits guaranteed by the PBGC at that time. Some benefits may be fully or partially provided for by the existing assets and the PBGC guaranty, while other benefits may not be provided for at all.

10. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

A reconciliation of net assets available for pension benefits per the financial statements to the Form 5500 at December 31, 2012 and 2011, is as follows:

	2012	2011
Net assets available for pension benefits per the financial statements	\$3,809,630	\$3,661,619
Net assets held in defined benefit plan — 401(h) Account	<u>244,307</u>	<u>232,461</u>
Net assets available for pension benefits per Form 5500	<u>\$4,053,937</u>	<u>\$3,894,080</u>

The net assets of the 401(h) Account included in Form 5500 are not available to pay pension benefits, but can be used only to pay retiree health benefits. A reconciliation of the changes in net assets per the financial statements to the Form 5500 for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Increase (decrease) in net assets per the financial statements	\$ 148,011	\$ (84,056)
Net increase (decrease) in 401(h) Account	<u>11,847</u>	<u>(2,132)</u>
Net income (loss) per Form 5500	<u>\$ 159,858</u>	<u>\$ (86,188)</u>

11. SUBSEQUENT EVENTS

For the year ended December 31, 2012, subsequent events were evaluated through October 11, 2013, the date the financial statements were available to be issued.

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SCHEDULE SB (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation</small>	Single-Employer Defined Benefit Plan Actuarial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6059 of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500 or 5500-SF.	OMB No. 1210-0110 2012 This Form is Open to Public Inspection
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For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012

► **Round off amounts to nearest dollar.**
 ► **Caution:** A penalty of \$1,000 will be assessed for late filing of this report unless reasonable cause is established.

A Name of plan EXELIS SALARIED RETIREMENT PLAN	B Three-digit plan number (PN) ►	001
C Plan sponsor's name as shown on line 2a of Form 5500 or 5500-SF EXELIS INC.	D Employer Identification Number (EIN) 45-2083813	
E Type of plan: ☒ Single ☐ Multiple-A ☐ Multiple-B		
F Prior year plan size: ☐ 100 or fewer ☐ 101-500 ☒ More than 500		

Part I Basic Information			
1 Enter the valuation date: Month <u>01</u> Day <u>01</u> Year <u>2012</u>			
2 Assets:			
a Market value	2a	3659838757	
b Actuarial value	2b	3756258769	
3 Funding target/participant count breakdown:		(1) Number of participants	(2) Funding Target
a For retired participants and beneficiaries receiving payment.....	3a	24487	2528210786
b For terminated vested participants.....	3b	18179	582380825
c For active participants:			
(1) Non-vested benefits	3c(1)		94278273
(2) Vested benefits	3c(2)		802537985
(3) Total active.....	3c(3)	13101	896816258
d Total.....	3d	55767	4007407869
4 If the plan is in at-risk status, check the box and complete lines (a) and (b). ☐			
a Funding target disregarding prescribed at-risk assumptions	4a		
b Funding target reflecting at-risk assumptions, but disregarding transition rule for plans that have been in at-risk status for fewer than five consecutive years and disregarding loading factor.....	4b		
5 Effective interest rate	5	6.95%	
6 Target normal cost.....	6	56345923	

Statement by Enrolled Actuary
 To the best of my knowledge, the information supplied in this schedule and accompanying schedules, statements and attachments, if any, is complete and accurate. Each prescribed assumption was applied in accordance with applicable law and regulations. In my opinion, each other assumption is reasonable (taking into account the experience of the plan and reasonable expectations) and such other assumptions, in combination, offer my best estimate of anticipated experience under the plan.

SIGN HERE	SCOT MARTIN Signature of actuary	09/18/2013 Date 1104380 Most recent enrollment number 201-902-2502 Telephone number (including area code)
SCOT MARTIN Type or print name of actuary BUCK CONSULTANTS, LLC Firm name 500 PLAZA DRIVE SECAUCUS NJ 07096-1533 Address of the firm		

