

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from to

Commission file number: 1-35229

Xylem Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or organization)

45-2080495

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

1133 Westchester Avenue, Suite N200, White Plains, NY 10604

(address of principal executive offices and zip code)

(914) 323-5700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 26, 2013, there were 185,287,683 outstanding shares of the registrant's common stock, par value \$0.01 per share.

Xylem Inc.
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PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XYLEM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

(in millions, except per share data)

For the period ended June 30,	Three Months,		Six Months,	
	2013	2012	2013	2012
Revenue	\$ 960	\$ 966	\$ 1,839	\$ 1,891
Cost of revenue	589	583	1,134	1,145
Gross profit	371	383	705	746
Selling, general and administrative expenses	252	220	488	451
Research and development expenses	28	28	54	56
Restructuring charges	20	—	25	—
Separation costs	1	6	2	11
Operating income	70	129	136	228
Interest expense	14	13	27	27
Other non-operating income (expense), net	1	(1)	(1)	(2)
Income before taxes	57	115	108	199
Income tax expense	11	26	21	47
Net income	\$ 46	\$ 89	\$ 87	\$ 152
Earnings per share:				
Basic	\$ 0.25	\$ 0.48	\$ 0.47	\$ 0.82
Diluted	\$ 0.25	\$ 0.48	\$ 0.47	\$ 0.82
Weighted average number of shares:				
Basic	185.4	185.8	185.6	185.6
Diluted	186.1	186.2	186.3	186.1
Dividends declared per share	\$ 0.1164	\$ 0.1012	\$ 0.2328	\$ 0.2024

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

(in millions)

For the period ended June 30,	Three Months,		Six Months,	
	2013	2012	2013	2012
Net income	\$ 46	\$ 89	\$ 87	\$ 152
Other comprehensive income, before tax:				
Foreign currency translation adjustment	(21)	(70)	(64)	(21)
Net change in cash flow hedges:				
Unrealized (losses) gains	—	(2)	(2)	2
Amount of gain reclassified into net income	—	(1)	(1)	(1)
Net change in postretirement benefit plans:				
Amortization of net actuarial loss	5	3	9	5
Settlement	—	—	—	2
Other comprehensive loss, before tax	(16)	(70)	(58)	(13)
Income tax expense related to items of other comprehensive income	1	1	2	3
Other comprehensive loss, net of tax	(17)	(71)	(60)	(16)
Comprehensive income	\$ 29	\$ 18	\$ 27	\$ 136

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except per share amounts)

	June 30, 2013	December 31, 2012
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 360	\$ 504
Receivables, less allowances for discounts and doubtful accounts of \$27 and \$34 in 2013 and 2012, respectively	792	776
Inventories, net	471	443
Prepaid and other current assets	113	110
Deferred income tax assets	43	41
Total current assets	1,779	1,874
Property, plant and equipment, net	470	487
Goodwill	1,674	1,647
Other intangible assets, net	498	484
Other non-current assets	190	187
Total assets	\$ 4,611	\$ 4,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 311	\$ 332
Accrued and other current liabilities	420	443
Short-term borrowings and current maturities of long-term debt	5	6
Total current liabilities	736	781
Long-term debt	1,199	1,199
Accrued postretirement benefits	393	400
Deferred income tax liabilities	179	173
Other non-current accrued liabilities	52	52
Total liabilities	2,559	2,605
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common Stock – par value \$0.01 per share:		
Authorized 750.0 shares, issued 186.4 shares and 186.2 shares in 2013 and 2012, respectively	2	2
Capital in excess of par value	1,718	1,706
Retained earnings	308	264
Treasury stock – at cost 1.1 shares and 0.5 shares in 2013 and 2012, respectively	(31)	(13)
Accumulated other comprehensive income	55	115
Total stockholders' equity	2,052	2,074
Total liabilities and stockholders' equity	\$ 4,611	\$ 4,679

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in millions)

For the six months ended June 30,	2013	2012
Operating Activities		
Net income	\$ 87	\$ 152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	49	44
Amortization	25	23
Share-based compensation	12	10
Restructuring charges	25	—
Other, net	7	(5)
Payments for restructuring	(11)	—
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(31)	(16)
Changes in inventories	(44)	(44)
Changes in accounts payable	(4)	12
Other, net	(53)	(51)
Net Cash – Operating activities	62	125
Investing Activities		
Capital expenditures	(60)	(57)
Acquisitions, net of cash acquired	(81)	—
Proceeds from the sale of property, plant and equipment	3	3
Other, net	—	1
Net Cash – Investing activities	(138)	(53)
Financing Activities		
Repurchase of common stock	(18)	(3)
Proceeds from exercise of employee stock options	1	16
Dividends paid	(43)	(39)
Other, net	—	(5)
Net Cash – Financing activities	(60)	(31)
Effect of exchange rate changes on cash	(8)	(1)
Net change in cash and cash equivalents	(144)	40
Cash and cash equivalents at beginning of year	504	318
Cash and cash equivalents at end of period	\$ 360	\$ 358
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 26	\$ 26
Income taxes (net of refunds received)	\$ 52	\$ 54

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Background and Basis of Presentation

Background

Xylem Inc. ("Xylem" or the "Company") is a leading equipment and service provider for water and wastewater applications with a broad portfolio of products and services addressing the full cycle of water, from collection, distribution and use to the return of water to the environment. Xylem was incorporated in Indiana on May 4, 2011. On October 31, 2011 ITT Corporation ("ITT") completed the spin-off of Xylem, formerly ITT's water equipment and service businesses, and Exelis Inc. ("Exelis"), formerly ITT's defense and service businesses (the "Spin-off").

Xylem operates in two segments, Water Infrastructure and Applied Water. The Water Infrastructure segment focuses on the transportation, treatment and testing of water, offering a range of products including water and wastewater pumps, treatment and testing equipment, and controls and systems. The Applied Water segment serves many of the primary uses of water and focuses on the residential, commercial, industrial and agricultural markets. The Applied Water segment's major products include pumps, valves, heat exchangers, controls and dispensing equipment.

Hereinafter, except as otherwise indicated or unless the context otherwise requires, "Xylem," "we," "us," "our" and the "Company" refer to Xylem Inc. and its subsidiaries.

Basis of Presentation

The interim condensed consolidated financial statements reflect our financial position and results of operations in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All transactions between our businesses have been eliminated.

The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Annual Report") in preparing these unaudited condensed consolidated financial statements, with the exception of accounting standard updates described in Note 2. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our 2012 Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are revised as additional information becomes available. Estimates and assumptions are used for, but not limited to, postretirement obligations and assets, revenue recognition, income tax contingency accruals and valuation allowances, goodwill impairment testing and contingent liabilities. Actual results could differ from these estimates. Additionally, our interim condensed consolidated financial statements may not be indicative of our future performance.

Our quarterly financial periods end on the Saturday closest to the last day of the calendar quarter, except for the fourth quarter which ends on December 31. For ease of presentation, the condensed consolidated financial statements included herein are described as ending on the last day of the calendar quarter.

Note 2. Recently Issued Accounting Pronouncements

Pronouncements Not Yet Adopted

In July 2013, the Financial Accounting Standards Board ("FASB") issued guidance on the financial statement presentation of an unrecognized tax benefit. The guidance requires that an unrecognized tax benefit or a portion of an unrecognized tax benefit, be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If an applicable deferred tax asset is not available or a company does not expect to use the applicable deferred tax asset, the unrecognized tax benefit should be presented in an entity's financial statements as a liability and should not be combined with a deferred tax asset. This guidance is effective for fiscal years beginning after December 15, 2013. We are currently evaluating the impact of the guidance on our financial condition and results of operations.

In March 2013, the FASB issued guidance on the release of a cumulative translation adjustment ("CTA") related to an entity's investment in a foreign entity into income. The guidance requires such CTA to be released when there has been a: (1) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, (2) loss of a controlling financial interest in an investment in a foreign entity or (3) step acquisition for a foreign entity. This guidance is effective for fiscal years beginning after December 15, 2013. The impact of the guidance on our financial condition and results of operations will depend on the occurrence and the significance of transactions that meet the criteria described above.

In February 2013, the FASB issued guidance related to the measurement and disclosure of obligations resulting from joint and several liability arrangements. The new guidance requires companies to measure obligations resulting from joint and several liability arrangements as the sum of (1) the amount the company agreed to pay on the basis of its arrangement among co-obligors and (2) any additional amount the company expects to pay on behalf of its co-obligors. Additionally, the new guidance requires the disclosure of a description of the joint and several arrangement and the total outstanding amount of the obligation for all joint parties. This guidance is effective for fiscal years beginning after December 15, 2013. We are currently evaluating the impact of the guidance on our financial condition and results of operations.

Recently Adopted Pronouncements

In February 2013, the FASB issued guidance regarding new disclosures for items reclassified out of accumulated other comprehensive income ("AOCI"). The guidance requires entities to present information about items reclassified out of AOCI by component. Additionally, entities are required to present either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements, significant amounts reclassified out of AOCI by the respective line items of net income. This guidance is effective for fiscal years beginning after December 15, 2012. The adoption of this guidance did not have a material impact on our financial statement presentation and disclosures.

In July 2012, the FASB provided companies with the option to make an initial qualitative evaluation, based on events and circumstances, to determine the likelihood of an impairment of an indefinite-lived intangible asset. The results of this qualitative assessment determine whether it is necessary to perform the currently required quantitative comparison of the indefinite-lived intangible asset's fair value to its carrying amount. If it is more likely than not that the fair value of the intangible asset is less than its carrying amount, a company would be required to perform the quantitative assessment. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The adoption of the guidance did not have a material impact on our financial condition and results of operations.

Note 3. Acquisitions

During the three and six months ended June 30, 2013, we spent \$3 million and \$84 million (\$81 million, net of cash acquired) on acquisitions, respectively. As the acquisitions were not material, individually or in the aggregate, to results of operations, pro forma results of operations reflecting results prior to the acquisitions and certain other disclosure items have not been presented.

PIMS

On February 5, 2013 we acquired PIMS Group ("PIMS"), a wastewater services company based in the United Kingdom, for approximately \$57 million, including a cash payment of \$55 million and the assumption of certain liabilities. PIMS is a supplier of wastewater installation and maintenance services for the private sector, municipal and industrial markets. The company had approximately 220 employees and generated revenue of approximately \$38 million for its fiscal year ended April 30, 2012.

Our condensed consolidated financial statements include PIMS' results of operations prospectively from February 5, 2013.

MultiTrode

On March 1, 2013 we acquired MultiTrode Pty Ltd ("MultiTrode"), a water and wastewater technology and services company based in Australia, for approximately \$26 million. MultiTrode offers advanced monitoring and control technologies to municipal and private water and waste water authorities as well as industrial clients. The company has approximately 60 employees and generated revenue of approximately \$13 million in fiscal 2012.

Our condensed consolidated financial statements include MultiTrode's results of operations prospectively from March 1, 2013.

Note 4. Restructuring Charges

During the three and six months ended June 30, 2013, we recognized restructuring charges of \$20 million and \$25 million, respectively. We incurred these charges primarily in an effort to reorganize our structure in Europe and North America to address declines in sales volumes and optimize our cost structure. The charges relate to the reduction in structural costs, including the elimination of headcount and consolidation of facilities within both our Water Infrastructure and Applied Water segments. There were no restructuring charges recognized during the three and six months ended June 30, 2012.

The following table presents the components of restructuring expense for the three and six months ended June 30, 2013 and 2012.

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
By component:				
Severance and other charges	\$ 20	\$ —	\$ 25	\$ —
Reversal of restructuring accruals	—	—	—	—
Total restructuring charges	\$ 20	\$ —	25	—
By segment:				
Water Infrastructure	\$ 16	\$ —	\$ 21	\$ —
Applied Water	4	—	4	—
Corporate and other	—	—	—	—

The following table displays a rollforward of the restructuring accruals, presented on our Condensed Consolidated Balance Sheet within accrued and other current liabilities, for the six months ended June 30, 2013 and 2012.

(in millions)	2013	2012
Restructuring accruals - January 1	\$ 9	\$ 1
Severance and other	25	—
Cash payments	(11)	—
Other	(1)	(1)
Restructuring accruals - June 30	\$ 22	\$ —
By segment:		
Water Infrastructure	\$ 20	\$ —
Applied Water	2	—
Corporate and other	—	—

The following is a rollforward of employee position eliminations associated with restructuring activities for the six months ended June 30, 2013 and 2012.

	2013	2012
Planned reductions - January 1	54	—
Additional planned reductions	317	—
Actual reductions	(233)	—
Planned reductions - June 30	138	—

Total expected costs associated with actions that commenced during the six months ended June 30, 2013 are approximately \$25 million for Water Infrastructure and approximately \$6 million for Applied Water. These costs primarily comprise severance charges. We currently expect these actions to continue through the first quarter of 2014.

Note 5. Separation Costs

The components of non-recurring separation costs incurred as a result of the Spin-off are presented below.

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Advisory fees and other	\$ —	\$ 2	\$ —	\$ 5
Rebranding and marketing costs	—	2	—	4
Information and technology costs	—	1	1	1
Employee retention and hiring costs	—	1	—	1
Lease termination and other real estate costs	1	—	1	—
Total separation costs in operating income	1	6	2	11
Income tax benefit	—	(2)	—	(3)
Total separation costs, net of tax	\$ 1	\$ 4	\$ 2	\$ 8

Note 6. Income Taxes

Our quarterly provision for income taxes is measured using an estimated annual effective tax rate, adjusted for discrete items within periods presented. The comparison of our effective tax rate between periods is significantly impacted by the level and mix of earnings and losses by tax jurisdiction, foreign income tax rate differentials and amount of permanent book-to-tax differences.

The income tax provision for the three months ended June 30, 2013 was \$11 million at an effective tax rate of 20.3%, compared to \$26 million at an effective tax rate of 23.3% for the same period in 2012. The income tax provision for the six months ended June 30, 2013 was \$21 million at an effective tax rate of 19.7% compared to \$47 million at an effective tax rate of 23.9% for the same period in 2012. The decrease in the effective tax rate for the three and six months ended June 30, 2013 as compared to the same periods in 2012 was primarily due to mix of earnings, including the impact of realignment efforts, and the benefit from a discrete foreign tax refund in the first quarter of 2013.

Unrecognized Tax Benefits

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

The amount of unrecognized tax benefits at June 30, 2013 was \$8 million which, if ultimately recognized, will reduce our annual effective tax rate. We do not believe that the unrecognized tax benefits will significantly change within the next twelve months.

We classify interest relating to unrecognized tax benefits as a component of other non-operating expense, net and tax penalties as a component of income tax expense in our Condensed Consolidated Income Statements. As of June 30, 2013, we had \$1 million of interest accrued for unrecognized tax benefits.

Note 7. Earnings Per Share

The following is a summary of the calculation of basic and diluted net earnings per share.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income (in millions)	\$ 46	\$ 89	\$ 87	\$ 152
Shares (in thousands):				
Weighted average common shares outstanding	185,265	185,546	185,419	185,254
Add: Participating securities (a)	138	303	186	370
Weighted average common shares outstanding — Basic	185,403	185,849	185,605	185,624
Plus incremental shares from assumed conversions: (b)				
Dilutive effect of stock options	187	218	183	253
Dilutive effect of restricted stock	531	181	490	177
Weighted average common shares outstanding — Diluted	186,121	186,248	186,278	186,054
Basic earnings per share	\$ 0.25	\$ 0.48	\$ 0.47	\$ 0.82
Diluted earnings per share	\$ 0.25	\$ 0.48	\$ 0.47	\$ 0.82

- (a) Restricted stock awards containing rights to non-forfeitable dividends that participate in undistributed earnings with common shareholders are considered participating securities for purposes of computing earnings per share.
- (b) Incremental shares from stock options, restricted stock and performance share units are computed by the treasury stock method. The weighted average shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented or because they were excluded under the treasury stock method. The treasury stock method calculates dilution assuming the exercise of all in-the-money options and vesting of restricted stock and performance share awards, reduced by the repurchase of shares with the proceeds from the assumed exercises, unrecognized compensation expense for outstanding awards and the estimated tax benefit of the assumed exercises. Performance share units will be included in the treasury stock calculation of diluted earnings per share upon achievement of underlying performance conditions. See Note 15, "Stock-Based Compensation Plans" for further detail on the performance share units.

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Stock options	4,481	4,510	4,306	4,408
Restricted stock	862	993	810	918
Performance shares	119	—	80	—

Note 8. Inventories

(in millions)	June 30, 2013	December 31, 2012
Finished goods	\$ 191	\$ 182
Work in process	32	30
Raw materials	248	231
Total inventories, net	\$ 471	\$ 443

Note 9. Property, Plant and Equipment

(in millions)	June 30, 2013	December 31, 2012
Land, buildings and improvements	\$ 249	\$ 255
Machinery and equipment	651	653
Equipment held for lease or rental	184	183
Furniture and fixtures	86	90
Construction work in progress	49	40
Other	21	19
Total property, plant and equipment, gross	1,240	1,240
Less accumulated depreciation	770	753
Total property, plant and equipment, net	\$ 470	\$ 487

Depreciation expense of \$24 million and \$49 million was recognized during the three and six months ended June 30, 2013, respectively, and \$21 million and \$44 million for the three and six months ended June 30, 2012, respectively.

Note 10. Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2013 are as follows:

(in millions)	Water Infrastructure	Applied Water	Total
Balance as of January 1, 2013	\$ 1,085	\$ 562	\$ 1,647
<i>Activity in 2013</i>			
Goodwill acquired (a)	48	—	48
Foreign currency and other	(16)	(5)	(21)
Balance as of June 30, 2013	\$ 1,117	\$ 557	\$ 1,674

(a) Attributable to the 2013 acquisitions. See Note 3, "Acquisitions" for a description of the acquisitions during 2013.

Based on the results of our latest annual impairment tests, we determined that no impairment of goodwill existed as of the measurement date in 2012. However, future goodwill impairment tests could result in a charge to earnings. We will continue to evaluate goodwill on an annual basis as of the beginning of our fourth quarter and whenever events and changes in circumstances indicate there may be a potential impairment.

Other Intangible Assets

Information regarding our other intangible assets is as follows:

(in millions)	June 30, 2013			December 31, 2012		
	Carrying Amount	Accumulated Amortization	Net Intangibles	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	\$ 343	\$ (88)	\$ 255	\$ 317	\$ (75)	\$ 242
Proprietary technology	107	(32)	75	105	(29)	76
Trademarks	33	(14)	19	33	(14)	19
Patents and other	20	(17)	3	21	(17)	4
Indefinite-lived intangibles	146	—	146	143	—	143
	<u>\$ 649</u>	<u>\$ (151)</u>	<u>\$ 498</u>	<u>\$ 619</u>	<u>\$ (135)</u>	<u>\$ 484</u>

Based on the results of our latest annual impairment tests, we determined that no impairment of the indefinite-lived intangibles existed as of the measurement date in 2012. However, future impairment tests could result in a charge to earnings. We will continue to evaluate the indefinite-lived intangible assets on an annual basis as of the beginning of our fourth quarter and whenever events and changes in circumstances indicate there may be a potential impairment.