Part II Beginning of Year Carryover Prefunding Balances		(a) Carryover balance	(b) Prefunding balance
7	Balance at beginning of prior year after applicable adjustments (line 13 from prior year)	70502747	3425673
8	Portion elected for use to offset prior year's funding requirement (line 35 from prior year)	70502747	3425673
9	Amount remaining (line 7 minus line 8)	0	0
10	Interest on line 9 using prior year's actual return of <u>-0.78%</u>	0	0
11	Prior year's excess contributions to be added to prefunding balance:		
	a Present value of excess contributions (line 38a from prior year)		61851815
	b Interest on (a) using prior year's effective interest rate of <u>6.22%</u> except as otherwise provided (see instructions)		-482444
	c Total available at beginning of current plan year to add to prefunding balance		61369371
	d Portion of (c) to be added to prefunding balance		61369371
12	Other reductions in balances due to elections or deemed elections	0	41571489
13	Balance at beginning of current year (line 9 + line 10 + line 11d - line 12)	0	19797882

Part III Funding Percentages			
14	Funding target attainment percentage	14	93.23 %
15	Adjusted funding target attainment percentage	15	93.23 %
16	Prior year's funding percentage for purposes of determining whether carryover/prefunding balances may be used to reduce current year's funding requirement	16	81.69 %
17	If the current value of the assets of the plan is less than 70 percent of the funding target, enter such percentage	17	%

Part IV Contributions and liquidity shortfalls					
18 Contributions made to the plan for the plan year by employer(s) and employees:					
(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees	(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees
04/12/2012	59000000	0			
01/15/2013	26261000	0			
08/30/2013	17637000	0			
Totals ▶			18(b)	102898000	18(c) 0

19 Discounted employer contributions – see instructions for small plan with a valuation date after the beginning of the year:			
a	Contributions allocated toward unpaid minimum required contributions from prior years.	19a	0
b	Contributions made to avoid restrictions adjusted to valuation date	19b	0
c	Contributions allocated toward minimum required contribution for current year adjusted to valuation date	19c	98174091
20 Quarterly contributions and liquidity shortfalls:			
a	Did the plan have a "funding shortfall" for the prior year?	☒ Yes ☐ No	
b	If 20a is "Yes," were required quarterly installments for the current year made in a timely manner?	☒ Yes ☐ No	
c	If 20a is "Yes," see instructions and complete the following table as applicable:		
Liquidity shortfall as of end of quarter of this plan year			
(1) 1st	(2) 2nd	(3) 3rd	(4) 4th
0	0	0	0

Part V Assumptions Used to Determine Funding Target and Target Normal Cost

21 Discount rate:			
a Segment rates:	1st segment: 5.54%	2nd segment: 6.85%	3rd segment: 7.52%
			☐ N/A, full yield curve used
b Applicable month (enter code).....			21b 4
22 Weighted average retirement age			22 62
23 Mortality table(s) (see instructions) ☐ Prescribed - combined ☒ Prescribed - separate ☐ Substitute			

Part VI Miscellaneous Items

24 Has a change been made in the non-prescribed actuarial assumptions for the current plan year? If "Yes," see instructions regarding required attachment.....	☒ Yes ☐ No
25 Has a method change been made for the current plan year? If "Yes," see instructions regarding required attachment.....	☐ Yes ☒ No
26 Is the plan required to provide a Schedule of Active Participants? If "Yes," see instructions regarding required attachment.....	☒ Yes ☐ No
27 If the plan is subject to alternative funding rules, enter applicable code and see instructions regarding attachment.....	27

Part VII Reconciliation of Unpaid Minimum Required Contributions For Prior Years

28 Unpaid minimum required contributions for all prior years	28	0
29 Discounted employer contributions allocated toward unpaid minimum required contributions from prior years (line 19a).....	29	0
30 Remaining amount of unpaid minimum required contributions (line 28 minus line 29)	30	0