Amortization expense related to finite-lived intangible assets of \$10 million and \$19 million was recognized in the three and six months ended June 30, 2013, respectively, and \$9 million and \$17 million for the three and six months ended June 30, 2012, respectively.

Note 11. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions and principally manage our exposures to these risks through management of our core business activities. Certain of our foreign operations expose us to fluctuations of foreign interest rates and exchange rates that may impact revenues, expenses, cash receipts and payments. We enter into derivative financial instruments to protect the value or fix the amount of certain cash flows in terms of the functional currency of the business unit with that exposure.

Cash Flow Hedges of Foreign Exchange Risk

We are exposed to fluctuations in various foreign currencies against our functional currencies. We use foreign currency derivatives including currency forward agreements to manage our exposure to fluctuations in the various exchange rates. Currency forward agreements involve fixing the foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date.

Beginning in 2012, certain business units within our segments with exposure to foreign currency exchange risks have designated certain currency forward agreements as cash flow hedges of forecasted intercompany inventory purchases and sales. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in other comprehensive income and is subsequently reclassified into either revenue or cost of revenue (hedge of sales classified into revenue and hedge of purchases classified into cost of revenue) in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of the change in fair value of the derivative is recognized directly in selling, general and administrative expenses. Our policy is to de-

designate cash flow hedges at the time forecasted transactions are recognized as assets or liabilities on a business unit's balance sheet and report subsequent changes in fair value through selling, general and administrative expenses where the gain or loss due to movements in currency rates on the underlying asset or liability is recorded. If it becomes probable that the originally forecasted transaction will not occur, the gain or loss related to the hedge recorded within other comprehensive income is recognized into net income.

Listed in the table below are the outstanding foreign currency derivatives that were used to hedge foreign exchange risks as of June 30, 2013.

(in millions; except number of instruments)

Foreign Currency Derivative	Number of Instruments	Notional Sold	Sell Notional Currency	Notional Purchased	Buy Notional Currency
Sell AUD/ Buy EUR forward	8	14.6	Australian Dollar (AUD)	11.3	Euro (EUR)
Sell CAD/ Buy EUR Forward	10	11.2	Canadian Dollar (CAD)	8.4	Euro (EUR)
Sell GBP/ Buy EUR forward	5	5.0	British Pound Sterling (GBP)	5.8	Euro (EUR)
Sell USD/ Buy EUR forward	5	22.5	United States Dollar (USD)	17.2	Euro (EUR)
Buy SEK/ Sell EUR forward	5	82.8	Euro (EUR)	705.0	Swedish Krona (SEK)

The table below presents the effect of our derivative financial instruments on the Condensed Consolidated Income Statements and Statements of Comprehensive Income.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions)	2013	2012	2013	2012
Derivatives in Cash Flow Hedges				
Foreign Exchange Contracts				
Amount of (loss) gain recognized in OCI (a)	\$ —	\$ (2)	\$ (2)	\$ 2
Amount of (gain) reclassified from OCI into revenue (a)	—	—	(1)	—
Amount of (gain) reclassified from OCI into cost of revenue (a)	—	(1)	—	(1)

(a) Effective portion

As of June 30, 2013, \$2 million of the net unrealized losses on cash flow hedges is expected to be reclassified into earnings in the next 12 months. The ineffective portion of the change in fair value of a cash flow hedge is excluded from effectiveness testing and is recognized immediately in selling, general and administrative expenses in the Condensed Consolidated Income Statements. For the three and six months ended June 30, 2013 and 2012, the amounts were not material.

The fair values of our foreign exchange contracts currently included in our hedging program were as follows:

(in millions)	June 30, 2013	December 31, 2012
Derivatives designated as hedging instruments		
Assets		
Other current assets	\$ 2	\$ —
Liabilities		
Other current liabilities	(3)	—

Note 12. Accrued and Other Current Liabilities

(in millions)	June 30, 2013	December 31, 2012
Compensation and other employee-benefits	\$ 191	\$ 201
Customer-related liabilities	59	60
Accrued warranty costs	37	40
Accrued taxes	20	50
Other accrued liabilities	113	92
Total accrued and other current liabilities	<u>\$ 420</u>	<u>\$ 443</u>

Note 13. Credit Facilities and Long-Term Debt

(in millions)	June 30, 2013	December 31, 2012
Short-term borrowings and current maturities of long-term debt	\$ 5	\$ 6
Long-term debt		
3.550% Senior Notes due 2016 (a)	\$ 600	\$ 600
4.875% Senior Notes due 2021 (a)	600	600
Unamortized discount (b)	(1)	(1)
Long-term debt	<u>\$ 1,199</u>	<u>\$ 1,199</u>
Total debt	<u>\$ 1,204</u>	<u>\$ 1,205</u>

- (a) The fair value of our Senior Notes (as defined below) was determined using quoted prices in active markets for identical securities, which are considered Level 1 inputs. The fair value of our Senior Notes due 2016 was \$632 million and \$639 million as of June 30, 2013 and December 31, 2012, respectively. The fair value of our Senior Notes due 2021 was \$636 million and \$680 million as of June 30, 2013 and December 31, 2012, respectively.
- (b) The unamortized discount is recognized as a reduction in the carrying value of the Senior Notes (as defined below) in the Condensed Consolidated Balance Sheets and is being amortized to interest expense in our Condensed Consolidated Income Statements over the expected remaining terms of the Senior Notes.

Senior Notes

On September 20, 2011, we issued 3.550% Senior Notes of \$600 million aggregate principal amount due September 2016 (the "Senior Notes due 2016") and 4.875% Senior Notes of \$600 million aggregate principal amount due October 2021 (the "Senior Notes due 2021" and together with the Senior Notes due 2016, the "Senior Notes").

The Senior Notes include covenants which restrict our ability, subject to exceptions, to incur debt secured by liens and engage in sale and lease-back transactions, as well as provide for customary events of default (subject, in certain cases, to receipt of notice of default and/or customary grace and cure periods), including but not limited to: (i) failure to pay interest for 30 days, (ii) failure to pay principal when due, (iii) failure to perform any other covenant for 90 days after receipt of notice from the trustee or from holders of 25% of the outstanding principal amount and (iv) certain events of bankruptcy, insolvency or reorganization. We may redeem the Senior Notes, as applicable, in whole or in part, at any time at a redemption price equal to the principal amount of the Senior Notes to be redeemed, plus a make-whole premium. As of June 30, 2013, we were in compliance with all covenants. If a change of control triggering event (as defined in the Senior Notes indenture) occurs, we will be required to make an offer to purchase the Senior Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase.

Interest on the Senior Notes due 2016 is payable on March 20 and September 20 of each year. Interest on the Senior Notes due 2021 is payable on April 1 and October 1 of each year.

Four Year Competitive Advance and Revolving Credit Facility

Effective October 31, 2011, Xylem and its subsidiaries entered into a Four Year Competitive Advance and Revolving Credit Facility (the "Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, and a syndicate of lenders. The credit facility provides for an aggregate principal amount of up to \$600 million of (i) a competitive advance borrowing option which will be provided on an uncommitted competitive advance basis through an auction mechanism (the "competitive loans"), (ii) revolving extensions of credit (the "revolving loans") outstanding at any time and (iii) the issuance of letters of credit in a face amount not in excess of \$100 million outstanding at any time.

At our election, the interest rate per annum applicable to the competitive advances will be based on either (i) a Eurodollar rate determined by reference to LIBOR, plus an applicable margin offered by the lender making such loans and accepted by us or (ii) a fixed percentage rate per annum specified by the lender making such loans. At our election, interest rate per annum applicable to the revolving loans will be based on either (i) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin or (ii) a fluctuating rate of interest determined by reference to the greatest of: (a) the prime rate of JPMorgan Chase Bank, N.A., (b) the U.S. Federal Funds effective rate plus half of 1% or (c) the Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, in each case, plus an applicable margin.

In accordance with the terms, we may not exceed a maximum leverage ratio of 3.50 (based on a ratio of total debt to earnings before interest, taxes, depreciation and amortization) throughout the term. As of June 30, 2013, we were in compliance with all covenants. The Credit Facility also contains limitations on, among other things, incurring debt, granting liens, and entering sale and leaseback transactions. In addition, the Credit Facility contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default.

As of June 30, 2013, the Credit Facility remains undrawn.

Research and Development Facility Agreement

Effective December 14, 2012, we entered into a Risk Sharing Finance Facility Agreement (the "R&D Facility Agreement") with The European Investment Bank ("EIB") in an aggregate principal amount of up to €120 million (approximately \$157 million) to finance research projects and research infrastructures in the European Union. The Company's wholly owned subsidiary in Luxembourg, Xylem Holdings S.a.r.l., is the borrower under the R&D Facility Agreement. The funds are made available to finance research and development projects during the period of 2013 through 2016 at the Company's R&D facilities in Sweden, Germany, Italy, the United Kingdom, Austria, Norway and Hungary.

Under the R&D Facility Agreement, the borrower can, starting no later than 18 months from the date of the R&D Facility Agreement, draw loans with a maturity of no longer than 12 years. The R&D Facility Agreement provides for Fixed Rate loans and Floating Rate loans. The interest rate per annum applicable to Fixed Rate loans will be at a fixed percentage rate per annum specified by EIB which includes the applicable margin. The interest rate per annum applicable to Floating Rate loans will be at the rate determined by reference to EURIBOR for loans drawn in Euros and LIBOR for loans drawn in Sterling or U.S. Dollars, plus an applicable spread specified by EIB, which includes the applicable margin. The applicable margin for both Fixed Rate loans and Floating Rate loans shall be determined by reference to the credit rating of the Company.

In accordance with the terms, we may not exceed a maximum leverage ratio of 3.50 (based on a ratio of total debt to earnings before interest, taxes, depreciation and amortization) throughout the term. As of June 30, 2013, we were in compliance with all covenants. The R&D Facility Agreement also contains limitations on, among other things, incurring debt, granting liens, and entering sale and leaseback transactions. In addition, the R&D Facility Agreement contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default.

As of June 30, 2013, the R&D Facility Agreement remains undrawn.

Note 14. Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost and other amounts recognized in other comprehensive income for defined benefit pension plans, disaggregated by domestic and international plans.

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Domestic defined benefit pension plans:				
Net periodic benefit cost:				
Service cost	\$ —	\$ —	\$ 1	\$ 1
Interest cost	1	1	2	2
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of net actuarial loss	1	1	2	1
Net periodic benefit cost	\$ 1	\$ 1	\$ 3	\$ 2
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of net actuarial loss	(1)	(1)	(2)	(1)
Change recognized in other comprehensive income	\$ (1)	\$ (1)	\$ (2)	\$ (1)
International defined benefit pension plans:				
Net periodic benefit cost:				
Service cost	\$ 4	\$ 2	\$ 7	\$ 5
Interest cost	7	7	14	14
Expected return on plan assets	(8)	(7)	(16)	(15)
Amortization of net actuarial loss	3	2	6	4
Settlement	—	—	—	2
Net periodic benefit cost	\$ 6	\$ 4	\$ 11	\$ 10
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of net actuarial loss	(3)	(2)	(6)	(4)
Settlement	—	—	—	(2)
Change recognized in other comprehensive income	\$ (3)	\$ (2)	\$ (6)	\$ (6)
Totals:				
Net periodic benefit cost	\$ 7	\$ 5	\$ 14	\$ 12
Recognized in other comprehensive income	(4)	(3)	(8)	(7)
Total recognized in comprehensive income	\$ 3	\$ 2	\$ 6	\$ 5

The total net periodic benefit cost for other postretirement employee benefit plans for the three and six months ended June 30, 2013 was \$2 million and \$3 million, respectively, including amounts recognized in other comprehensive income of \$1 million for both periods. Total net periodic benefit cost for other postretirement benefit plans for the three and six months ended June 30, 2012 was \$1 million and \$2 million, respectively. Amounts recognized in other comprehensive income were immaterial for the three and six months ended June 30, 2012.

We contributed \$21 million and \$19 million to postretirement benefit plans during the six months ended June 30, 2013 and 2012, respectively. Additional contributions ranging between approximately \$18 million and \$28 million are expected during the remainder of 2013.

Note 15. Stock-Based Compensation Plans

Share-based compensation expense was \$6 million and \$12 million during the three and six months ended June 30, 2013, respectively, and \$5 million and \$10 million for the three and six months ended June 30, 2012, respectively. The unamortized compensation expense related to our stock options, restricted shares and performance based shares was \$14 million, \$27 million and \$3 million, respectively, at June 30, 2013 and is expected to be recognized over a weighted average period of 1.9, 1.9 and 2.7 years, respectively. The amount of cash received from the exercise of stock options was \$1 million and \$16 million for the six months ended June 30, 2013 and 2012, respectively. We classify as a financing activity the cash flows attributable to excess tax benefits arising from stock option exercises and restricted stock lapses.

Restricted Stock Grants

The following is a summary of restricted stock activity for the six months ended June 30, 2013:

(in thousands, except for per share amounts)	Shares	Weighted Average Grant Date Fair Value /Share
Outstanding at January 1, 2013	1,588	\$ 26.92
Granted	481	\$ 27.47
Vested	(261)	\$ 29.48
Forfeited	(36)	\$ 28.39
Outstanding at June 30, 2013	1,772	\$ 26.64

Performance-Based Share Grants

As part of the annual March 2013 grant under the long-term incentive plan, performance-based shares were granted to all executive officers of the Company. The performance-based shares vest based upon performance by the Company over a three-year period against targets approved by the compensation committee of the Company's Board of Directors prior to the grant date. For the 2013-2015 performance period, the performance-based shares were granted at a target of 100% with actual payout contingent upon the achievement of a pre-set, three-year adjusted Return on Invested Capital and cumulative adjusted net income performance target. Compensation costs resulting from share-based payment transactions are recognized primarily within selling, general and administrative expenses, at fair value over the requisite service period (typically three years) on a straight-line basis. The calculated compensation cost is adjusted based on an estimate of awards ultimately expected to vest and our assessment of the probable outcome of the performance condition. The fair value of performance-based share awards at 100% target is determined using the closing price of our common stock on date of grant.

The following is a summary of performance-based share grants for the six months ended June 30, 2013:

(in thousands, except for per share amounts)	Shares	Weighted Average Grant Date Fair Value /Share
Outstanding at January 1, 2013	—	\$ —
Granted	119	\$ 27.49
Vested	—	\$ —
Forfeited	—	\$ —
Outstanding at June 30, 2013	119	\$ 27.49

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2013:

(in thousands, except for per share amounts)	Shares	Weighted Average Exercise Price /Share	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2013	4,083	\$ 26.46	6.4
Granted	813	\$ 27.43	10.0
Exercised	(62)	\$ 21.00	2.5
Forfeited	(187)	\$ 29.33	0.4
Outstanding at June 30, 2013	4,647	\$ 26.54	6.8
Options exercisable at June 30, 2013	2,249	\$ 26.29	4.7

The aggregate intrinsic value of all outstanding and exercisable stock options as of June 30, 2013 was \$8 million and \$5 million, respectively. The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) during the six months ended June 30, 2013 was less than \$1 million.

Stock Option Fair Value

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

Dividend yield	1.69%
Volatility	31.10%
Risk-free interest rate	1.27%
Expected term (in years)	6.63
Weighted-average fair value / share	\$7.58

Expected volatility is calculated based on an analysis of historic and implied volatility measures for a set of peer companies. We use historical data to estimate option exercise and employee termination behavior within the valuation model. Employee groups and option characteristics are considered separately for valuation purposes. The expected term represents an estimate of the period of time options are expected

to remain outstanding. The expected term provided above represents the weighted average of expected behavior for certain groups of employees who have historically exhibited different behavior. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of option grant.

Note 16. Accumulated Other Comprehensive Income (Loss)

The following table provides the components of accumulated other comprehensive income for the three months ended June 30, 2013:

(in millions)	Foreign Currency Translation	Postretirement Benefit Plans	Derivative Instruments	Total
Balance at April 1, 2013	\$ 293	\$ (219)	\$ (2)	\$ 72
Foreign currency translation adjustment	(21)	—	—	(21)
Amortization of net actuarial loss on postretirement benefit plans into:				
Cost of revenue	—	1	—	1
Selling, general and administrative expenses	—	3	—	3
Other non-operating expense, net	—	1	—	1
Income tax expense on amortization of postretirement benefit plan items	—	(1)	—	(1)
Balance at June 30, 2013	\$ 272	\$ (215)	\$ (2)	\$ 55

The following table provides the components of accumulated other comprehensive income for the six months ended June 30, 2013:

(in millions)	Foreign Currency Translation	Postretirement Benefit Plans	Derivative Instruments	Total
Balance at January 1, 2013	\$ 336	\$ (222)	\$ 1	\$ 115
Foreign currency translation adjustment	(64)	—	—	(64)
Amortization of net actuarial loss on postretirement benefit plans into:				
Cost of revenue	—	2	—	2
Selling, general and administrative expenses	—	5	—	5
Other non-operating expense, net	—	2	—	2
Income tax expense on amortization of postretirement benefit plan items	—	(2)	—	(2)
Unrealized loss on foreign exchange agreements	—	—	(2)	(2)
Reclassification of unrealized gain on foreign exchange agreements into revenue	—	—	(1)	(1)
Balance at June 30, 2013	\$ 272	\$ (215)	\$ (2)	\$ 55

Note 17. Commitments and Contingencies

General

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses, including acquisitions and divestitures, environmental matters, intellectual property matters, product liability and personal injury claims, employment and pension matters, government and commercial contract disputes. Although we cannot predict the outcome of these and other proceedings with certainty, we believe that they will not have a material adverse effect on our condensed consolidated financial position or results of operations.

While very few claims have been asserted against Xylem alleging injury caused by any of our products resulting from asbestos exposure, it is possible that additional claims could be filed in the future. We believe there are numerous legal defenses available for such claims and would defend ourselves vigorously. Pursuant to the Distribution Agreement ("Distribution Agreement") dated October 25, 2011 among ITT, Exelis and Xylem, ITT will indemnify, defend and hold Xylem harmless for asbestos product liability matters, including settlements, judgments, and legal defense costs associated with all pending and future claims that may arise from past sales of ITT's legacy products. We believe ITT remains a substantial entity with sufficient financial resources to honor its obligations to us.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claims, we do not expect that any asserted or unasserted legal claims or proceedings, individually or in aggregate, will have a material adverse effect on our results of operations or financial condition.

Indemnifications

As part of the Spin-off, ITT, Exelis and Xylem will indemnify, defend and hold harmless each of the other parties with respect to such parties' assumed or retained liabilities under the Distribution Agreement and breaches of the Distribution Agreement or related spin agreements. ITT's indemnification obligations include asserted and unasserted asbestos and silica liability claims that relate to the presence or alleged presence of asbestos or silica in products manufactured, repaired or sold prior to October 31, 2011, the Distribution Date, subject to limited exceptions with respect to certain employee claims, or in the structure or material of any building or facility, subject to exceptions with respect to employee claims relating to Xylem buildings or facilities. The indemnification associated with pending and future asbestos claims does not expire. Xylem has not recorded a liability for material matters for which we will be indemnified by ITT or Exelis through the Distribution Agreement and we are not aware of any claims or other circumstances that would give rise to material payments from us under such indemnifications.

Environmental

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

Accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and

existing technologies. Our accrued liabilities for these environmental matters represent the best estimates related to the investigation and remediation of environmental media such as water, soil, soil vapor, air and structures, as well as related legal fees. These estimates, and related accruals, are reviewed quarterly and updated for progress of investigation and remediation efforts and changes in facts and legal circumstances. Liabilities for these environmental expenditures are recorded on an undiscounted basis. We have estimated and accrued \$10 million and \$11 million as of June 30, 2013 and December 31, 2012 for environmental matters, respectively.

It is difficult to estimate the final costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of investigation or remediation and our share, if any, of liability for such conditions, the selection of alternative remedial approaches, and changes in environmental standards and regulatory requirements. In our opinion, the total amount accrued is reasonable based on existing facts and circumstances.

Warranties

We warrant numerous products, the terms of which vary widely. In general, we warrant products against defect and specific non-performance. The table below provides the changes in our product warranty accrual.

(in millions)	2013	2012
Warranty accrual – January 1	\$ 40	\$ 42
Net changes for product warranties in the period	17	15
Settlement of warranty claims	(19)	(16)
Other	(1)	(1)
Warranty accrual – June 30	<u>\$ 37</u>	<u>\$ 40</u>

Note 18. Segment Information

Our business is organized into two reportable segments: Water Infrastructure and Applied Water. The Water Infrastructure segment, comprising our Water Solutions and Analytics operating units, focuses on the transportation, treatment and testing of water, offering a range of products including water and wastewater pumps, treatment and testing equipment, and controls and systems. The Applied Water segment serves many of the primary uses of water and focuses on the residential, commercial, industrial and agricultural markets. Corporate and other consists of corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs, as well as charges related to certain matters, such as the Spin-off and environmental matters that are managed at a corporate level and are not included in the business segments in evaluating performance or allocating resources.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1 in the 2012 Annual Report). The following tables contain financial information for each reportable segment.

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenue:				
Water Infrastructure	\$ 596	\$ 609	\$ 1,147	\$ 1,193
Applied Water	381	373	726	728
Eliminations	(17)	(16)	(34)	(30)
Total	\$ 960	\$ 966	\$ 1,839	\$ 1,891
Operating Income:				
Water Infrastructure	\$ 41	\$ 93	\$ 83	\$ 167
Applied Water	45	52	85	92
Corporate and other	(16)	(16)	(32)	(31)
Total	\$ 70	\$ 129	\$ 136	\$ 228
Depreciation and Amortization:				
Water Infrastructure	\$ 28	\$ 24	\$ 56	\$ 50
Applied Water	6	7	14	14
Corporate and other	3	2	4	3
Total	\$ 37	\$ 33	\$ 74	\$ 67
Capital Expenditures:				
Water Infrastructure	\$ 21	\$ 21	\$ 38	\$ 41
Applied Water	8	3	19	13
Corporate and other	2	2	3	3
Total	\$ 31	\$ 26	\$ 60	\$ 57

The following table contains the total assets for each reportable segment.

(in millions)	Total Assets	
	June 30, 2013	December 31, 2012
Water Infrastructure	\$ 2,908	\$ 2,844
Applied Water	1,290	1,253
Corporate and other	413	582
Total	\$ 4,611	\$ 4,679

Corporate and other consists of items pertaining to our corporate headquarters function, which principally consist of cash, deferred tax assets, pension assets and certain property, plant and equipment.

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

This report contains information that may constitute "forward-looking statements." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking.

These forward-looking statements include, but are not limited to, statements about the separation of Xylem Inc. ("Xylem" or the "Company") from ITT Corporation in 2011, capitalization of the Company, future strategic plans and other statements that describe the Company's business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, sales, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements.

Caution should be taken not to place undue reliance on any such forward-looking statements because they involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company's historical experience and our present expectations or projections. For a more detailed discussion of these factors, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Annual Report") and with subsequent filings we make with the Securities and Exchange Commission.

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the notes thereto, included elsewhere in this report. Except as otherwise indicated or unless the context otherwise requires, "Xylem," "we," "us," "our" and the "Company" refer to Xylem Inc. and its subsidiaries. References in the condensed consolidated financial statements to "ITT" or "parent" refer to ITT Corporation and its consolidated subsidiaries (other than Xylem Inc.).

Our quarterly financial periods end on the Saturday closest to the last day of the calendar quarter, except for the fourth quarter which ends on December 31. For ease of presentation, the reporting periods included herein are described as ending on the last day of the calendar quarter.

On October 31, 2011 ITT completed the spin-off of Xylem, formerly ITT's water equipment and service businesses, and Exelis Inc. ("Exelis"), formerly ITT's defense and service businesses (the "Spin-off").

Overview

Xylem is a leading equipment and service provider for water and wastewater applications with a broad portfolio of products and services addressing the full cycle of water, from collection, distribution and use to the return of water to the environment. Our business focuses on providing technology-intensive equipment and services. Our product and service offerings are organized into two segments: Water Infrastructure and Applied Water. Our segments are aligned with each of the sectors in the cycle of water, supply infrastructure and usage applications. The Water Infrastructure segment focuses on the transportation, treatment and testing of water, offering a range of products including water and wastewater pumps, treatment and testing equipment, and controls and systems. The Applied Water segment serves many of the primary uses of water and focuses on the residential, commercial, industrial and agricultural markets. The segment's major products include pumps, valves, heat exchangers, controls and dispensing equipment.

- *Water Infrastructure* serves the supply infrastructure sector with pump systems that transport water from aquifers, lakes, rivers and seas; with filtration, ultraviolet and ozone systems that provide treatment, making the water fit to use; and pumping solutions that move the wastewater to treatment facilities where our mixers, biological treatment, monitoring, and control systems provide the primary functions in the treatment process. We provide analytical instrumentation used to measure water quality, flow, and level in wastewater, surface water, and coastal environments.
- *Applied Water* serves the usage applications sector with water pressure boosting systems for heating, ventilation and air conditioning and for fire protection systems to the residential and commercial building services markets. In addition, our pumps, heat exchangers, valves and controls provide cooling to power plants and manufacturing facilities, as well as circulation for food and beverage processing. We also provide boosting systems for farming irrigation, pumps for dairy operations, and rainwater reuse systems for small scale crop and turf irrigation.

We sell our equipment and services via direct and indirect channels that serve the needs of each customer type. In the Water Infrastructure segment for the year ended 2012, we provided more than 70% direct sales with strong application expertise, with the remaining amount going through distribution partners. In the Applied Water segment, we provided more than 85% of our sales in 2012 through long-standing relationships with the world's leading distributors, with the remainder going direct to customers. We believe the total market opportunity for this equipment and services portion of the water industry supply chain is estimated at \$280 billion.

Executive Summary

Xylem reported revenue for the second quarter 2013 of \$960 million, a decrease of 0.6% compared to \$966 million during the second quarter of 2012. Revenue declined 1.0% on a constant currency basis, driven by sales volume declines across most applications, partially offset by the benefits from the launch of new products. The 2012 and 2013 acquisitions within our Water Infrastructure segment contributed \$23 million of incremental revenue for the second quarter 2013. Operating income for the second quarter 2013 was \$70 million, reflecting a decrease of \$59 million or 45.7% compared to \$129 million in the second quarter of 2012 primarily due to the sales volume decline, costs incurred from our restructuring and realignment actions, continued investment in the business, and foreign currency exchange headwinds, partially offset by savings from our cost reduction initiatives and our restructuring activities in 2012 and 2013.

Additional financial highlights for the quarter ended June 30, 2013 include the following:

- Orders of \$1,009 million, or 4% growth from \$970 million in the second quarter of the prior year
- Net income of \$46 million, or \$0.25 per diluted share (\$0.36 on an adjusted basis) for the second quarter of 2013
- Cash flow from operating activities of \$62 million for the six months ended June 30, 2013

Key Performance Indicators and Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margin, segment and total operating income and margins, earnings per share, orders growth, working capital, free cash flow and backlog, among others. In addition, we consider certain measures to be useful to management and investors evaluating our operating performance for the periods presented, and to provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for

deployment among competing strategic alternatives and initiatives, including, but not limited to, dividends and acquisitions, share repurchases and debt repayment. These metrics, however, are not measures of financial performance under accounting principles generally accepted in the United States of America ("GAAP") and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operations as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

- "organic revenue" and "organic orders" defined as revenue and orders, respectively, excluding the impact of foreign currency fluctuations, intercompany transactions and contributions from acquisitions and divestitures. Divestitures include sales of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.
- "constant currency" defined as financial results adjusted for currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.
- "adjusted net income" and "adjusted earnings per share" defined as net income and earnings per share, respectively, adjusted to exclude non-recurring separation costs from the Spin-off (not excluded in 2013), restructuring and realignment costs and tax-related special items. A reconciliation of adjusted net income is provided below.

(In millions, except for per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 46	\$ 89	\$ 87	\$ 152
Separation costs, net of tax (a)	—	4	—	8
Restructuring and realignment, net of tax	20	—	29	—
Tax-related special items	—	(1)	—	(1)
Adjusted net income	\$ 66	\$ 92	\$ 116	\$ 159
Weighted average number of shares - Diluted	186.1	186.2	186.3	186.1
Adjusted earnings per share	\$ 0.36	\$ 0.49	\$ 0.62	\$ 0.85

(a) Costs of \$1 million (\$1 million, net of tax) and \$2 million (\$2 million, net of tax) for the three and six months ended June 30, 2013, respectively, associated with non-recurring separation activities are not excluded from adjusted net income.

- "operating expenses excluding separation, restructuring and realignment costs" defined as operating expenses, adjusted to exclude non-recurring separation costs from the Spin-off (not excluded in 2013), restructuring and realignment costs.
- "adjusted segment operating income" defined as segment operating income, adjusted to exclude non-recurring separation costs from the Spin-off (not excluded in 2013), restructuring and realignment costs and "adjusted segment operating margin" defined as adjusted segment operating income divided by total segment revenue.
- "free cash flow" defined as net cash provided by operating activities less capital expenditures, as well as adjustments for other significant items that impact current results that management believes are not related to our ongoing operations and performance. Our definition of free cash

flow does not consider certain non-discretionary cash payments, such as debt. The following table provides a reconciliation of free cash flow.

(In millions)	Six Months Ended	
	June 30,	
	2013	2012
Net cash provided by operating activities	\$ 62	\$ 125
Capital expenditures	(60)	(57)
Separation cash payments (a)	—	18
Free cash flow	\$ 2	\$ 86

(a) Separation cash payments associated with non-recurring separation activities are included in the 2013 free cash flow. Separation cash payments are excluded from free cash flow in 2012 and include capital expenditures associated with the Spin-off of \$2 million.

- “realignment costs” defined as non-recurring costs not included in restructuring costs that are incurred as part of actions taken to reposition our business, including items such as professional fees, relocation, travel and other costs.

2013 Outlook

The current global market conditions, particularly the economic conditions within Europe and the United States, have continued to negatively impact the Company. We continue to be impacted by the adverse economic environment in Europe, and difficult market conditions have inhibited growth during the first half of 2013. In the United States, market uncertainty, combined with delays in government funding, have resulted in weaker performance in the industrial markets and delays in public utility projects. These economic conditions are expected to continue to be significantly challenging for the remainder of 2013. We are continuing to execute restructuring and realignment actions to reposition our European business to optimize our cost structure and improve our operational efficiency and effectiveness. During the second quarter of 2013, we incurred \$20 million and \$8 million in restructuring and realignment costs, respectively. We expect to incur approximately \$40 to \$50 million in restructuring costs, and approximately \$20 to \$30 million in realignment costs for the full year. As a result of the actions started in 2013, we continue to anticipate approximately \$13 to \$15 million of net savings to be realized during 2013. Additional strategic actions we are taking include investing in growth platforms and new product development, as well as drawing operating efficiencies through lean six sigma and global sourcing initiatives.

Additionally, we currently generate nearly two-thirds of our revenue outside the U.S., which is impacted by changes in foreign currency exchange rates, particularly the Euro, Swedish Krona, British Pound, Australian Dollar, Canadian Dollar, South African Rand, Polish Zloty, and Hungarian Forint. Upon consolidation, as exchange rates vary, our revenue and other operating results may differ from expectations. In this uncertain economy, significant fluctuations in foreign exchange rates may continue.

Results of Operations

(In millions)	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
	2013	2012	Change	2013	2012	Change
Revenue	\$ 960	\$ 966	(0.6) %	\$ 1,839	\$ 1,891	(2.7) %
Gross Profit	371	383	(3.1) %	705	746	(5.5) %
<i>Gross Margin</i>	38.6%	39.6%	(100) bp	38.3%	39.5%	(120) bp
Operating expenses excluding separation, restructuring and realignment costs (a)	273	248	10.1 %	529	507	4.3 %
<i>Expense to revenue ratio</i>	28.4%	25.7%	270 bp	28.8%	26.8%	200 bp
Restructuring and realignment costs	28	—	NM*	40	—	NM*
Separation costs (a)	—	6	NM*	—	11	NM*
Total operating expenses	301	254	18.5 %	569	518	9.8 %
Operating Income	70	129	(45.7) %	136	228	(40.4) %
<i>Operating Margin</i>	7.3%	13.4%	(610) bp	7.4%	12.1%	(470) bp
Interest and other non-operating expense, net	13	14	(7.1) %	28	29	(3.4) %
Income tax expense	11	26	(57.7) %	21	47	(55.3) %
<i>Tax rate</i>	20.3%	23.3%	(300) bp	19.7%	23.9%	(420) bp
Net Income	\$ 46	\$ 89	(48.3) %	\$ 87	\$ 152	(42.8) %

(a) Separation costs of \$1 million and \$2 million for the three and six months ended June 30, 2013, respectively, are included within the \$273 million and \$529 million of operating expenses.

* NM - Not meaningful percentage change

Revenue

Revenue generated during the three and six months ended June 30, 2013 was \$960 million and \$1,839 million, respectively, reflecting a decrease of \$6 million or 0.6% and \$52 million or 2.7%, respectively, compared to the same prior year periods. On a constant currency basis, revenue fell 1.0% and 2.9% for the three and six months ended June 30, 2013, respectively.

The following table illustrates the impact from organic growth, recent acquisitions and fluctuations in foreign currency in relation to revenue during the three and six months ended June 30, 2013:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	Change	% Change	Change	% Change
2012 Revenue	\$ 966		\$ 1,891	
Organic growth	(33)	(3.4)%	(100)	(5.3)%
Acquisitions	23	2.4 %	46	2.4 %
Constant Currency	(10)	(1.0)%	(54)	(2.9)%
Foreign currency translation (a)	4	0.4 %	2	0.1 %
Total change in revenue	(6)	(0.6)%	(52)	(2.7)%
2013 Revenue	\$ 960		\$ 1,839	

(a) Foreign currency impact primarily due to fluctuations in the value of the Euro, British Pound, Swedish Krona and South African Rand against the U.S. Dollar.

The following table summarizes revenue by segment:

(In millions)	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2013	2012	As Reported Change	Constant Currency Change	2013	2012	As Reported Change	Constant Currency Change
Water Infrastructure	\$ 596	\$ 609	(2.1)%	(2.5)%	\$ 1,147	\$ 1,193	(3.9)%	(3.9)%
Applied Water	381	373	2.1 %	1.3 %	726	728	(0.3)%	(1.0)%
Eliminations	(17)	(16)			(34)	(30)		
Total	\$ 960	\$ 966	(0.6)%	(1.0)%	\$ 1,839	\$ 1,891	(2.7)%	(2.9)%

Water Infrastructure

Water Infrastructure revenue decreased \$13 million, or 2.1% for the second quarter of 2013 (2.5% decrease at constant currency) and \$46 million, or 3.9% for the six months ended June 30, 2013 (3.9% decrease at constant currency) compared to the respective 2012 periods. The declines were primarily driven by decreases in organic revenue due to lower volumes which were partially offset by the benefits derived from acquisitions and strength in after-market services.

Organic revenue decreased \$38 million or 6.2% during the quarter ended June 30, 2013 driven primarily from lower volumes in treatment and transport applications, partially offset by increased revenue from disaster recovery in our dewatering business. In treatment, the decrease to the 2012 period was a result of continued weakness in Europe, as well as a difficult compare due to the shipment of large custom projects in the Middle East region in the prior year, which was partially offset by strength in the after-market services as customers extended service contracts due to project delays. Within transport, the decrease from the prior year stemmed from year-over-year timing of projects in the Asia Pacific and Latin America regions. Test applications also experienced lower revenue driven by delays in orders and the government sequestration in the United States which more than offset incremental revenue from price increases, new products and cross-branding initiatives.

Organic revenue decreased \$93 million or 7.8% during the six months ended June 30, 2013 predominately due to the same dynamics impacting organic revenue for the second quarter combined with distributors maintaining lower stock levels as compared to the prior year.

Revenue from the 2013 and 2012 acquisitions contributed \$23 million and \$46 million during the three and six months ended June 30, 2013, respectively.

Applied Water

Applied Water revenue increased \$8 million, or 2.1% for the second quarter of 2013 (1.3% increase at constant currency) and decreased \$2 million, or 0.3% for the six months ended June 30, 2013 (1.0% decrease at constant currency) compared to the respective 2012 periods. Organic revenue was the primary driver of the fluctuations for the three and six months ended June 30, 2013.

Organic revenue increased \$5 million, or 1.3% for the second quarter of 2013 driven by modest improvement in the United States residential and commercial building services markets aided by timing of shipments. Revenue was also aided by strength in the emerging markets within the industrial water market, as well as growth in the agriculture markets from the continued warm, dry weather conditions in the United States. Additionally, incremental revenue was provided by the realization of price increases. The increases for the second quarter were partially offset by weakness across all end markets in Europe, especially within southern Europe, as well as weakness in the United States industrial water market.

Organic revenue decreased \$7 million, or 1.0% during the six months ended June 30, 2013 as lower sales volume experienced in the first three months of 2013 and the weakness in the European businesses more than offset the growth realized in the second quarter of 2013.