Part VIII Minimum Required Contribution For Current Year

31 Target normal cost and excess assets (see instructions):			
a Target normal cost (line 6).....		31a	56345923
b Excess assets, if applicable, but not greater than line 31a		31b	0
32 Amortization installments:		Outstanding Balance	Installment
a Net shortfall amortization installment.....		270946982	61585093
b Waiver amortization installment		0	0
33 If a waiver has been approved for this plan year, enter the date of the ruling letter granting the approval (Month _____ Day _____ Year _____) and the waived amount		33	
34 Total funding requirement before reflecting carryover/prefunding balances (lines 31a - 31b + 32a + 32b - 33) ..		34	117931016
	Carryover balance	Prefunding balance	Total balance
35 Balances elected for use to offset funding requirement.....	0	19797882	19797882
36 Additional cash requirement (line 34 minus line 35).....	36		98133134
37 Contributions allocated toward minimum required contribution for current year adjusted to valuation date (line 19c).....	37		98174091
38 Present value of excess contributions for current year (see instructions)			
a Total (excess, if any, of line 37 over line 36)		38a	40957
b Portion included in line 38a attributable to use of prefunding and funding standard carryover balances		38b	40957
39 Unpaid minimum required contribution for current year (excess, if any, of line 36 over line 37)	39		0
40 Unpaid minimum required contributions for all years	40		0

Part IX Pension Funding Relief Under Pension Relief Act of 2010 (See Instructions)

41 If an election was made to use PRA 2010 funding relief for this plan:			
a Schedule elected		☐ 2 plus 7 years	☐ 15 years
b Eligible plan year(s) for which the election in line 41a was made		☐ 2008	☐ 2009 ☐ 2010 ☐ 2011
42 Amount of acceleration adjustment	42		
43 Excess installment acceleration amount to be carried over to future plan years	43		

EXELIS SALARIED RETIREMENT PLAN
EIN / PN: 45-2083813 / 001

Schedule SB, Line 22 – Description of Weighted-Average Retirement Age

This age is derived by applying, for an employee with the characteristics of an average new entrant to the plan, the following formula, modified so that the “½” is not used for t = FRA-ERA.

$$\sum_{t=0}^{FRA-ERA} ({}_t p_{ERA}) * (q_{ERA+t}^r) * (ERA + t + \frac{1}{2})$$

$$\sum_{t=0}^{FRA-ERA} ({}_t p_{ERA}) * (q_{ERA+t}^r)$$

where

FRA = age by which everyone is assumed to retire
 ERA = age before which nobody is assumed to retire
 ${}_t p_{ERA}$ = probability of surviving at work to age ERA + t
 q_{ERA+t}^r = probability of retiring at age ERA + t

Probability of

<u>Age</u>	<u>Normal Retirement</u>	<u>Standard Early Retirement</u>	<u>Special Early Retirement</u>
50			6.53%
51			6.38
52			6.27
53			6.18
54			6.11
55		6.05%	7.50
56		6.08	8.00
57		6.11	8.50
58		6.21	9.00
59		6.29	9.50
60		8.45	10.00
61		8.56	15.00
62		8.89	25.00
63		9.25	15.00
64		9.61	10.00
65	50.00%		
66	30.00		
67	30.00		
68	30.00		
69	30.00		
70	100.00		

EXELIS SALARIED RETIREMENT PLAN
EIN / PN: 45-2083813 / 001

Schedule SB, Part V – Statement of Actuarial Assumptions and Methods

Prescribed Funding Assumptions and Methods

Funding interest rates

Current Year:	Segment Rates with four month lookback:	
	First Segment Rate	2.06%
	Second Segment Rate	5.25%
	Third Segment Rate	6.32%

In accordance with MAP-21, the first, second and third Segment Rates are constrained to a 90%-110% Corridor around the average Segment Rates for the 25-year period ending September 30, 2011, or 5.54%, 6.85% and 7.52%, respectively for minimum funding and benefit restrictions but not for maximum tax-deductible purposes.

	Effective Interest Rate	6.95%
Prior Year:	Segment Rates with four month lookback:	
	First Segment Rate	3.78%
	Second Segment Rate	6.31%
	Third Segment Rate	6.57%
	Effective Interest Rate	6.22%

Mortality

Mortality tables mandated by PPA as specified in IRS Regulation 1.430(h)(3)-1, applied on a static basis, projected 7 years from the valuation date for annuitants and 15 years for non-annuitants.

Actuarial cost method

Unit Credit Method. The Funding Target is the present value of accrued benefits and based on compensation and service to date. The Target Normal Cost is the present value of benefits expected to be accrued during the current plan year, reflecting the effect of expected compensation increases during the year and including expected plan related expenses to be paid from plan assets during the year.