Orders / Backlog

Orders received during the second quarter of 2013 of \$1,009 million increased by \$39 million, or 4.0% over the second quarter of the prior year (3.8% increase at constant currency), including a benefit of \$25 million from acquisitions. Orders received during the six months ended June 30, 2013 of \$1,971 million decreased by \$3 million from the respective prior year period, or 0.2% (0.2% decrease at constant currency). Organic order growth increased 1.2% for the second quarter and decreased 2.7% for the six months ended June 30, 2013.

The Water Infrastructure segment orders increased \$30 million, or 4.9% to \$647 million (4.7% increase at constant currency) for the quarter ended June 30, 2013 as compared to the prior year, including \$25 million from acquisitions. Organic orders increased 0.6% during the second quarter principally due to the stabilization of market conditions within the transport application. The increase was driven by increased revenue from disaster recovery efforts in our dewatering business. For the first six months ended June 30, 2013 orders decreased \$7 million, or 0.6% to \$1,248 million (0.5% decrease at constant currency) as compared to the prior year period. The decrease in the year to date organic orders of 4.5% is attributable to the lower volume demand and economic uncertainty in Europe.

Applied Water orders increased \$8 million, or 2.2% (2.2% increase at constant currency) and \$4 million, or 0.5% (0.4% increase at constant currency) for the three and six months ended June 30, 2013, respectively. Organic order volume increased for the three month period as a result of similar market dynamics impacting revenue. For the six months ended June 30, 2013, the increase in orders in the segment was due to strong performance in the residential building services market in the United States and commercial building services market in China, partially offset by general market weakness in Southern Europe.

Delivery schedules vary from customer to customer based upon their requirements. Typically, large projects require longer lead production cycles and delays can occur from time to time. Total backlog was \$759 million at June 30, 2013, an increase of \$39 million or 5.4% as compared to \$720 million at June 30, 2012 and an increase of \$112 million or 17.3% as compared to \$647 million at December 31, 2012. We anticipate that approximately 81% of the backlog at June 30, 2013 will be recognized as revenue in the remainder of 2013.

Gross Margin

Gross margin as a percentage of revenue declined to 38.6% and 38.3% for the three and six months ended June 30, 2013, respectively, compared to 39.6% and 39.5%, respectively, for the comparable periods of 2012. The decrease is primarily attributable to unfavorable impacts of revenue volume decreases, geographic sales mix and additional costs associated with recent acquisitions. The decreases were partially mitigated by benefits from restructuring savings and cost saving initiatives such as lean six sigma and global sourcing.

Operating Expenses

The following table presents operating expenses for the three and six months ended June 30, 2013 and 2012:

(In millions)	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
	2013	2012	Change	2013	2012	Change
Selling, general and administrative expenses (SG&A)	\$ 252	\$ 220	14.5 %	\$ 488	\$ 451	8.2 %
SG&A as a % of revenue	26.3%	22.8%	350 bp	26.5%	23.8%	270 bp
Research and development expenses (R&D)	28	28	— %	54	56	(3.6) %
R&D as a % of revenue	2.9%	2.9%	— bp	2.9%	3.0%	(10) bp
Restructuring charges	20	—	NM*	25	—	NM*
Separation costs	1	6	(83.3) %	2	11	(81.8) %
Operating expenses	\$ 301	\$ 254	18.5 %	\$ 569	\$ 518	9.8 %
Expense to revenue ratio	31.4%	26.3%	510 bp	30.9%	27.4%	350 bp

*NM - Not meaningful percentage change

Selling, General and Administrative Expenses

SG&A increased by \$32 million to \$252 million or 26.3% of revenue in the second quarter of 2013, as compared to \$220 million or 22.8% of revenue in the second quarter of 2012; and increased by \$37 million to \$488 million or 26.5% of revenue in the six months ended June 30, 2013, as compared to \$451 million or 23.8% of revenue in 2012. The increase in SG&A expenses as a percentage of revenue is primarily due to revenue volume declines. Additionally, realignment costs incurred by the Company to reposition our European business in an effort to optimize our cost structure and improve our operational efficiency and effectiveness, as well as impacts from acquisitions and investments in growth platforms, increased our SG&A expenses for the three and six months ended June 30, 2013.

Research and Development Expenses

R&D spending was flat at \$28 million or 2.9% of revenue in the second quarter of 2013 as compared to \$28 million or 2.9% of revenue in the comparable period of 2012; and decreased by \$2 million to \$54 million or 2.9% of revenue in the six months ended June 30, 2013, as compared to \$56 million or 3.0% of revenue in 2012. The decrease to R&D for the year-to-date period was reflective of timing of investments.

Restructuring Charges

During the three and six months ended June 30, 2013, we recognized restructuring charges of \$20 million and \$25 million, respectively. We incurred these charges primarily in an effort to realign our organizational structure in Europe and North America to address declines in sales volumes and optimize our cost structure. The charges relate to the reduction in structural costs, including the elimination of headcount and consolidation of facilities within both our Water Infrastructure and Applied Water segments. There were no restructuring charges recognized during the three and six months ended June 30, 2012.

Total expected costs associated with actions that commenced during the six months ended June 30, 2013 are approximately \$25 million for Water Infrastructure and approximately \$6 million for Applied Water. These costs primarily comprise severance charges. These actions are currently expected to continue through the first quarter of 2014. As a result of actions initiated during the six months ended June 30, 2013, we estimate net savings of approximately \$14 million in 2013 and annual future net savings beginning in 2014 of approximately \$28 million.

We continue to expect to incur approximately \$40 to \$50 million in restructuring costs for the full year. As a result of these actions, we continue to anticipate approximately \$13 to \$15 million of net savings to be realized during 2013.

Separation Costs

We incurred non-recurring separation costs as a result of the Spin-off as follows:

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Advisory fees and other	\$ —	\$ 2	\$ —	\$ 5
Rebranding and marketing costs	—	2	—	4
Information and technology costs	—	1	1	1
Employee retention and hiring costs	—	1	—	1
Lease termination and other real estate costs	1	—	1	—
Total separation costs in operating income	1	6	2	11
Income tax (benefit) expense	—	(2)	—	(3)
Total separation costs, net of tax	\$ 1	\$ 4	\$ 2	\$ 8

Operating Income

We generated operating income of \$70 million during the second quarter of 2013, a \$59 million decrease compared to \$129 million in the second quarter of 2012, and \$136 million in the six months ended June 30, 2013, a decrease of \$92 million compared to \$228 million in 2012. The following table illustrates operating income results for our business segments:

(In millions)	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
	2013	2012	Change	2013	2012	Change
Water Infrastructure	\$ 41	\$ 93	(55.9) %	\$ 83	\$ 167	(50.3) %
Applied Water	45	52	(13.5) %	85	92	(7.6) %
Segment operating income	86	145	(40.7) %	168	259	(35.1) %
Corporate and other	(16)	(16)	— %	(32)	(31)	3.2 %
Total operating income	\$ 70	\$ 129	(45.7) %	\$ 136	\$ 228	(40.4) %
<i>Operating margin</i>						
Water Infrastructure	6.9%	15.2%	(830) bp	7.2%	14.0%	(680) bp
Applied Water	11.8%	13.9%	(210) bp	11.7%	12.6%	(90) bp
Total Xylem	7.3%	13.4%	(610) bp	7.4%	12.1%	(470) bp

The table below provides a reconciliation of the total and each segment's operating income to adjusted operating income, and a calculation of the corresponding adjusted operating margin:

(In millions)	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
	2013	2012	Change	2013	2012	Change
Water Infrastructure						
Operating income	\$ 41	\$ 93	(55.9) %	\$ 83	\$ 167	(50.3) %
Separation costs	—	1	NM*	—	3	NM*
Restructuring and realignment costs	22	—	NM*	32	—	NM*
Adjusted operating income**	\$ 63	\$ 94	(33.0) %	\$ 115	\$ 170	(32.4) %
Adjusted operating margin**	10.6%	15.4%	(480) bp	10.0%	14.2%	(420) bp
Applied Water						
Operating income	\$ 45	\$ 52	(13.5) %	\$ 85	\$ 92	(7.6) %
Separation costs	—	—	NM*	—	1	NM*
Restructuring and realignment costs	6	—	NM*	8	—	NM*
Adjusted operating income**	\$ 51	\$ 52	(1.9) %	\$ 93	\$ 93	— %
Adjusted operating margin**	13.4%	13.9%	(50) bp	12.8%	12.8%	— bp
Total Xylem						
Operating income	\$ 70	\$ 129	(45.7) %	\$ 136	\$ 228	(40.4) %
Separation costs	—	6	NM*	2	11	NM*
Restructuring and realignment costs	28	—	NM*	40	—	NM*
Adjusted operating income**	\$ 98	\$ 135	(27.4) %	\$ 176	\$ 239	(26.4) %
Adjusted operating margin**	10.2%	14.0%	(380) bp	9.6%	12.6%	(300) bp

* NM - Not meaningful percentage change

** Costs associated with non-recurring separation activities of \$1 million and \$2 million for the three and six months ended June 30, 2013, respectively, are not excluded from adjusted operating income.

Water Infrastructure

Operating income for our Water Infrastructure segment decreased \$52 million or 55.9% (decreased \$31 million or 33.0% on an adjusted basis) for the quarter ended June 30, 2013 and decreased by \$84 million or 50.3% (decreased \$55 million or 32.4% on an adjusted basis) for the six months ended June 30, 2013, compared with the same period for the prior year. The decreases were driven by the sales volume decline, investments in growth platforms and new product launches, as well as cost inflation and foreign exchange headwinds which were partially offset by cost reduction initiatives.

Applied Water

Operating income for our Applied Water segment decreased \$7 million or 13.5% (decreased \$1 million or 1.9% on an adjusted basis) for the quarter ended June 30, 2013 compared with the prior year as the increase in sales volume, realization of pricing initiatives and the favorable impact from operating cost reductions within selling, general and administrative expenses in the current year were more than offset by the lapping of a benefit in the prior year as a result of the reduction of a contract loss accrual.

Operating income decreased for the segment by \$7 million or 7.6% (flat on an adjusted basis) for the six months ended June 30, 2013, compared with the same period for the prior year.

Interest Expense

Interest expense was \$14 million and \$27 million for the three and six months ended June 30, 2013 and \$13 million and \$27 million for the three and six months ended June 30, 2012, respectively, primarily related to the interest on the \$1.2 billion aggregate principal amount of senior notes issued in September 2011. Refer to "Funding and Liquidity Strategy" for further details.

Income Tax Expense

The income tax provision for the three months ended June 30, 2013 was \$11 million at an effective tax rate of 20.3%, compared to \$26 million at an effective tax rate of 23.3% for the same period in 2012. The income tax provision for the six months ended June 30, 2013 was \$21 million at an effective tax rate of 19.7%, compared to \$47 million at an effective tax rate of 23.9% for the same period in 2012. The decrease in the effective tax rate for the three and six months ended June 30, 2013 as compared to the same periods in 2012, was primarily due to mix of earnings including the impact of realignment efforts, and the benefit from a discrete foreign tax refund in the first quarter of 2013.

Tax Matters Agreement

The Tax Matters Agreement ("TMA") governs the respective rights, responsibilities and obligations of ITT, as well as Xylem and Exelis that were spun off from ITT in 2011, with respect to taxes for periods ending on or before the Spin-off.

Pursuant to the terms of the TMA, the Company is required to make payment of the foreign tax refund noted above to ITT and therefore recorded an offsetting expense and related payable of \$1 million which is reflected within other non-operating expense.

Liquidity and Capital Resources

The following table summarizes our sources and uses of cash:

(In millions)	Six Months Ended		
	June 30,		
	2013	2012	Change
Operating activities	\$ 62	\$ 125	\$ (63)
Investing activities	(138)	(53)	(85)
Financing activities	(60)	(31)	(29)
Foreign exchange	(8)	(1)	(7)
Total	\$ (144)	\$ 40	\$ (184)

Sources and Uses of Liquidity

Operating Activities

During the six months ended June 30, 2013, net cash provided by operating activities declined by \$63 million as compared to the six months ended June 30, 2012. The year-over-year decrease was primarily driven by revenue volume declines reducing income as well as an increase in the use of working capital, primarily in accounts receivable and accounts payable. The decrease was also due to payments made for restructuring and realignment activities in 2013.

Investing Activities

Cash used in investing activities was \$138 million for the first six months of 2013 as compared to \$53 million in the first six months of 2012 due almost entirely to an increase in cash used for acquisitions of \$81 million.

Financing Activities

Cash used in financing activities was \$60 million for the first six months of 2013 as compared to \$31 million in the first six months of 2012, primarily driven by an increase in share repurchase activity of \$15 million and a decrease in proceeds from the exercise of stock options of \$15 million.

Funding and Liquidity Strategy

Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations, and access to bank financing and the capital markets. Historically, we have generated operating cash flow sufficient to fund our primary cash needs centered on operating activities, working capital, capital expenditures, and strategic investments. If our cash flows from operations are less than we expect, we may need to incur debt or issue equity. From time to time, we may need to access the long-term and short-term capital markets to obtain financing. Our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including: (i) our credit ratings or absence of a credit rating, (ii) the liquidity of the overall capital markets, and (iii) the current state of the economy. There can be no assurance that we will continue to have access to the capital markets on terms acceptable to us. We cannot assure that such financing will be available to us on acceptable terms or that such financing will be available at all.

We anticipate that our present sources of funds, including funds from operations and additional borrowings, will provide us with sufficient liquidity and capital resources to meet our liquidity and capital needs in both the United States and outside of the United States over the next twelve months.

Senior Notes

On September 20, 2011, we issued 3.550% Senior Notes of \$600 million aggregate principal amount due September 2016 (the "Senior Notes due 2016") and 4.875% Senior Notes of \$600 million aggregate principal amount due October 2021 (the "Senior Notes due 2021" and together with the Senior Notes due 2016, the "Senior Notes").

The Senior Notes include covenants which restrict our ability, subject to exceptions, to incur debt secured by liens and engage in sale and lease-back transactions, as well as provide for customary events of default (subject, in certain cases, to receipt of notice of default and/or customary grace and cure periods), including but not limited to: (i) failure to pay interest for 30 days, (ii) failure to pay principal when due, (iii) failure to perform any other covenant for 90 days after receipt of notice from the trustee or from holders of 25% of the outstanding principal amount and (iv) certain events of bankruptcy, insolvency or reorganization. We may redeem the Senior Notes, as applicable, in whole or in part, at any time at a redemption price equal to the principal amount of the Senior Notes to be redeemed, plus a make-whole premium. As of June 30, 2013, we were in compliance with all covenants. If a change of control triggering event occurs (as defined in the Senior Notes indenture), we will be required to make an offer to purchase the Senior Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase.

Interest on the Senior Notes due 2016 is payable on March 20 and September 20 of each year. Interest on the Senior Notes due 2021 is payable on April 1 and October 1 of each year.

Credit Facility

Effective October 31, 2011, Xylem and its subsidiaries entered into a Four Year Competitive Advance and Revolving Credit Facility (the "Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, and a syndicate of lenders. The credit facility provides for an aggregate principal amount of up to \$600 million of: (i) a competitive advance borrowing option which will be provided on an uncommitted competitive advance basis through an auction mechanism (the "competitive loans") (ii) revolving extensions of credit (the "revolving loans") outstanding at any time and (iii) the issuance of letters of credit in a face amount not in excess of \$100 million outstanding at any time.

At our election, the interest rate per annum applicable to the competitive advances will be based on either (i) a Eurodollar rate determined by reference to LIBOR, plus an applicable margin offered by the lender making such loans and accepted by us or (ii) a fixed percentage rate per annum specified by the lender making such loans. At our election, interest rate per annum applicable to the revolving loans will be based on either (i) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin or (ii) a fluctuating rate of interest determined by reference to the greatest of: (a) the prime rate of JPMorgan Chase Bank, N.A., (b) the U.S. Federal Funds effective rate plus half of 1% or (c) the Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, in each case, plus an applicable margin.

In accordance with the terms, we may not exceed a maximum leverage ratio of 3.50 (based on a ratio of total debt to earnings before interest, taxes, depreciation and amortization) throughout the term. As of June 30, 2013, we were in compliance with all covenants. The Credit Facility also contains limitations on, among other things, incurring debt, granting liens, and entering sale and leaseback transactions. In addition, the Credit Facility contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default.

As of June 30, 2013 the Credit Facility remains undrawn.

Research and Development Facility Agreement

Effective December 14, 2012, we entered into a Risk Sharing Finance Facility Agreement (the "R&D Facility Agreement") with The European Investment Bank ("EIB") in an aggregate principal amount of up to €120 million (approximately \$157 million) to finance research projects and research infrastructures in the European Union. The Company's wholly owned subsidiary in Luxembourg, Xylem Holdings S.a.r.l., is the borrower under the R&D Facility Agreement. The funds are made available to finance research and development projects during the period of 2013 through 2016 at the Company's R&D facilities in Sweden, Germany, Italy, the United Kingdom, Austria, Norway and Hungary.

Under the R&D Facility Agreement, the borrower can, starting no later than 18 months from the date of the R&D Facility Agreement, draw loans with a maturity of no longer than 12 years. The R&D Facility Agreement provides for Fixed Rate loans and Floating Rate loans. The interest rate per annum applicable to Fixed Rate loans will be at a fixed percentage rate per annum specified by EIB which includes the applicable margin. The interest rate per annum applicable to Floating Rate loans will be at the rate determined by reference to EURIBOR for loans drawn in Euros and LIBOR for loans drawn in Sterling or U.S. Dollars, plus an applicable spread specified by EIB which includes the applicable margin. The applicable margin for both Fixed Rate loans and Floating Rate loans shall be determined by reference to the credit rating of the Company.

In accordance with the terms, we may not exceed a maximum leverage ratio of 3.50 (based on a ratio of total debt to earnings before interest, taxes, depreciation and amortization) throughout the term. As of June 30, 2013, we were in compliance with all covenants. The R&D Facility Agreement also contains limitations on, among other things, incurring debt, granting liens, and entering sale and leaseback

transactions. In addition, the R&D Facility Agreement contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default.

As of June 30, 2013, the R&D Facility Agreement remains undrawn.

Non-U.S. Operations

We generated approximately 61% of our revenue from non-U.S. operations for both the three and six months ended June 30, 2013, and 63% for both the three and six months ended June 30, 2012. As we continue to grow our operations in the emerging markets and elsewhere outside of the United States, we expect to continue to generate significant revenue from non-U.S. operations and we expect our cash will be predominately held by our foreign subsidiaries. We expect to manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the U.S. and other international subsidiaries when it is cost effective to do so. We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities, which support our current designation of a portion of these funds as being indefinitely reinvested and reassess whether there is a demonstrated need to repatriate funds held internationally to support our U.S. operations. If, as a result of our review, it is determined that all or a portion of the funds may be needed for our operations in the United States, we may be required to accrue additional U.S. taxes. As of June 30, 2013, our foreign subsidiaries were holding \$268 million in cash or marketable securities.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and capital resources are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2012 Annual Report describes the critical accounting estimates used in preparation of the condensed consolidated financial statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in the information concerning our critical accounting estimates as stated in our 2012 Annual Report.