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, Part V – Statement of Actuarial Assumptions and Methods

Non-Prescribed Funding Assumptions and Methods

Salary increase assumption

Age	Annual Rate
25	8.005
30	6.412
35	5.467
40	4.609
45	4.106
50	3.848
51	3.794
52	3.743
53	3.692
54	3.643
55	3.630
56	3.585
57	3.539
58	3.496
59	3.452
60	3.411
61	3.403
62	3.363
63	3.324
64	3.317
65	3.279
66+	3.250

Social Security

3.25% per year increase, compounded annually.

Expenses

Plan related expenses from the prior year excluding PBGC premium paid plus current year's PBGC premium.

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, Part V – Statement of Actuarial Assumptions and Methods

Non-Prescribed Funding Assumptions and Methods (continued)

Frequency of optional payment forms

Optional Form	Probability for	
	Retirement from Active Employment	Retirement from Deferred Vested Status
50% J&S	0%	40%
75% J&S	0%	0%
100% J&S	30%	0%
Life Annuity	40%	60%
90%/50% Sp CA	30%	0%
5 Year C&L	0%	0%
Lump Sum (PEP only)	100%	100%

Lump Sum Conversion Assumptions:

Interest Rate (Funding): Segment Rates
Mortality Applicable IRC Section 417(e)

Marital percentage

85% of participants are assumed to be married at death. Husbands are assumed to be 3 years older than their wives.

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, Part V – Statement of Actuarial Assumptions and Methods

Non-Prescribed Funding Assumptions and Methods (continued)

Retirement rates

Age	Normal Retirement Rates	Standard Early Retirement Rates	Special Early Retirement Rates
50	-	-	6.53%
51	-	-	6.38%
52	-	-	6.27%
53	-	-	6.18%
54	-	-	6.11%
55	-	6.05%	7.50%
56	-	6.08%	8.00%
57	-	6.11%	8.50%
58	-	6.21%	9.00%
59	-	6.29%	9.50%
60	-	8.45%	10.00%
61	-	8.56%	15.00%
62	-	8.89%	25.00%
63	-	9.25%	15.00%
64	-	9.61%	10.00%
65	50.00%	-	-
66	30.00%	-	-
67	30.00%	-	-
68	30.00%	-	-
69	30.00%	-	-
70	100.00%	-	-

Participants who are actively employed at ITT or Xylem are assumed to retire according to the rates outlined above through 2016 except for participants who attain eligibility for a special unreduced pension during the 5-year period of eligibility growth through 2016, the retirement rate is assumed to be 40% in the year this eligibility is attained and 80% at the end of the 5-year period.

Terminated vested participants are assumed to retire at age 60.

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, Part V – Statement of Actuarial Assumptions and Methods

Non-Prescribed Funding Assumptions and Methods (continued)

Disability rates

Age	Rates
25	0.03%
30	0.03%
35	0.03%
40	0.04%
45	0.08%
50	0.21%
55	0.45%
60	1.01%
65	0.00%

Withdrawal rates⁽¹⁾

Age	Non-vested Rates	Vested Rates
25	22.54%	14.54%
30	19.45%	11.45%
35	17.16%	9.16%
40	15.64%	8.64%
45	14.50%	7.50%
50	13.53%	6.53%
55	6.05%	6.05%
60	8.45%	8.45%
65	0.00%	0.00%

Higher rates of withdrawal for non-vested are used during the first, second, and third years of employment for employees hired before age 45.

Asset valuation method

The Actuarial Value of Assets is Market Value as of the valuation date including discounted receivable contributions, reduced by decreasing fractions 2/3 and 1/3, of the of the gain/(loss) in each of the prior 2 years, respectively. The gain/(loss) for each period is determined as the actual return on Market Value during the period less the expected return on Market Value based on an assumed earnings rate chosen by the actuary but required by PPA to be not greater than the applicable third segment rate. The resulting value is constrained to be within a corridor of 90% to 110% of Market Value, including discounted receivable contributions.

The expected return on plan assets is 9.00% per annum, limited by PPA to the applicable Third Segment Rate as follows:

2011 measurement period:	6.57%
2010 measurement period:	6.82%

⁽¹⁾ For active participants not eligible for retirement.

EXELIS SALARIED RETIREMENT PLAN
EIN / PN: 45-2083813 / 001

Schedule SB, Part V – Statement of Actuarial Assumptions and Methods

Non-Prescribed Funding Assumptions and Methods (continued)

Statement of Enrolled Actuary

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Buck performed no analysis of the potential range of such future differences.