New Accounting Pronouncements

See Note 2, "Recently Issued Accounting Pronouncements," in the Notes to the condensed financial statements for a complete discussion of recent accounting pronouncements. There were no new pronouncements that we expect to have a material impact on our financial condition or results of operations in future periods.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the information concerning market risk as stated in our 2012 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings seek remedies relating to environmental matters, intellectual property matters, personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. See Note 17 "Commitments and Contingencies" to the condensed consolidated financial statements for further information and any updates.

On or about February 17, 2009, following a statement submitted to the Spanish Competition Authority (Comision Nacional de la Competencia, "CNC") by Grupo Industrial Ercole Marelli, S.A. regarding an anti-competitive agreement in which it said it had been participating, the CNC conducted an investigation at ITT Water & Wastewater España S.A. (now named Xylem Water Solutions España S.A.), at the Spanish Association of Fluid Pump Manufacturers (the "Association"), and at the offices of other members of the Association. On September 16, 2009, the Directorate of Investigation of the CNC commenced formal proceedings for alleged restrictive practices, such as several exchanges of information and a recommendation on general terms and conditions of sale, allegedly prohibited under applicable law. Following the conclusion of the formal proceedings, the CNC Council imposed fines on the Association and nineteen Spanish manufacturers and distributors of fluid pumps, including a fine of Euro 2,373,675 applied to ITT Water & Wastewater España S.A. and ITT Corporation. In March 2012, the Company appealed the CNC's decision to the *Audiencia Nacional* (the "High Court"), and vigorously defended the case. In March 2013, the High Court upheld the determination of the CNC and the fine previously assessed. In April 2013, the Company filed a notice of appeal before the *Tribunal Supremo*, the Supreme Court of Spain and in June 2013, the Company filed an appellate brief with the Supreme Court, which was admitted. These appellate proceedings are expected to last one to two years.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our 2012 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information with respect to purchases of the Company's common stock by the Company during the three months ended June 30, 2013:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS) PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE (a)	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (b)	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (b)
4/1/13 - 4/30/13	—	—	—	1.1
5/1/13 - 5/31/13	0.1	\$28.35	0.1	1.0
6/1/13 - 6/30/13	—	—	—	1.0

(a) Average price paid per share is calculated on a settlement basis.

(b) On August 18, 2012, the Board of Directors authorized the repurchase of up to two million shares of common stock with no expiration date. The program's objective is to offset dilution associated with various Xylem employee stock plans by acquiring shares in the open market from time to time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See the Exhibit Index following the signature page hereto for a list of exhibits filed as part of this report and incorporated herein by reference.

SIGNATURES

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

XYLEM INC.

(Registrant)

/s/ John P. Connolly

John P. Connolly

Vice President, Controller and Chief Accounting Officer

(Principal Accounting Officer)

July 30, 2013

XYLEM INC.
EXHIBIT INDEX

Exhibit Number	Description	Location
(3.1)	Amended and Restated Articles of Incorporation of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K Current Report filed on October 13, 2011 (CIK No. 1524472, File No. 1-35229).
(3.2)	By-laws of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K Current Report filed on May 10, 2013 (CIK No. 1524472, File No. 1-35229).
(4.1)	Indenture, dated as of September 20, 2011, between Xylem Inc., ITT Corporation, as initial guarantor, and Union Bank, N.A., as trustee	Incorporated by reference to Exhibit 4.2 of ITT Corporation's Form 8-K Current Report filed on September 21, 2011 (CIK No. 216228, File No. 1-5672).
(4.2)	Form of Xylem Inc. 3.550% Senior Notes due 2016	Incorporated by reference to Exhibit 4.5 of Xylem Inc.'s Form S-4 Registration Statement filed on May 24, 2012 (CIK No. 1524472, File No. 333-181643).
(4.3)	Form of Xylem Inc. 4.875% Senior Notes due 2021	Incorporated by reference to Exhibit 4.6 of Xylem Inc.'s Form S-4 Registration Statement filed on May 24, 2012 (CIK No. 1524472, File No. 333-181643).
(10.1)	Xylem Retirement Savings Plan	Filed herewith.
(11)	Statement Re-Computation of Per Share Earnings	Information required to be presented in Exhibit 11 is provided under "Earnings Per Share" in Note 7 to the Condensed Consolidated Financial Statements in Part I, Item 1 "Condensed Consolidated Financial Statements" of this Report in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification 260, <i>Earnings Per Share</i> .
(31.1)	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
(31.2)	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.

Exhibit Number	Description	Location
(32.1)	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
(32.2)	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
(101.0)	The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Income Statements, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements	Submitted electronically with this Report.

XYLEM RETIREMENT SAVINGS PLAN

(Effective October 31, 2011 and amended and restated as of January 1, 2013)

ARTICLE 1

INTRODUCTION AND PURPOSE

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

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

Also in connection with the restructuring, Xylem Inc. established, effective as of October 31, 2011, the Xylem Retirement Savings Plan for Salaried Employees (the "Plan"), as contained in this Plan document, for the eligible employees of Xylem Inc. and its subsidiaries. Accounts in the ISP attributable to participants in the ISP who become employees on October 31, 2011 of Xylem Inc. or any of its subsidiaries shall be transferred to the Plan and that portion of the Plan constitutes a successor plan to the ISP.

Effective January 1, 2012, the Plan is designed to be a safe harbor plan with respect to before-tax savings (pursuant to Section 401(k)(12) of the Internal Revenue Code (the "Code")) and with respect to matching contributions (pursuant to Section 401(m)(11) of the Code).

The Plan is intended to constitute a profit sharing plan with an employee stock ownership plan ("ESOP") feature within the meaning of Section 4975(e) of the Code and a cash or deferred arrangement within the meaning of Section 401(k) of the Code. The portion of the Plan intended to qualify as an ESOP is designed to invest primarily in qualifying employer securities as such term is defined in Section 4975(e)(8) of the Code and is intended to comply with the distributions requirements of Section 409(o) of the Code.

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

Effective January 1, 2013, the Plan is renamed the Xylem Retirement Savings Plan and beginning on that date certain hourly employees become eligible to participate in the Plan.

ARTICLE 2

DEFINITIONS

2.1 "*Accounts*" shall mean, with respect to any Member or Deferred Member, his After-Tax Account, Before-Tax Account, Company Core Account, Company Floor Account, Company Matching Account, Prior Company Matching Account, Prior ESOP Account, Prior Plan Account, Rollover Account, and Special Company Contribution Account.

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

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

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

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

2.3 "*Actual Deferral Percentage*" or "*ADP*" shall mean, for Plan Years beginning before January 1, 2012, with respect to a specified group of employees referred to in Section 4.1(d), the average of the ratios, calculated separately for each employee in that group, of:

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

Such Actual Deferral Percentage shall be computed to the nearest one-hundredth of one percent of the employee's Statutory Compensation. For purposes of this calculation, the non-Highly Compensated Employee Actual Deferral Percentage shall be determined based on the then current Plan Year and the Highly Compensated Employee Actual Deferral Percentage shall also be determined for the then current Plan Year. For purposes of this Section, Statutory Compensation shall exclude compensation paid to the employee while he is not a Plan Member. For purposes of this Section, Before-Tax Contributions may be taken into account for a Plan Year only if they relate to compensation that either would have been received by the Member in the Plan Year but for the deferral election or are attributable to services performed by the Member in the Plan Year and would have been received by the Member within 2½ months after the close of the Plan Year but for the deferral election; are allocated to the Member as of a date within that Plan Year and the allocation is not contingent on the participation or performance of service after such date; and are actually paid to the Trustees no later than 12 months after the end of the Plan Year to which the contributions relate.

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

- (a) After-Tax Savings made to the Plan under Section 4.2; and
-

- (b) any amounts that are attributable to after-tax contributions made to the ISP or any qualified profit sharing or other defined contribution plan previously in effect at a Participating Corporation or Participating Division and that are transferred to the Plan on the Member's behalf

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

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

2.6 *"Associated Company"* shall mean any division, subsidiary or affiliated company of Xylem not participating in the Plan designated by the Board of Directors or by the Benefits Administration Committee, pursuant to authority delegated to it by the Board of Directors, as an Associated Company for purposes of the Plan during the period for which such designation exists; provided, however, that any such division, subsidiary or affiliated company not participating in the Plan which is:

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

shall automatically be an Associated Company hereunder during the period it is a division, subsidiary or affiliated company of Xylem or during such period as may otherwise be determined by the Board of Directors or by the Benefits Administration Committee. Notwithstanding the foregoing, for purposes of the preceding sentence and Section 5.4(a) of the Plan the definitions of Section 414(b) and (c) of the Code shall be modified by substituting the phrase "more than 50 percent" for the phrase "at least 80 percent" each place it appears in Section 1463(a)(1) of the Code.

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

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

- any amounts that are attributable to before-tax contributions (including catch-up contributions) made to the ISP or any qualified profit sharing or other defined contribution plan previously in effect at a Participating Corporation or Participating Division and that are transferred to the Plan on the Member's behalf

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

2.8 *"Before-Tax Contributions"* shall mean elective contributions within the meaning of Section 401(k) of the Code, made to the Plan pursuant to Section 4.1(a).

2.9 *"Before-Tax Savings"* shall mean:

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

2.10 *"Beneficiary"* shall mean such primary beneficiary or beneficiaries as may be designated from time to time by the Member or Deferred Member, in accordance with procedures prescribed by the Benefits Administration Committee for such purpose, to receive, in the event of the Member's or Deferred Member's death, the value of his Accounts at the time of his death. If more than one Beneficiary is designated, the percentage payable to each Beneficiary must be designated. A Member may also designate a contingent Beneficiary to receive

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

- 2.11 *"Benefits Administration Committee"* shall mean the Benefits Administration Committee established from time to time pursuant to Article 13 for the purposes of administering the Plan.
 - 2.12 *"Board of Directors"* shall mean the Board of Directors of Xylem or of any successor by merger, purchase or otherwise.
 - 2.13 *"Catch-Up Contributions"* shall mean Before-Tax Savings made to the Plan pursuant to Section 4.1(b) that constitute catch-up contributions under Section 414(v) of the Code.
 - 2.14 *"Code"* shall mean the Internal Revenue Code of 1986, as amended from time to time. References to any section of the Code shall include any successor provision thereto.
 - 2.15 *"Company"* shall mean Xylem Inc. or any successor by merger, purchase or otherwise with respect to its Employees, any Participating Division with respect to its Employees, and any Participating Corporation with respect to its Employees.
 - 2.16 *"Company Core Account"* shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Company Core Contributions and any investment earnings and gains or losses thereon.
 - 2.17 *"Company Core Contributions"* shall mean Company Core Contributions made pursuant to Section 5.2.
 - 2.18 *"Company Floor Account"* shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his "Company Floor Account" under the ISP that was transferred from the ISP to the Plan and any investment earnings and gains or losses on such account in the Plan.
 - 2.19 *"Company Matching Account"* shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Company Matching Contributions and any investment earnings and gains or losses thereon.
 - 2.20 *"Company Matching Contributions"* shall mean Company Matching Contributions made pursuant to Section 5.1.
 - 2.21 *"Contributing Member"* shall mean a Member who is making Before-Tax Savings and/or After-Tax Savings.
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- 2.22 *"Deferred Member"* shall mean:
- (a) a Member who has terminated employment with the Company and all Associated Companies and who has not received a complete distribution of his Accounts;
 - (b) the spouse Beneficiary of a deceased Member or Deferred Member; or
 - (c) an alternate payee designated as such pursuant to a domestic relations order as qualified by the Plan.
- 2.23 *"Disability"* shall mean, with respect to a Member, the total disability of such Member as defined under any long term disability plan maintained by the Company for employees who are similarly situated as of the date the disability occurs. If a Member qualifies for benefits under such plan, then he shall be deemed to be totally disabled as determined by the insurance company that insures such plan. A Member who does not qualify for benefits under such plan because he has elected not to participate in such plan or because of a plan limitation shall be deemed to be totally disabled if the insurance company insuring such plan determines that he would have qualified for benefits under such plan if he had elected to participate therein or if he otherwise would have qualified absent the plan limitation. For purposes of this Plan, the effective date of disability shall be the later of the date of disability as defined in the applicable disability plan or the date as of which the applicable insurance company issues its determination of total disability.
- 2.24 *"Earnings"* shall mean the amount of income, if any, to be returned with any excess deferrals, excess contributions, or excess aggregate contributions under Section 4.1 or 4.5 for the Plan Year, as determined in accordance with applicable law and regulations prescribed by the Secretary of the Treasury under the provisions of Sections 402(g), 401(k) and 401(m) of the Code.
- 2.25 *"Effective Date"* shall mean October 31, 2011 with respect to Xylem and any Participating Corporations and Participating Divisions that enter the Plan as of such date. With respect to Participating Corporations and Participating Divisions that began their participation in the Plan after such date, "Effective Date" shall mean the date as of which such Participating Corporation or Participating Division begins its participation in the Plan.
- 2.26 *"Employee"* shall mean any person regularly employed by the Company who is paid from a payroll maintained in the continental United States, Hawaii, Puerto Rico, or the US Virgin Islands, and who receives regular and stated compensation other than a pension or retainer.

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

- (a) any individual who is accruing service under a qualified retirement plan maintained by the Company or any Associated Company or any other retirement plan of the Company or any Associated Company as shall be specified by the Board of Directors from time to time and any individual who is eligible to participate in a retirement plan of the Company or any Associated Company that is maintained outside of the United States;
 - (b) any individual whose terms and conditions of employment are determined by a collective bargaining agreement with the Company, which does not make this Plan applicable to him;
 - (c) any individual who is a Leased Employee;
 - (d) any individual who is engaged by the Company to perform services for the Company or an Associated Company in a relationship (i) that the Company characterizes as other than an employment relationship, or (ii) that the individual has agreed is not an employment relationship and has waived his rights to coverage as an employee, such as where the Company engages the individual to perform services as an independent contractor, even if a determination is made by the Internal Revenue Service or other governmental agency or court, after the individual is engaged to perform such services, that the individual is an employee of the Company or an Associated Company for purposes of the Code;
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- (e) any individual:
 - (i) who is regularly employed by the Company in a permanent position (as distinguished from a temporary assignment); and
 - (ii) whose primary place of employment with the Company is outside of the United States; and
 - (iii) who has his primary residence outside of the United States;
- (f) any individual:
 - (i) who is paid from a payroll maintained in the continental United States, Hawaii, Puerto Rico or the U. S. Virgin Islands; and
 - (ii) who is not a United States citizen or a resident alien (as defined in Section 7701(b) of the Code); and
 - (iii) who is employed by the Company or an Associated Company on a temporary assignment in the United States;
- (g) any individual who is a nonresident alien with no U. S. source income; and
- (h) any individual who is a bona fide resident of Puerto Rico.

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

2.27 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.28 "ESOP" shall mean that portion of the Plan that consists of amounts invested in the Xylem Stock Fund.

2.29 "Exelis Stock" shall mean common stock of Exelis Inc.

2.30 "Exelis Stock Fund" shall mean the Investment Fund under the Plan that is invested in Exelis Stock.

2.31 "Highly Compensated Employee" shall mean, with respect to any Plan Year, any employee who (a) in the Plan Year or the "look-back year" (which shall be the immediately preceding Plan Year) was a 5-percent owner (as defined in Section 415(i) of the Code), or (b) in the "look-back year" (which shall be the immediately preceding Plan Year) earned annual Statutory Compensation from the Company or an Associated Company that exceeds a dollar amount that is indexed annually and is determined pursuant to Section 414(q)(1)(B) of the Code.

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

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

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

2.32 "Hours Worked" shall mean hours for which an employee is compensated by the Company or by an Associated Company whether or not he has worked, such as paid holidays, paid vacation, paid sick leave and paid time off, and back pay for the period for which it was awarded, and each such hour shall be computed as only one hour, even though he is compensated at more than the straight time rate. With respect to any period for which an employee is compensated but has not worked, hours counted shall be included on the basis of the

Employee's normal workday or workweek. This definition of Hours Worked shall be applied in compliance with 29 Code of Federal Regulations Section 2530.200b-2(b) and (c), as promulgated by the United States Department of Labor, in a consistent and nondiscriminatory manner.