EXELIS SALARIED RETIREMENT PLAN
EIN / PIN 45-2083813 / 001

Schedule SB, Part V - Summary of Plan Provisions

Effective Date

January 1, 1965

Last Amended

January 1, 2012

Eligibility for Membership

All salaried employees age 21 with one year of service. The plan has been closed to new participants effective January 1, 2012.

Normal Retirement Allowance

Eligibility

Age 65.

Benefit

For the first 40 years of benefit service, a participant may elect either of the following benefit accruals:

1) Traditional Pension Formula

2% of final average salary (1.5% for employees who became participants after January 1, 2000) during the 5 years of service in the last 10 years giving the highest average, for each of the first 25 years of traditional formula service, plus 1.5% of such final average salary for traditional formula service between 25 and 40 years, reduced by 1.25% of the Social Security benefit multiplied by traditional formula service up to 40 years. Effective January 1, 2012, no new employees will be eligible to participate in the Plan

2) Pension Equity Formula

Lump sum benefit based on the following percentages of final average salary: under age 30, 3% per year of service, age 30 - age 39, 4% per year of service, age 40 - age 49, 5% per year of service, age 50 and over, 6% per year of service. Total years credited cannot exceed 40. Effective January 1, 2012 (October 31, 2011 for ITT/Xylem employees), accrued percentage of final average salary and final average salary were frozen.. Effective January 1, 2012, the rate of interest to be credited towards the lump sum benefit for Exelis employees shall be the 10-year Treasury rate as in effect on December 31 of the prior calendar year but not less than 3.25%.

An amendment effective January 1, 2012 provided employees a choice to accrue future benefits under (1) the Traditional Pension Formula, or (2) an age-based defined contribution plan. Effective January 1, 2012, the pension equity formula accruals option was no longer available.

EXELIS SALARIED RETIREMENT PLAN
EIN / PIN 45-2083813 / 001

Schedule SB, Part V - Summary of Plan Provisions

Special Early Retirement Allowance

Eligibility

For employees who became participants before January 1, 2000, age 55 and 15 years of service or age 50 with age and service totaling 80 or more years. For employees who became participants after December 31, 1999 but before January 1, 2005, age 55 and 15 years of service.

Benefit

For pre- January 1, 2000 participants; accrued pension under the traditional formula can commence as early as age 50 and is reduced 5/12 of 1% for each month that payments commence prior to age 60, but not less than 75% of the unreduced benefit that would have been payable at age 60. For post- December 31, 1999 participants; accrued pension under the traditional formula can commence as early as age 55 and is reduced 5/12 of 1% for each month that payments commence prior to age 62, reduced 1/3 of 1% for each month that payments commence prior to age 58 and reduced 1/4 of 1% for each month that payments commence prior to age 57. Social Security reduction is not applied before age 62. Accrued pension under pension equity formula payable in the form of an actuarially equivalent annuity.

Standard Early Retirement Allowance

Eligibility

Age 55 and 10 years of service.

Benefit

Accrued pension deferred to age 65 or an immediate benefit reduced 1/4 of 1% for each month that payments commence prior to age 65. (For post- December 31, 2004 participants, the reduction is 6.67% per annum for retirements between ages 60 to 65, 6.11% at age 59, 5.71% at age 58, 5.42% at age 57, 5.19% at age 56, and 5.00% at age 55.) Social Security reduction is not applied before age 62 for pre- January 1, 2005 participants. Accrued pension under pension equity formula payable in the form of an actuarially equivalent annuity.

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, Part V - Summary of Plan Provisions

Vested Benefit

Eligibility

3 years of service.

Benefit

Accrued pension based on final average salary at termination.

Vested Spouse Benefit

Eligibility

Death after becoming eligible for a vested benefit and prior to Benefit Commencement. Benefit commences no earlier than earliest retirement date which could have been elected by deceased participant.

Benefit

Accrued pension under traditional formula at time of death, adjusted as if participant had retired on date payments to spouse commence under joint and 50% survivorship option, and then died. For a terminated vested participant there is a charge for each year coverage is in effect after termination date. Coverage for which a charge is made may be waived with consent of the spouse. Accrued pension under pension equity formula in the form of actuarially equivalent annuity or lump sum payment equal to participant's full pension equity benefit.

Automatic Pre-Retirement Survivor Benefit

Eligibility

Death after earlier of age 65 or age 55 with 10 years of service and prior to Benefit Commencement.

Benefit

50% of accrued traditional pension at time of death, no adjustment for early commencement. Accrued pension under pension equity formula in the form of actuarially equivalent annuity or lump sum payment equal to participant's full pension equity benefit.

Supplemental Survivor's Benefit

Eligibility

Election available upon the earlier of age 65 or age 55 with 10 years of service. Charge for coverage is 1/2 of 1% for each year in effect.

Benefit

25% of accrued traditional pension, adjusted if beneficiary is more than 5 years younger. Payable to same beneficiary as under Automatic Pre-Retirement Survivor Benefit.

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, Part V - Summary of Plan Provisions

Normal Form of Benefit

Single

Life annuity.

Married

Actuarial equivalent 50% joint and survivor annuity, unless elects otherwise, for vested participants and post- December 31, 2004 participants; 90% Spouse's Contingent Annuity Option for pre- January 1, 2005 participants.

Spouse's Contingent Annuity Option

- (1) 90% (adjusted for difference in ages of more than 5 years) of benefit with 50% of the unreduced benefit payable to spouse after retired member's death.
- (2) 80% (adjusted for difference in ages of more than 5 years) of benefit with the reduced benefit payable to spouse after retired member's death.

Spouse's Contingent Annuity options are not available for vested benefits for participants hired on or after January 1, 2005.

Standard Contingent Annuity Option

- (1) 100% joint and survivor annuity.
- (2) 50 % joint and survivor annuity.
- (3) 75 % joint and survivor annuity.

Small Lump Sum

Present value of accrued benefit totaling \$5,000 or less, paid in the form of lump sum.

Maximum Benefit

ERISA maximum as amended by the Tax Reform Act of 1986, the Retirement Protection Act of 1994 (RPA '94) and the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and IRC Section 401(a)(17) compensation limitations as amended by the Omnibus Budget Reconciliation Act of 1993 and EGTRRA.

Contributions

All contributions to support the Plan are made by the plan sponsor.

Special Benefits

This summary does not include special benefit provisions which may apply to a limited group of employees covered under former plans, certain frozen status members and retirement members. These provisions are taken into account in the valuation.

EXELIS SALARIED RETIREMENT PLAN
EIN/PIN: 45-2083813 / 001

Schedule SB, line 24 – Change in Actuarial Assumptions

- The salary scale was updated to better reflect future expected plan experience.
- The Social Security assumption was changed from 3.50% to 3.25% to better reflect the actuary's best estimate for future Social Security increases.

Exelis Salaried Retirement Plan
EIN / PIN 45-2083813 / 001

Schedule SB, Line 26 - Schedule of Active Participant Data

Completed Years of Benefit Service																				
AGE	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Salary</u>		
Under 25	28	59,568	106	49,209	2		0		0		0		0		0		0		0	
25-29	131	70,063	522	61,642	102	66,161	0		0		0		0		0		0		0	
30 - 34	293	85,481	542	71,783	188	73,516	32	84,791	1		0		0		0		0		0	
35 - 39	292	99,541	512	82,969	187	90,851	78	90,356	13		0		0		0		0		0	
40 - 44	339	100,730	642	88,840	289	87,555	123	90,588	32	108,747	27	105,384	1		0		0		0	
45 - 49	344	100,409	824	94,360	391	97,394	267	100,595	67	100,172	133	101,165	102	105,746	4		0		0	
50 - 54	372	102,259	889	94,862	612	93,290	361	101,766	88	98,729	162	110,363	218	118,984	94	109,890	4		0	
55 - 59	294	92,558	613	94,231	464	95,616	269	97,734	92	100,994	117	99,153	135	110,590	111	115,574	22	112,090	1	
60 - 64	203	89,005	350	86,522	215	92,781	137	96,537	61	85,803	52	85,224	71	99,326	45	107,383	20	91,535	7	
65 - 69	52	81,618	135	89,515	53	103,285	36	115,455	14		10		11		4		3		2	
70+	22	91,490	29	92,214	9		14		1		2		4		3		3		1	