- 2.33 *"Investment Fund"* shall mean the separate funds in which contributions to the Plan are invested in accordance with Article 7.
- 2.34 *"ISP"* shall mean the ITT Salaried Investment and Savings Plan (including certain provisions that were included in a predecessor plan that was named the Pre-Distribution ITT Plan) that was maintained by ITT Corporation as in existence prior to October 31, 2011 and the sponsorship of which was transferred to Exelis Inc. effective October 31, 2011.
- 2.35 *"ITT Stock"* shall mean common stock of ITT Corporation.
- 2.36 *"ITT Stock Fund"* shall mean the Investment Fund offered under the Plan that is invested in ITT Stock.
- 2.37 *"Leased Employee"* shall mean any person (other than a common law employee of the Company or an Associated Company) who, pursuant to an agreement between the Company and any other person ("leasing organization") has performed services for the Company or an Associated Company or any related persons determined in accordance with Section 414(n)(6) of the Code on a substantially full-time basis for a period of at least one year and such services are performed under the primary direction of or control by the Company or an Associated Company. In the case of any person who is a Leased Employee (or who would qualify as a Leased Employee but for the requirement that substantially full-time service be performed for one year) before or after a period of service as an employee, the entire period during which he has performed services as a Leased Employee shall be counted as service as an employee for all purposes of the Plan, except that he shall not, by reason of that status, become a Member of the Plan.
- 2.38 *"Loan Valuation Date"* shall mean the business day on which a Member's proper application for a loan under the Plan is received by the Savings Plan Administrator, or its designee.
- 2.39 *"Member"* shall mean any person who has become a Member as provided in Article 3.
- 2.40 *"Non-U.S. Citizen Employee"* shall mean any person regularly employed by the Company who is considered an employee for purposes of the Company's employee benefit plans and who is:
- (a) not a citizen of the United States or a resident alien;
 - (b) paid from a payroll maintained in the continental United States, Hawaii, Puerto Rico or the US Virgin Islands; and
 - (c) employed by the Company in a permanent position (as distinguished from a temporary assignment).
- 2.41 *"Participating Corporation"* shall mean any subsidiary or affiliated company of Xylem or designated division(s) or unit(s) only of such subsidiary or affiliate which, by appropriate action of the Board of Directors or by a designated officer of Xylem pursuant to authorization delegated to him by the Board of Directors has been designated as a Participating Corporation in the Plan as to all of its employees or as to the employees of one or more of its operating or other units and the board of directors of which shall have taken appropriate action to adopt this Plan.
- 2.42 *"Participating Division"* shall mean any division of Xylem or designated unit(s) only of such division which by appropriate action of the Board of Directors or by a designated officer of Xylem pursuant to authorization delegated to him by the Board of Directors has been designated as a Participating Division in this Plan.
- 2.43 *"PFTIC"* shall mean the Xylem Pension Fund Trust and Investment Committee or its successor established from time to time pursuant to Section 12.1.
- 2.44 *"Plan"* shall mean the Xylem Retirement Savings Plan as set forth herein or as amended from time to time.
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- 2.45 *"Plan Year"* shall mean the calendar year, provided that the first Plan Year shall be the period from October 31, 2011 through December 31, 2011.
- 2.46 *"Prior Company Contribution Account"* shall mean that portion of the Trust Fund, which, with respect to any Member or Deferred Member, is attributable to his "Company Matching Contribution Account" under the ISP that was transferred from the ISP to the Plan, and any other employer contributions made to a plan previously in effect at a Participation Corporation or Participation Division and that are transferred to the Plan on the member's behalf, plus investment earnings and gains or losses on such account in the Plan.
- 2.47 *"Prior ESOP Account"* shall mean that portion of the Trust Fund, which, with respect to any Member or Deferred Member, is attributable to his "Prior ESOP Account" under the ISP that was transferred from the ISP to the Plan, plus investment earnings and gains or losses.
- 2.48 *"Prior Plan Account"* shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to his "Prior Plan Account" under the ISP that was transferred from the ISP to the Plan, plus investment earnings and gains or losses.
- 2.49 *"Rollover Account"* shall mean the portion of the Trust Fund, which, with respect to a Member or Deferred Member, is attributable to
- (a) Rollover Contributions made to the Plan under Section 4.4; and
 - (b) any amounts that are attributable to rollover contributions made to the ISP or to a qualified profit sharing or other defined contribution plan previously in effect at a Participating Corporation or Participating Division and that are transferred to the Plan on the Member's behalf

plus any investment earnings and gains or losses on such amounts. After-tax Rollover Contributions shall be accounted for separately in the Rollover Account.

- 2.50 *"Rollover Contributions"* shall mean the contributions made by a Member pursuant to Section 4.4.
- 2.51 *"Salary"* shall mean an Employee's total remuneration from the Company for services rendered while a Member during a particular time period, including annual base salary, overtime, shift differentials, commissions, regularly occurring incentive pay, and differential wage payments (as defined in Section 3401(h)(2) of the Code), all as determined prior to any deferral election pursuant to Section 4.1(a), any deferral election pursuant to Section 125 of the Code, and any deferral election for a qualified transportation fringe under Section 132(f) of the Code and excluding:
- (a) foreign service allowances, separation pay, or, in accordance with rules uniformly applicable to all Members similarly situated and as interpreted by the Benefits Administration Committee, special bonuses, special commissions, and other special pay or allowances of similar nature; and
 - (b) the cost of any public or private employee benefit plan, including the Plan.

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

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

- 2.52 *"Savings"* shall mean the After-Tax Savings contributed by a Member and the Before-Tax Savings contributed on a Member's behalf.
- 2.53 *"Self-Directed Brokerage Account" or "SDA"* shall mean an Investment Fund that is a self-directed brokerage account established by a Member, as described in Section 7.1(b).
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2.54 "Service" shall mean the period of elapsed time beginning on the date an employee commences employment with the Company or any Associated Company or predecessor company of Xylem, and ending on his most recent Severance Date, subject to the following:

- (a) Notwithstanding anything contained herein to the contrary, with respect to an Employee who is employed by the Company on October 31, 2011, such Employee shall be credited with "Service" he had earned under the ISP prior to October 31, 2011.

With respect to an individual who:

- (i) was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011;
- (ii) remained an employee of ITT Corporation or one of its subsidiaries (as in existence on October 31, 2011) or became an employee of Exelis Inc. on October 31, 2011; and
- (iii) becomes an Employee immediately following termination of employment with ITT Corporation or one of its subsidiaries or Exelis Inc. and prior to March 1, 2012

if such Employee had accrued "Service" under the ISP prior to October 31, 2011, his prior "Service" under the ISP shall be credited under the Plan as of the date he becomes an Employee after October 31, 2011 and before March 1, 2012.

- (b) If an Employee terminates employment and is later reemployed within 12 months of the earlier of (i) his date of termination, or (ii) the first day of an absence from service immediately preceding his date of termination, the period between his Severance Date and his date of reemployment shall be included in his Service.
- (c) If an Employee terminates and is later reemployed, the period of service prior to his Severance Date shall be included in his Service, regardless of the length of his absence from employment.
- (d) Under the circumstances hereinafter stated and upon such conditions as the Benefits Administration Committee shall determine on a basis uniformly applicable to all Employees similarly situated, the period of Service of an Employee shall be deemed not to be interrupted by an absence of the type hereinafter stated and the period of such absence shall be included in determining the length of an Employee's Service:
 - (i) if a leave of absence has been authorized by the Company or any subsidiary or affiliate of the Company, for the period of such authorized leave of absence only; or
 - (ii) if an Employee enters service in the uniformed services of the United States and if such individual's right to reemployment is protected by the Uniformed Services Employment and Reemployment Rights Act of 1994 or any similar law then in effect and if the individual returns to regular employment within the period during which the right to reemployment is protected by any such law. Notwithstanding any provisions of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.
- (e) If a Member dies while performing qualified military service (as defined in Section 414(u) of the Code) and while his reemployment rights are protected by the Uniformed Services Employment and Reemployment Rights Act of 1994, his period of time in qualified military service through the date of his death shall be included in his Service.

2.55 "Severance Date" shall mean with respect to employment with the Company and all Associated Companies:

- (a) Except as provided in (b) below, the earlier of:
 - (i) the date an Employee quits, is discharged, retires or dies; or
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- (ii) the first anniversary of the date on which he is first absent from service, with or without pay, for any reason other than discharge, retirement or death, such as vacation, sickness, disability, layoff or leave of absence.
- (b) If Service is interrupted for maternity or paternity reasons, meaning an interruption of Service by reason of the pregnancy of the Employee; the birth of a child of the Employee; the placement of a child with the Employee by reason of adoption; or for purposes of caring for a newborn child of the Employee immediately following the birth or adoption of the newborn, then the Severance Date shall be the earlier of:
 - (i) the date he quits, is discharged, retires or dies; or
 - (ii) the second anniversary of the date on which he is first absent from service.

2.56 "*Special Company Contribution Account*" shall mean that portion of the Trust Fund which, with respect to any Member or Deferred Member, is attributable to Special Company Contributions and any investment earnings and gains or losses thereon.

2.57 "*Special Company Contributions*" shall mean Special DC Credit Contributions and Transition Credit Contributions made pursuant to Appendix A.

2.58 "*Statutory Compensation*" shall mean total wages and other compensation paid to or for the Member by the Company or by an Associated Company as reported on the Member's Form W-2, Wage and Tax Statement, plus elective contributions under Sections 125, 132(f)(4), 402(g)(3) and 414(v) of the Code. In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, the maximum amount of Statutory Compensation, taken into account under the Plan for any Plan Year for any Member shall not exceed \$200,000, as adjusted by the Secretary of the Treasury to reflect cost-of-living adjustments in accordance with Section 401(a)(17)(B) of the Code. Statutory Compensation shall also include:

- (a) salary continuation payments for military service as described in Treasury Regulation Section 1.415(c)-2(e)(4);
- (b) compensation paid after severance from employment as described in Treasury Regulation Section 1.415(c)-2(e)(3)(i), (ii) and (iii)(A);
- (c) foreign income as described in Treasury Regulation Section 1.415(c)-2(g)(5)(i), excluding amounts described in Treasury Regulation Section 1.415(c)-2(g)(5)(ii); and
- (d) differential wage payments (as defined in Section 3401(h)(2) of the Code) paid by the Company or an Associated Company with respect to any period during which an individual is performing service in the uniformed services (as defined in Section 3401(h)(2)(A) of the Code).

Payments not described above, including, but not limited to, amounts described in Treasury Regulation Section 1.415(c)-2(e)(3)(iii)(B) and (iv), shall not be considered Statutory Compensation if paid after severance from employment, even if such amounts are paid by the later of 2½ months after the date of severance from employment or the end of the Plan Year that includes the date of severance from employment.

2.59 "*Target Retirement Fund*" shall mean a fund managed by a provider designated by the PFTIC that is designed for investors who will retire at or around a specified date. The allocation to different asset classes will change over time and the fund will become increasingly conservative as the specified retirement date approaches.

2.60 "*Termination of Employment*" shall mean severance from the employment of the Company and all Associated Companies for any reason, including, but not limited to, retirement, death, disability, resignation or dismissal by the Company or an Associated Company; provided, however, that transfer in employment between the Company and any Associated Company shall not be deemed to be "Termination of Employment." With respect to any leave of absence and any period of service in the uniformed services of the United States, Section 2.55 shall govern.

- 2.61 "*Trust Fund*" shall mean the aggregate funds held by the Trustee under the trust agreement or agreements established for the purposes of this Plan, consisting of the funds as described in Article 7.
- 2.62 "*Trustee*" shall mean the Trustee or Trustees at any time acting as such under the trust agreement or agreements established for the purposes of this Plan.
- 2.63 "*Valuation Date*" shall mean the date or dates, as applicable, on which the Trust Fund is valued in accordance with Article 8.
- 2.64 "*Vested Share*" shall mean, with respect to a Member or Deferred Member, that portion of his Accounts in which the Member or Deferred Member has a nonforfeitable interest as provided in Article 6.
- 2.65 "*Withdrawal Valuation Date*" shall mean, with respect to withdrawals made pursuant to Section 9.2, the business day on which a Member's proper request for a withdrawal in a form or manner approved by the Benefits Administration Committee is received and processed by the Savings Plan Administrator or its designee. With respect to withdrawals made pursuant to Section 9.3, Withdrawal Valuation Date shall mean the business day on which a Member's proper request for a withdrawal under the Plan, as received and processed by the Savings Plan Administrator or its designee, is approved by the Benefits Administration Committee.
- 2.66 "*Xylem*" shall mean Xylem Inc., an Indiana corporation, or any successor by merger, purchase or otherwise.
- 2.67 "*Xylem Stock*" shall mean common stock of Xylem.
- 2.68 "*Xylem Stock Fund*" shall mean the Investment Fund under the Plan that is invested in Xylem Stock.
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ARTICLE 3
MEMBERSHIP

3.1 *Eligibility*

- (a) An Employee whose employment with the Company is not on a temporary or less than full-time basis and who is not a Non-U.S. Citizen Employee shall be eligible to become a Member on the later of the Effective Date or the date he first becomes an Employee.
- (b) An Employee whose employment with the Company is on a temporary or less than full-time basis and who is not a Non-U.S. Citizen Employee shall be eligible to become a Member on the later of the Effective Date or the day following the date he completes 1,000 Hours Worked in a twelve-consecutive-month computation period, provided he is then an Employee. The first computation period shall be the twelve-month period measured from the date on which such Employee's Service commences. Subsequent computation periods shall be the Plan Year, beginning with the Plan Year that contains the first anniversary of the date on which the Employee's Service commenced.
- (c) An Employee who is a Non-U.S. Citizen Employee who works in the U.S. on an expatriate basis shall be eligible to become a Member on the later of:
 - (i) the Effective Date; or
 - (ii) the day following the date as of which he has worked in the U.S. as an employee for at least 36 consecutive months in either case provided he is an Employee on such date.

An individual who is eligible to become a Member under (a), (b), or (c) above shall be eligible to become a Contributing Member as of the first day of the next available pay period (based on administrative processing deadlines) following the date Before-Tax Savings are made pursuant to Section 4.1 and/or After-Tax Savings are made pursuant to Section 4.2.

3.2 *Membership*

An individual who has satisfied the eligibility requirements under Section 3.1 shall become a Member on the date he satisfies such eligibility requirements provided he is an Employee on such date. A Member may make Before-Tax Savings and/or After-Tax Savings as of the first day of the next available pay period or any subsequent pay period (based on administrative processing deadlines) and subject to the provisions of Section 4.1.

3.3 *Certain Member Elections*

An individual who becomes a Member pursuant to Section 3.2 may make the following elections in a form or manner approved by the Benefits Administration Committee:

- (a) He may designate one or more Beneficiaries.
 - (b) He may designate a different rate of Before-Tax Savings than the rate that will otherwise automatically apply pursuant to Section 4.1(a).
 - (c) He may elect to make Catch-Up Contributions pursuant to Section 4.1(b).
 - (d) He may elect to make After-Tax Savings pursuant to Section 4.2.
 - (e) He may make an investment election as described in Section 7.2
 - (f) He may make a dividend election as described in Section 8.7
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3.4 *Rehired Member*

A Member who terminates employment with the Company and all Associated Companies and is rehired by the Company as an Employee will re-enter the Plan upon his reemployment a Member in accordance with the provisions of Section 3.2.

3.5 *Transferred Members*

Notwithstanding any provision of the Plan to the contrary, a Member who remains in the employ of the Company or an Associated Company but ceases to be an Employee shall continue to be a Member of the Plan but shall not be eligible to make Before-Tax Savings or After-Tax Savings or to receive allocations of Company Matching Contributions or Company Core Contributions while his employment status is other than as an Employee. Such Member shall be entitled to any Special Company Contributions that may be payable for the Plan Year, based on the period of time during which he was an Employee during such Plan Year.

3.6 *Termination of Membership*

A Member's membership shall terminate on the date he is no longer employed by the Company or any Associated Company unless the Member is entitled to benefits under the Plan in which event his membership shall terminate when those benefits are distributed to him.

ARTICLE 4

MEMBER SAVINGS

4.1 *Member Before-Tax Contributions.*

(a) *Commencement and Amount of Before-Tax Contributions*

- (i) Effective as of the first day of the next available pay period (based on administrative processing deadlines) an Employee who has become a Member pursuant to Article 3 shall have his Salary reduced by 6 percent and that amount shall be contributed on his behalf to the Plan by the Company as Before-Tax Contributions until and unless the Member elects, in accordance with the procedures prescribed by the Benefits Administration Committee, to either receive such Salary directly from the Company in cash or to reduce his Salary in some other percentage. Such reduction in Salary shall be applied to Salary that could have been subsequently received by the Member. Any such specified percentage of Salary shall be in a multiple of 1 percent and the maximum percentage shall be 50 percent. Notwithstanding the preceding sentence, if in any Plan Year a Member makes After-Tax Savings in accordance with Section 4.2 in addition to Before-Tax Contributions in accordance with this Section, the maximum percentage of Salary such Member may contribute for such Plan Year as Savings shall not exceed 50 percent.

Notwithstanding the foregoing and Section 4.2, with respect to an Employee who is employed as an Employee by the Company on October 31, 2011, the following provisions shall apply:

- (A) If such individual was making Regular Before-Tax Savings and/or After-Tax Savings under the ISP immediately prior to October 31, 2011 in an amount equal to a total of 6 percent or more of his Salary, such individual shall become a Member of the Plan on October 31, 2011 and effective as of the first day of the next available pay period (based on administrative processing deadlines) such individual's election of Regular Before-Tax Savings and/or After-Tax Savings under the ISP immediately prior to October 31, 2011 shall be deemed to have been made under the Plan and shall continue in the same amount until and unless the Member makes another Before-Tax Savings and/or After Tax Savings election in accordance with procedures prescribed by the Benefits Administration Committee.
- (B) If such individual was not making Regular Before-Tax and/or After-Tax Savings under the ISP immediately prior to October 31, 2011 in an amount equal to a total of 6 percent or more of his Salary, such individual shall become a Member of the Plan on October 31, 2011 and, effective as of the first day of the next available pay period (based on administrative processing deadlines):
- (1) such individual's After-Tax Savings election under the ISP immediately prior to October 31, 2011, if any, shall be deemed to have been made under the Plan until and unless the Member makes another election in accordance with procedures prescribed by the Benefits Administration Committee; and
- (2) such individual shall be deemed to have elected to make Before-Tax Contributions under the Plan equal to 6 percent of his Salary or, if less, the amount necessary to have the total of his Savings equal 6 percent of his Salary, until and unless the Member makes another election in accordance with procedures prescribed by the Benefits Administration Committee.
- (ii) In order to comply with Section 415 of the Code, the Benefits Administration Committee may impose an additional limit on any Member's Before-Tax Contributions based on the Benefits Administration Committee's reasonable projection of the total "annual addition" (as defined in Section 5.4) that will be credited to a Member's Accounts for a Plan Year.
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- (iii) Prior to January 1, 2012, in order to comply with Section 401(k)(3) of the Code, the Benefits Administration Committee may impose a limitation on the extent to which a Member who is a Highly Compensated Employee may reduce his Salary in accordance herewith, based on the Benefits Administration Committee's reasonable projection of Before-Tax Contributions rates of Members who are not Highly Compensated Employees.
- (iv) A Member may elect to change the rate of Before-Tax Contributions under this paragraph (a) as of the first day of any pay period by making an election in the form or manner approved by the Benefits Administration Committee for such purpose. The changed rate shall be effective as soon as administratively possible following the date the election is received by the Benefits Administration Committee.

Effective as of such date as is approved by the Benefit Administration Committee and in accordance with such rules and procedures as may be prescribed by the Benefits Administration Committee, a Member may elect to have the rate of his Before-Tax Contributions automatically escalated.

(b) *Catch-Up Contributions*

A Member who has attained or will attain age 50 by the last day of the Member's taxable year may elect, in accordance with procedures prescribed by the Benefits Administration Committee, to make Catch-Up Contributions for any Plan Year in accordance with and subject to the limitations of Section 414(v) of the Code. Such Catch-Up Contributions shall be treated under the Plan as Before-Tax Savings but shall be subject to the following special rules:

- (i) A Member's Catch-Up Contributions shall not be taken into account for purposes of applying the maximum percentage limitation described in (a) above or the limitations under Sections 402(g) and 415 of the Code and Members' Catch-Up Contributions shall not be taken into account in applying the Actual Deferral Percentage test of (d) below.
 - (ii) The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of making such Catch-Up Contributions.
 - (iii) The determination of whether a Before-Tax Contribution under this Section constitutes a Catch-Up Contribution for any Plan Year shall be determined as of the end of such Plan Year, in accordance with Section 414(v) of the Code. Before-Tax Contributions that are intended to be Catch-Up Contributions for a Plan Year but which do not qualify as Catch-Up Contributions as of the end of the Plan Year shall be treated for all purposes under the Plan as Before-Tax Contributions.
 - (iv) The Company shall take a Member's Catch-Up Contributions into account for purposes of determining the amount of Company Matching Contributions under Section 5.1 for a Plan Year.
 - (v) A Member's Catch-Up Contributions shall be subject to the same withdrawal and distribution restrictions as Before-Tax Contributions.
 - (vi) In the event that the sum of a Member's Catch-Up Contributions and similar contributions to any other qualified defined contribution plan maintained by the Company or an Associated Company exceeds the dollar limit on catch-up contributions under Section 414(v) of the Code for any calendar year as in effect for such calendar year, the Member shall be deemed to have elected a return of the Catch-Up Contributions in excess of the limit under Section 414(v) of the Code and such amount shall be treated in the same manner as "excess deferrals" under (c) below.
 - (vii) If a Member makes catch-up contributions under a qualified defined contribution plan and/or Code Section 403(b) plan maintained by an employer other than the Company or an Associated Company for any calendar year and those contributions when added to his Catch-Up
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Contributions exceed the dollar limit on catch-up contributions under Section 414(v) of the Code for that calendar year, the Member may allocate all or a portion of such "excess catch-up contributions" to this Plan. In the event such Member notifies the Benefits Administration Committee of the "excess catch-up contributions" in the same manner as is required for allocated "excess deferrals" under (c) below, such "excess catch-up contributions" shall be distributed in the same manner as "excess deferrals" under (c) below.

A Member may elect to change the rate of his Catch-Up Contributions under this paragraph (b) as of the first day of any pay period by making an election in the form or manner approved by the Benefits Administration Committee for such purpose. The changed rate of Catch-Up Contributions shall be effective as soon as administratively possible following the date the election is received by the Benefits Administration Committee.

(c) *Application of Maximum Dollar Limit on Before-Tax Contributions*

The maximum dollar amount of Before-Tax Contributions and similar contributions made on a Member's behalf by the Company or any Associated Company to all plans, contracts or arrangements subject to the provisions of Section 401(a)(30) of the Code for a calendar year shall be the maximum amount determined by the Secretary of the Treasury for such calendar year, pursuant to Section 402(g) of the Code as in effect for such calendar year. Amounts contributed in excess of such limit shall constitute "excess deferrals."

- (i) *Prevention of Excess Deferrals Under Plan.* If a Member's Before-Tax Contributions in a calendar year reach the dollar limit on elective deferrals under Section 401(a)(30) of the Code in any calendar year, the Member's election to make Before-Tax Contributions will be canceled. Such Member may elect at any time to make After-Tax Savings in accordance with Section 4.2. As of the first pay period of the calendar year following the cancellation of a Member's Before-Tax Contributions in accordance with first sentence of this paragraph, the Member's election of Before-Tax Contributions shall again become effective in accordance with his previous election, unless the Member elects otherwise in accordance with Section 4.3.
 - (ii) *Treatment of Excess Deferrals under Plan and Plans of Associated Companies.* In the event that the sum of a Member's Before-Tax Contributions and similar contributions to any other qualified defined contribution plan maintained by the Company or an Associated Company exceeds the dollar limit on elective deferrals under Section 402(g) of the Code for any calendar year as in effect for such calendar year, a Member who is eligible to make Catch-Up Contributions to the Plan will be deemed to have such excess deferrals reclassified as Catch-Up Contributions, subject to the limitations of (b) above. To the extent that the reclassification described in the preceding sentence is not applicable, or is insufficient to fully resolve the issue of the excess deferrals, the Member shall be deemed to have elected a return of the Before-Tax Contributions in excess of the limit under Section 402(g) of the Code from this Plan. The excess deferrals, together with Earnings, shall be returned to the Member no later than April 15 following the end of the calendar year in which the excess deferrals were made. The amount of excess deferrals to be returned for any calendar year shall be reduced by any Before-Tax Contributions previously returned to the Member under (d) below for that calendar year. In the event any Before-Tax Contributions returned under this paragraph were matched by Company Matching Contributions, those Company Matching Contributions, together with Earnings, shall be forfeited and used to reduce future Company contributions.
 - (iii) *Treatment of Member-Allocated Excess Deferrals.* If a Member makes tax-deferred contributions under another qualified defined contribution plan and/or a Code Section 403(b) plan maintained by an employer other than the Company or an Associated Company for any calendar year and those contributions when added to his Before-Tax Contributions exceed the dollar limit on elective deferrals under Section 402(g) of the Code for that calendar year, the Member may allocate all or a portion of such excess deferrals to this Plan. In that event, a Member who is eligible to make Catch-Up Contributions to the Plan will be deemed to have such excess deferrals reclassified as Catch-Up Contributions, subject to the limitations of (b) above. To the extent that the reclassification described in the preceding sentence is not applicable, or is insufficient to fully resolve the issue of the excess deferrals, such excess
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deferrals, together with Earnings, shall be returned to the Member no later than the April 15 following the end of the calendar year in which such excess deferrals were made. However, the Plan shall not be required to return excess deferrals unless the Member notifies the Benefits Administration Committee or its designee, in writing, not later than March 1, of that following year, of the amount of the tax-deferred contributions made to the plan of the other employer. The amount of any excess deferrals to be returned for any calendar year shall be reduced by any Before-Tax Contributions previously returned to the Member under (d) below for that calendar year. In the event any Before-Tax Contributions returned under this paragraph were matched by Company Matching Contributions, those Company Matching Contributions, together with Earnings, shall be forfeited and used to reduce Company contributions.

Notwithstanding the foregoing, in lieu of a return of the excess deferrals, a Member may elect to have the Plan treat all or a portion of the excess deferrals attributable to his Before-Tax Contributions as After-Tax Savings, subject to the limitations of Section 4.2; provided the Member notifies the Benefits Administration Committee or its designee, in writing, by the date determined by the Benefits Administration Committee. For this purpose, the excess deferrals, together with Earnings, shall be deemed distributed to the Member and then recontributed to the Plan by the Member as After-Tax Savings for the Plan Year in which the excess deferrals were made. Reclassified excess deferrals shall be considered After-Tax Savings made in the Plan Year to which the excess deferrals relate for purposes of Section 4.5 and shall be subject to the withdrawal provisions applicable to After-Tax Savings under Article 9. If the excess deferrals were matched by Company Matching Contributions, the corresponding Company Matching Contributions shall remain allocated to the Member's Company Account to the extent such excess deferrals if made, as After-Tax Savings would have been matched under the provisions of Section 5.1. The Member's election to reclassify excess deferrals shall be made no later than April 1 following the close of the Plan Year in which the excess deferrals were made or within such shorter period as the Benefits Administration Committee may prescribe.

- (iv) Notwithstanding the foregoing, in the case of any Member who (A) ceases to be an Employee during a Plan Year; (B) is employed during such Plan Year by an employer which is not the Company or an Associated Company; and (C) exceeds the limitation on elective deferrals enumerated in Section 402(g) of the Code based on the Member's participation in the Plan and participation in a plan maintained by the subsequent employer; the Plan shall not distribute to the Member any Before-Tax Contributions (or any income thereon) arising solely as a result of such Member's exceeding the limit under Section 402(g) of the Code for the Plan Year, unless the exceeding of such limit is based solely on the Member's participation in this Plan without considering any other plan.

(d) *ADP Test on Before-Tax Contributions*

Effective for Plan Years beginning on and after January 1, 2012, the Plan is intended to satisfy the safe harbor alternative method of meeting the nondiscrimination requirements under Section 401(k)(12) of the Code by treating the first three percent of Company Core Contributions under Section 5.2 as nonelective contributions pursuant to Section 401(k)(12)(C) of the Code. Accordingly, the Plan is deemed to satisfy the ADP test under Section 401(k) of the Code for such Plan Years with respect to Before-Tax Contributions.

Prior to January 1, 2012, the amount of Before-Tax Contributions made to the Plan for a Plan Year shall comply with the provisions of Section 401(k)(3) of the Code, including any regulations issued thereunder and any subsequent Internal Revenue Service guidance issued under Section 401(k) of the Code. The current year testing method shall be used.

Amounts that would cause the Plan to fail the ADP test shall constitute "excess contributions." If the Benefits Administration Committee determines that the limitation has been exceeded, the following provisions shall apply:

- (i) The excess contributions shall first be treated as Catch-Up Contributions to the extent possible under Section 4.1(b).
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- (ii) Any remaining excess contributions, together with Earnings thereon, will be allocated to the Highly Compensated Employees with the greatest dollar amount of such contributions in the following manner:
 - (A) The amount to be allocated shall be the lesser of (1) the total excess contributions or (2) such amount as will cause the dollar amount of such Highly Compensated Employee's Before-Tax Contributions to equal the dollar amount of the Before-Tax Contributions of the Highly Compensated Employee with the next highest dollar amount of Before-Tax Contributions.
 - (B) The process described in (A) above shall be repeated, if necessary, until the total excess contributions shall have been allocated. At any stage in this allocation process, if two or more Highly Compensated Employees have the same dollar amount remaining of Before-Tax Contributions, the allocation shall be made to both of them in equal amounts.
- (iii) The excess contributions allocated to Highly Compensated Employees under (ii) above shall be distributed to such Members before the close of the Plan Year following the Plan Year in which the excess contributions were made, and to the extent practicable, within 2½ months of the close of the Plan Year in which the excess contributions were made. Alternatively, under rules adopted by the Benefits Administration Committee, such Members may elect to recharacterize such excess contributions as After-Tax Savings provided such election to recharacterize the excess contributions is made within 2½ months after the close of the Plan Year in which the excess contributions were made or within such shorter period as the Benefits Administration Committee may prescribe. When the total excess contributions shall have been allocated and distributed or recharacterized in the manner described above, the Plan shall be deemed to satisfy the tests set forth in this Section, regardless of whether the final Average Deferral Percentage of the Highly Compensated Employees in fact satisfy such tests. In the event any Before-Tax Contributions distributed under this Section were matched by Company Matching Contributions, those Company Matching Contributions, together with Earnings, shall be forfeited and used to reduce Company contributions.

4.2 *Member After-Tax Savings*

- (a) By authorizing payroll deductions, each Member may elect, subject to (b) below, to contribute to the Trust Fund as After-Tax Savings any whole percentage from 1 percent to 50 percent of his Salary in such payroll period, subject to the following:
 - (i) The total amount of After-Tax Savings for any Plan Year may not exceed 50 percent of his Salary reduced by the rate of Before-Tax Savings being made pursuant to Section 4.1(a).
 - (ii) In order to comply with Section 415 of the Code, the Benefits Administration Committee may impose an additional limit on any Member's After-Tax Savings based on the Benefits Administration Committee's reasonable projection of the total "annual addition" (as defined in Section 5.4) that will be credited to a Member's Accounts for a Plan Year.

A Member's election shall be effective as soon as administratively possible following the date such election is received by the Benefits Administration Committee or its designee.

Notwithstanding the foregoing, the special provisions of Section 4.1(a)(i)(A) and (B) shall apply with respect to an Employee who is employed as an Employee by the Company on October 31, 2011.

- (b) In order to comply with Section 401(m) and/or 415 of the Code, the Benefits Administration Committee may impose an additional limit on the extent to which a Member who is a Highly Compensated Employee may contribute to the Trust Fund as After-Tax Savings, based on the Benefits Administration Committee's reasonable projection of After-Tax Savings rates of Members who are not Highly Compensated Employees and the necessity of satisfying the test described in Section 4.5.
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A Member may elect to change his After-Tax Savings rate on any business day by making an election in a form or manner approved by the Benefits Administration Committee for such purpose. The changed After-Tax Savings rate shall be effective as soon as administratively possible following the date notice is received by the Savings Plan Administrator or its designee.

4.3 *Suspension and Resumption of Member Savings*

- (a) A Member may suspend his Savings under Section 4.1 and/or Section 4.2 as of any business day by making an election in a form or manner approved by the Benefits Administration Committee for such purpose. Such suspension will become effective as soon as administratively possible following the date the election is received by the Benefits Administration Committee or its designee. If a Member takes a withdrawal from his Before-Tax Account under Section 9.3(b), his Savings shall be suspended for a period of six months. Such suspension will become effective as soon as administratively possible following the Withdrawal Valuation Date. No Company Matching Contributions shall be made under Section 5.1 during the period of a Member's suspension although he will continue to be considered a Member and he will be entitled to Company Core Contributions and any Special Company Contributions that may be payable during the period of suspension.
- (b) A Member who suspends his Savings in accordance with the first sentence of (a) above may resume his Savings under Section 4.1 and/or under Section 4.2 as of any pay period after the date the suspension commenced by making an election in a form or manner approved by the Benefits Administration Committee for such purpose.
- (c) A Member whose Savings are suspended in accordance with the third sentence of (a) above may resume his Savings under Section 4.1 and/or under Section 4.2 as of the first day of any pay period following the six-month suspension by making an election in a form or manner approved by the Benefits Administration Committee for such purpose. A resumption elected pursuant to this Section 4.3 shall occur as soon as administratively possible after the election is received by the Savings Plan Administrator or its designee.

4.4 *Rollover Contributions*

- (a) With the permission of the Benefits Administration Committee, and without regard to any limitation on contributions under this Article 4 or Section 5.4, the Plan may accept from or on behalf of a Member, but not a Deferred Member, a Rollover Contribution in cash, consisting of any amount, including after-tax amounts but excluding any amount attributable to Roth contributions, previously received (or deemed to be received) by him from an "eligible retirement plan." Such Rollover Contributions shall be subject to the following:
 - (i) For purposes of this Section, "eligible retirement plan" means:
 - (A) another employer's qualified plan described in Section 401(a) of the Code (or another Xylem qualified defined contribution plan, provided that the Rollover Contribution represents the rollover of all or a portion of a full distribution of the individual's account balance in such plan due to the sale or closing of a business unit sponsoring such plan);
 - (B) an annuity plan described in Section 403(a) of the Code;
 - (C) an annuity contract described in Section 403(b) of the Code;
 - (D) an eligible Plan under Section 457(b) of the Code that is maintained by a state, political subdivision of a state or any agency or instrumentality of a state or political subdivision of a state; or
 - (E) an individual retirement account or individual retirement annuity of the Member described in Section 408(a) or 408(b) of the Code that contains only amounts that were originally distributed from a qualified plan described in Section 401(a) or 403(a) of the Code (i.e., a "conduit IRA").
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- (b) Such Rollover Contribution may be received in either of the following ways:
 - (i) The Plan may accept such amount as a direct rollover of an eligible rollover distribution, including after-tax amounts provided such after-tax amounts are received directly from a plan that is qualified under Section 401(a) of the Code or an annuity contract described in Section 403(b) of the Code.
 - (ii) The Plan may accept such amount directly from the Member provided such amount:
 - (A) was distributed to the Member by an eligible retirement plan;
 - (B) is received by the Plan on or before the 60th day after the day it was received by the Member;
 - (C) would otherwise be includible in gross income; and
 - (D) is not attributable to Roth contributions.

Notwithstanding (B) above, the Benefits Administration Committee may accept a Rollover Contribution more than 60 days after the amount was received by the Member provided the Member has received from the Secretary of the Treasury a waiver of the 60-day requirement, pursuant to Section 402(c)(3)(B) of the Code.

4.5 *ACP Test on After-Tax Savings and Company Matching Contributions*

Effective for Plan Years beginning on or after January 1, 2012, the Plan is intended to satisfy the alternative method of meeting the nondiscrimination requirements with respect to Company Matching Contributions under Section 401(m)(11) of the Code by treating the first three percent of Company Core Contributions under Section 5.2 as nonelective contributions pursuant to Section 401(k)(12)(C) of the Code. Accordingly, with respect to such Plan Years, the Plan is deemed to satisfy the ACP test under Section 401(m)(11) of the Code with respect to Company Matching Contributions.

The amount of After-Tax Savings made to the Plan shall comply with the provisions of Section 401(m)(2) of the Code (the "ACP test"), including any regulations issued thereunder and any subsequent Internal Revenue Service guidance issued under Section 401(m) of the Code. Notwithstanding the preceding sentence, for any Plan Year, the Benefits Administration Committee may elect to take Company Matching Contributions for the Plan Year into account for purposes of the ACP test, to the extent permitted under applicable law.

Amounts that would cause the Plan to fail the ACP test constitute "excess aggregate contributions." If the Benefits Administration Committee determines that the limitation has been exceeded, the following provisions apply

- (a) The payment or forfeiture of the excess aggregate contributions, together with Earnings thereon, shall be made before the close of the Plan year following the Plan Year for which the excess aggregate contributions were made and, to the extent practicable, any payment or forfeiture will be made within 2½ months following the end of the Plan Year for which the contributions were made.
 - (b) The total amount of excess aggregate contributions, together with Earnings thereon, shall be allocated to the Highly Compensated Employees with the greatest dollar amount of such contributions in the following manner:
 - (i) The amount to be allocated shall be the lesser of (A) the total excess aggregate contributions, or (B) such amount as will cause the dollar amount of such Highly Compensated Employee's After Tax Savings, and, if applicable, Company Matching Contributions, to equal the dollar amount of the After Tax Savings, and, if applicable, Company Matching Contributions, of the Highly Compensated Employee with the next highest dollar amount of After Tax Savings, and, if applicable, Company Matching Contributions.
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- (ii) The process described in (i) above shall be repeated, if necessary, until the total excess aggregate contributions shall have been allocated. At any stage in the allocation process herein described, if two or more Highly Compensated Employees have the same dollar amount remaining of After Tax Savings, and, if applicable, Company Matching Contributions, the allocation shall be made to both of them in equal amounts.
- (c) The excess aggregate contributions allocated to Highly Compensated Employees under (b) above, together with Earnings thereon, shall be paid or returned to a Member from the following categories of contributions (adjusted to reflect earnings or losses attributable thereto):
 - (i) first, unmatched After-Tax Savings;
 - (ii) second, matched After-Tax Savings; and
 - (iii) third, Company Matching Contributions, if applicable.

Once the excess aggregate contributions are paid or returned as described above, the Plan shall be deemed to satisfy the ACP test set forth in this Section, regardless of whether the final Average Contribution Percentage of the Highly Compensated Employees in fact satisfy such tests.

- (d) A Member's Actual Contribution Percentage shall be determined after a Member's excess Before-Tax Contributions are either recontributed to the Plan as After-Tax Savings or paid to the Member.

4.6 *Transfer Contributions*

With the permission of the Benefits Administration Committee and under such conditions as it may require, but without regard to any limitations on contributions set forth in this Article 4 or Section 5.4, the Plan may accept an amount, if any, from another qualified plan that, in accordance with the provisions of Section 11.9, the Member elects under such plan to transfer to this Plan, or which the Trustee of such other qualified plan transfers directly to the Trustee of this Plan. Such transferred contributions shall be paid to the Trustee as soon as practicable and shall be held in the Accounts of the Member, as determined by the Benefits Administration Committee. The Member shall be required to establish that such prior employer's plan assets meets the qualification requirements under Section 401(a) of the Code; and no such trust-to-trust transfer shall be permitted unless the amount transferred is free of all defined benefit or money purchase characteristics and does not make the Plan a transferee plan under Section 401(a)(11)(B)(iii)(III) of the Code.