EXELIS SALARIED RETIREMENT PLAN
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Schedule SB, line 32 – Schedule of Amortization Bases

Type of Base	Present Value of Any Remaining Installments	Valuation Date	Years Remaining	Amortization Installment
Shortfall	\$ 713,930,266	January 1, 2011	6	\$ 136,770,246
Shortfall	<u>(422,983,284)</u>	January 1, 2012	7	<u>(75,185,153)</u>
Total	\$ 270,946,982			\$ 61,585,093

Form 5500Department of the Treasury
Internal Revenue ServiceDepartment of Labor
Employee Benefits Security
Administration

Pension Benefit Guaranty Corporation

Annual Return/Report of Employee Benefit Plan

This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6058(a) of the Internal Revenue Code (the Code).

► **Complete all entries in accordance with the instructions to the Form 5500.**OMB Nos. 1210-0110
1210-0089**2012****This Form is Open to Public Inspection****Part I Annual Report Identification Information**

For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012

- A** This return/report is for: ☐ a multiemployer plan; ☐ a multiple-employer plan; or
☒ a single-employer plan; ☐ a DFE (specify) _____
- B** This return/report is: ☐ the first return/report; ☐ the final return/report;
☐ an amended return/report; ☐ a short plan year return/report (less than 12 months).
- C** If the plan is a collectively-bargained plan, check here. ☐
- D** Check box if filing under: ☒ Form 5558; ☐ automatic extension; ☐ the DFVC program;
☐ special extension (enter description) _____

Part II Basic Plan Information—enter all requested information

1a Name of plan Exelis Salaried Retirement Plan	1b Three-digit plan number (PN) ► 001
	1c Effective date of plan 01/01/1929
2a Plan sponsor's name and address; include room or suite number (employer, if for a single-employer plan) Exelis Inc. 1650 Tysons Blvd. McLean VA 22102	2b Employer Identification Number (EIN) 45-2083813
	2c Sponsor's telephone number (703) 790-6300
	2d Business code (see instructions) 333200

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE		10/10/2013	William Bonk
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE		12/12/13	Greg Kudla
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address; include room or suite number. (optional) Deloitte Tax LLP 1633 Broadway New York NY 10019			Preparer's telephone number (optional) (212) 492-3600

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Form 5500 (2012)
v. 120126

3a Plan administrator's name and address ☐ Same as Plan Sponsor Name ☒ Same as Plan Sponsor Address Benefits Administration Committee Exelis Inc.	3b Administrator's EIN 45-2083813 3c Administrator's telephone number
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
5 Total number of participants at the beginning of the plan year	5 55,767
6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).	
a Active participants.....	6a 9,974
b Retired or separated participants receiving benefits	6b 22,453
c Other retired or separated participants entitled to future benefits.....	6c 17,584
d Subtotal. Add lines 6a , 6b , and 6c	6d 50,011
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.	6e 3,280
f Total. Add lines 6d and 6e	6f 53,291
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item)	6g
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested	6h 167
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item).....	7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 1A 1E 1G 3H	
b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:	

9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)	
a Pension Schedules (1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☒ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	b General Schedules (1) ☒ H (Financial Information) (2) ☐ I (Financial Information – Small Plan) (3) ☐ A (Insurance Information) (4) ☐ C (Service Provider Information) (5) ☒ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)

Plan Name	Exelis Salaried Retirement Plan
Plan Sponsor EIN	45-2083813
ERISA Plan #	001
Plan Year Ending	12/31/2012

The required attachment marked with an "X" in the Attachment column is included within the Accountant's Opinion attachment to Sch. H, Part III, Line 3, which consists of the entire audit report issued by the plan's Independent Qualified Public Accountant (IQPA).

Form / Schedule	Line #	Description	Attachment
5500 Sch. H	Line 3	Financial statements used in formulating the IQPA's opinion	X
5500 Sch. H	Line 4i	Schedule of Assets (Held at End of Year)	
5500 Sch. H	Line 4i	Schedule of Assets (Acquired and Disposed of Within Year)	
5500 Sch. H	Line 4j	Schedule of Reportable Transactions	
5500 Sch. H	Line 4a	Schedule of Delinquent Participant Contributions	