ARTICLE 5

COMPANY CONTRIBUTIONS

5.1 *Company Matching Contributions*

The Company, with respect to each eligible Member employed by it, shall contribute to the Trust a Company Matching Contribution in an amount equal to 50 percent of the Member's Savings for each pay period; provided, however, that only the first 6 percent of the Member's Salary will be eligible for such a Company Matching Contribution during each pay period so that the maximum Company Matching Contribution shall be 3 percent of the Member's Salary. Company Matching Contributions will be applied first to a Member's Before-Tax Savings. Any remaining Company Matching Contributions will be applied to the Member's After-Tax Savings.

Notwithstanding anything contained herein to the contrary, with respect to Plan Years beginning on and after January 1, 2012, if as of the last day of the Plan Year, the amount of Matching Contributions allocated to a Member for such Plan Year is less than 50 percent of the Member's Savings up to 6 percent of the Member's Salary for the Plan Year, the Company shall make a "true-up" Company Matching Contribution on behalf of such Member in an amount equal to the difference. The true-up Company Matching Contribution described in the preceding sentence shall also be made with respect to a Member who terminates employment during the Plan Year and such true-up Company Matching Contribution shall be made as soon as administratively practicable following the end of the calendar year in which the Member terminates employment.

Company Matching Contributions shall be credited to the Member's Company Matching Account.

5.2 *Company Non-Matching Contributions*

(a) *Company Core Contributions*

The Company shall contribute to the Trust Fund, with respect to each eligible Member employed by it, Company Core Contributions in the following amounts:

- (i) With respect to a Member whose age plus Service as of the first day of the Plan Year total less than 50, the Company shall make Company Core Contributions each pay period equal to 3 percent of the Member's Salary for such pay period.
- (ii) With respect to a Member whose age plus Service as of the first day of the Plan Year total 50 or more, the Company shall make Company Core Contributions each pay period equal to 4 percent of the Member's Salary for such pay period.

For purposes of the preceding provisions, a Member's age and Service shall be calculated on a basis uniformly applicable to all Members similarly situated as established by the Benefits Administration Committee.

Company Core Contributions shall be credited to the Member's Company Core Account.

(b) *Special Company Contributions*

The Company shall contribute to the Trust Fund, with respect to each eligible Member employed by it, Special DC Credit Contributions and Transition Credit Contributions pursuant to Appendix A.

Special DC Credit Contributions and Transition Credit Contributions shall be credited to the Member's Special Company Contribution Account.

(c) *Qualified Nonelective Contributions*

The Company may make "qualified nonelective contributions" to the Plan pursuant to the provisions of the Employee Plans Compliance Resolution System. Any such contributions shall be held in a separate account, which shall be considered an "Account" as defined in Section 2.1. Notwithstanding any Plan provision to the contrary, a Member may direct the investment of the amounts held in such

separate account in the same manner as Special Company Contributions and all or a portion of such separate account shall be available for withdrawal under the provisions of Section 9.2 (as the last available source), provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date.

5.3 *Mode of Payment of Company Contributions*

Company contributions under Sections 5.1 and 5.2 shall be made in cash.

5.4 *Maximum Annual Additions.*

- (a) The annual addition to a Member's Accounts for any Plan Year, which shall be considered the "limitation year" for purposes of Section 415 of the Code, when added to the Member's annual addition for that Plan Year under any other qualified defined contribution plan of the Company or any Associated Company, shall not exceed an amount which is equal to the lesser of (i) 100% of his Statutory Compensation for that Plan Year, or (ii) \$40,000, as adjusted in accordance with Section 415(d) of the Code.
 - (b) For purposes of this Section, the "annual addition" to a Member's Accounts under this Plan or any other qualified defined contribution plan (including a deemed qualified defined contribution plan under a qualified defined benefit plan) maintained by the Company or an Associated Company shall be determined in accordance with (i) and (ii) below.
 - (i) The annual addition shall include all of the following amounts that have been allocated to the Member's Accounts under this Plan or any other qualified defined contribution plan (including a deemed qualified defined contribution plan under a qualified defined benefit plan) maintained by the Company or an Associated Company:
 - (A) the total Company contributions made on the Member's behalf by the Company and all Associated Companies, including any Company Matching Contributions distributed or forfeited under the provisions of Section 4.1 or 4.5;
 - (B) all Before-Tax Contributions and After-Tax Savings, including Before-Tax Contributions distributed as excess contributions under Section 4.1(d) and After-Tax Savings distributed as excess aggregate contributions under the provisions of Section 4.5;
 - (C) forfeitures, if applicable; and
 - (D) solely for purposes of the dollar limit under clause (ii) of paragraph (a) above, amounts described in Sections 415(1)(1) and 419A(d)(2) of the Code allocated to the Member.
 - (ii) The annual addition shall not include:
 - (A) Rollover Contributions;
 - (B) loan repayments made under Article 10;
 - (C) Before Tax Contributions distributed as excess deferrals under Section 4.1(c); and
 - (D) Catch-Up Contributions.
 - (c) To the extent that the annual additions to a Member's Accounts exceed the limitation set forth in Section 415(c)(2) of the Code, corrections shall be made in a manner consistent with the provisions of the Employee Plans Compliance Resolution System as set forth in Revenue Procedure 2008-50 or any subsequent guidance. In the event that a Member of the Plan is a participant in any other defined contribution plan (whether or not terminated), maintained by the Company or any Associated Company, the total amount of annual additions to such Member's accounts under all such defined contribution plans shall not exceed the limitations set forth in this Section 5.4. The Benefits Administration
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Committee, under uniform rules equally applicable to similarly situated Members, shall determine how to apply the provisions of this Section in order to satisfy the limitation. In making its decision, the Benefits Administration Committee shall take into account the applicable provisions of the other qualified defined contribution plans.

5.5 *Contributions for a Period in Uniformed Services*

- (a) Notwithstanding any provision of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified uniformed service duty will be provided in accordance with Section 414(u) of the Code. A Member who is reemployed and is credited with Service for the purpose of vesting because of a period of service in the uniformed services of the United States may elect to contribute to the Plan the Before-Tax Savings and/or After-Tax Savings that could have been contributed to the Plan in accordance with the provisions of the Plan had he remained continuously employed by the Company throughout such period of absence ("make-up contributions"). For purposes of determining the amount of make-up contributions a Member may make, his Salary for the period of absence shall be deemed to be the rate of Salary he would have received had he remained employed as an Employee for that period or, if such rate is not reasonably certain, on the basis of the Member's Salary during the 12-month period immediately preceding such period of absence (or if shorter, the period of employment immediately preceding such period). Any Before-Tax Savings and/or After-Tax Savings so determined shall be limited as provided in Sections 4.1(c), 4.1(d) and 4.5 with respect to the Plan Year or Years to which such contributions relate rather than the Plan Year in which payment is made. The make-up contributions may be made over a period not to exceed three times the period of military leave or five years, if less, but in no event later than the Member's Termination of Employment (unless he is subsequently rehired). The make-up period shall start on the later of (i) the Member's date of reemployment, or (ii) the date the Benefits Administration Committee notifies the Employee of his rights under this Section. Earnings (or losses) on make-up contributions shall be credited commencing with the date the make-up contribution is made.
 - (b) With respect to a Member who makes the election described in paragraph (a) above, the Company shall make Company Matching Contributions on the make-up contributions in the amount described in Section 5.1, as in effect for the Plan Year to which such make-up contributions relate. Company Matching Contributions under this paragraph shall be made to the Plan at the same time as Company Matching Contributions are required to be made for Before-Tax Savings and/or After-Tax Savings made during the same period as the make-up contributions are actually made. Earnings (or losses) on Company Matching Contributions shall be credited commencing with the date the contributions are made. Any limitations on Company Matching Contributions described in Section 4.5 shall be applied with respect to the Plan Year or Years to which such contributions relate rather than the Plan Year or Years in which payment is made.
 - (c) The Company shall make Company Core Contributions and Special Company Contributions (and any other non-matching employer contributions that may have been required under a predecessor plan) ("make-up Company contributions") in the amounts described in Section 5.2 (or the provisions of a predecessor plan) as in effect for the Plan Year to which such make-up Company contributions relate. For purposes of determining the amount of such make-up Company contributions, a Member's Salary for the period of absence shall be deemed to be the rate of Salary he would have received had he remained employed as an Employee for that period or, if such rate is not reasonably certain, on the basis of the Member's Salary during the 12-month period immediately preceding such period of absence (or if shorter, the period of employment immediately preceding such period). Make-up Company contributions under this paragraph shall be made as soon as practicable after the Member's reemployment and shall be deemed to have been made to the Plan at the same time as such contributions would have been made but for the Member's absence. Earnings (or losses) on make-up Company contributions shall be credited commencing with the date the make-up Company contributions are made.
 - (d) All contributions under this Section, other than make-up Catch-Up Contributions, are considered "annual additions," as defined in Section 415(c)(2) of the Code, and shall be limited in accordance with the provisions of Section 5.4 with respect to the Plan Year or Years to which such contributions relate rather than the Plan Year in which payment is made.
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- (e) Notwithstanding any other provisions of this Section, the maximum amount of make-up contributions made by or on behalf of a Member shall be reduced by the actual amount of Company Core Contribution, Special Company Contributions, Before-Tax Savings, After-Tax Savings, and Company Matching Contributions, as applicable, made by or on behalf of the Member during his period of service in the uniformed services as a result of differential wage payments (as defined in Section 3401(h) of the Code) that were made to the Member or for any other reason.

5.6 *Return of Contributions*

- (a) If the Commissioner of Internal Revenue, on timely application made after the initial establishment of the Plan, determines that the Plan is not qualified under Section 401(a) of the Code or refuses, in writing, to issue a determination as to whether the Plan is so qualified, the Company's contributions made on or after the date on which that determination or refusal is applicable shall be returned to the Company. The return shall be made within one year after the denial of qualification. The provisions of this paragraph shall apply only if the application for the determination is made by the date prescribed by the Secretary of the Treasury.
- (b) If all or part of the Company's deductions for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Company without interest but reduced by any investment loss attributable to those contributions, provided that the contribution is returned within one year after the disallowance of deduction. For this purpose, all contributions made by the Company are expressly declared to be conditioned upon their deductibility under Section 404 of the Code.
- (c) The Company may recover, without interest, the amount of its contributions to the Plan made on account of a mistake of fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.
- (d) In the event that Before-Tax Savings made under Section 4.1(a) are returned to the Company in accordance with the provisions of this Section, the elections to reduce Salary that were made by Members on whose behalf those contributions were made shall be void retroactively to the beginning of the period for which those contributions were made. The Before-Tax Savings so returned shall be distributed in cash to those Members for whom those contributions were made, provided, however, that if the contributions are returned under the provisions of paragraph (a) above, the amount of Before-Tax Savings to be distributed to Members shall be adjusted to reflect any investment gains or losses attributable to those contributions.

5.7 *Contributions Not Contingent Upon Profits*

The Company may make contributions to the Plan without regard to the existence or the amount of current and accumulated Company earnings and profits. Notwithstanding the foregoing, however, this Plan is designed to qualify as a "profit-sharing plan" for all purposes of the Code.

ARTICLE 6

VESTED SHARE OF ACCOUNTS

6.1 *Full Vesting of all Accounts in Plan*

A Member shall at all times be 100 percent vested in, and have a nonforfeitable right to, his Accounts in Plan.

ARTICLE 7

INVESTMENT OF CONTRIBUTIONS

7.1 *Investment Funds*

- (a) Accounts in the Plan shall be invested by the Trustee in one or more Investment Funds as authorized by the PFTIC. Such Investment Funds shall include:
- (i) the Xylem Stock Fund;
 - (ii) such Target Retirement Funds as the PFTIC shall select; and
 - (iii) for such period after the Effective Date as shall be determined by the PFTIC, the Exelis Stock Fund and the ITT Stock Fund.

Such Investment Funds may also include equity funds, international equity funds, fixed income funds, money market funds, and other funds as the PFTIC elects to offer.

- (b) In addition to the Investment Funds selected by the PFTIC, a Member may establish a self-directed brokerage account ("SDA"), subject to the following terms and conditions:
- (i) Common stock of the Company is not a permitted investment in the SDA.
 - (ii) Account fees associated with a Member's SDA, as well as commissions, special handling fees, and any other transaction charges associated with transactions in the Member's SDA will be charged to the Member's SDA.
- (c) In any Investment Fund, the Trustee temporarily may hold cash or make short-term investments in obligations of the United States Government, commercial paper, an interim investment fund for tax-qualified employee benefit plans established by the Trustee, unless otherwise provided in the applicable trust agreement or by applicable law, or other investments of a short-term nature. Notwithstanding the foregoing, the Trustee in its discretion may hold such amounts in cash, consistent with its obligations as Trustee, as it deems advisable in accordance with the provisions of the trust agreement.
- (d) For the purpose of determining the value of Xylem Stock, Exelis Stock, or ITT Stock hereunder, in the event such stock is traded on a national securities exchange, such stock shall be valued as of the closing quoted selling price of such stock on the New York Stock Exchange composite tape on the business day such stock is delivered to the Trustee. In the event such Xylem Stock, Exelis Stock, or ITT Stock is not traded on a national securities exchange, such shares shall be valued in good faith by an independent appraiser selected by the Trustee and meeting requirements similar to those in the regulations prescribed under Section 170(a)(1) of the Code.
- (e) The Plan is intended to constitute a plan described in Section 404(c) of ERISA. Consequently, each Member is solely responsible for the selection of his investment options. The Trustees, the Benefits Administration Committee, the Company, the PFTIC, and the officers, supervisors, and other employees of the Company are not empowered to advise a Member as to the manner in which his Accounts shall be invested. The fact that an Investment Fund is available to Members for investment under the Plan shall not be construed as a recommendation for investment in the Investment Fund.
- (f) The Trustee, or such other custodian as the PFTIC may designate, shall maintain the Xylem Stock Fund. It is specifically contemplated that the Xylem Stock Fund will operate as an employee stock ownership plan ("ESOP") that is designed to invest primarily in Xylem Stock, within the meaning of Section 4975(e)(7) of the Code. Consistent with the Xylem Stock Fund's status as an ESOP, the Trustee may keep such amounts of cash, securities or other property as it, in its sole discretion, shall deem necessary or advisable as part of the Trust Fund, all within the limitations specified in the trust agreement.
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- (g) Dividends, interest, and other distributions received on the assets held by the Trustee in respect to the Investment Funds shall be reinvested in the respective Investment Fund, provided, however, with respect to the Xylem Stock Fund, dividends, interest, and other distributions received on the assets held by the Trustee in respect to the Xylem Stock Fund shall be reinvested in the Xylem Stock Fund, except as otherwise may be provided in Section 8.7 with respect to dividends on Xylem Stock.

7.2 *Investment of Contributions*

Contributions under the Plan shall be invested by the Trustee as follows:

- (a) Subject to the following provisions of this Section 7.2, a Member shall make one investment election, in multiples of 1%, covering his Savings, Company Matching Contributions, Company Core Contributions, and Special Company Contributions made to his Accounts, to have such contributions invested in any one or more of the Investment Funds. If no investment election is made, such contributions shall be invested in the Target Retirement Fund that is appropriate based on the Member's year of birth (or such other Investment Fund as may be designated by the PFTIC), unless and until the Member elects to have all or part of his contributions invested in or transferred to other funds pursuant to Sections 7.3 and 7.4.
- (b) A Member cannot elect to direct the investment of any contributions into the Exelis Stock Fund or the ITT Stock Fund prospectively. Amounts invested in the Exelis Stock Fund or the ITT Stock Fund as a result of the restructuring of ITT coincident with the establishment of the Plan are the only amounts that may be invested in such funds. A Member may elect at any time to direct the amounts invested in the Exelis Stock Fund or the ITT Stock Fund into any other Investment Fund in the Plan, subject to the provisions of this Section 7.2 and Section 7.4.
- (c) Except as provided in Section 7.4(d), no more than 20% of a Member's Accounts may be invested in the Xylem Stock Fund. A Member's investment election with respect to future contributions cannot direct more than 20% to be invested in the Xylem Stock Fund.
- (d) Contributions may not be initially invested in a Member's SDA. Any amounts to be invested in a Member's SDA must be transferred into the SDA pursuant to Section 7.4.
- (e) A Member making a Rollover Contribution pursuant to Section 4.4 or a transfer contribution pursuant to Section 4.6 may make a separate initial investment election under this Section 7.2. Such Rollover Contribution or transfer contribution shall be invested, in multiples of 1%, in any one or more of the Investment Funds as elected by the Member. Notwithstanding the preceding sentence, Rollover Contributions or transfer contributions may not be initially invested in the Xylem Stock Fund, the Exelis Stock Fund, ITT Stock Fund, or a Member's SDA. A Member may subsequently transfer or reallocate his Rollover Contributions or transfer contributions to the Xylem Stock Fund or the Member's SDA pursuant to Section 7.4. If a Member has not made an election with respect to the initial investment of his Rollover Contributions or transfer contributions, such Rollover Contributions or transfer contributions shall be invested in the Target Retirement Fund that is appropriate based on the Member's year of birth (or such other Investment Fund as may be designated by the PFTIC).
- (f) A Member may enroll in a managed account program under which investment professionals will monitor the Member's Plan Accounts and manage all investment elections and transactions. The terms of the program shall supersede any contrary provisions of this Plan with respect to Members enrolled therein and any fees charged to the Member will be determined under the terms of the program.
- (g) A Member's Prior ESOP Account shall be invested entirely in the Xylem Stock Fund, Exelis Stock Fund, and ITT Stock Fund, as applicable, except when a Member elects to have all or part of his Prior ESOP Account transferred to or invested in another Investment Fund pursuant to this Article 7.

7.3 *Changes in Investment Election for Future Contributions*

On any business day, by making an election in a form or manner approved by the Benefits Administration Committee for such purpose, a Member may change his investment election within the limitations set forth in Section 7.2 with respect to future Savings, Company Matching, Company Core, and Special Company

Contributions to be made for any payroll deposited with the Trustee on or after the effective date of such notice. The effective date of such election shall be the business day following the date of the election. A Member shall be permitted to make only one investment election, covering his Savings, Company Matching, Company Core, and Special Company Contributions. A separate election may be made for future Rollover Contributions or transfer contributions under Section 4.6.

7.4 *Redistribution of Investments*

Members and Deferred Members may redistribute their investments as follows:

- (a) On any business day, by making an advance election in a form or manner approved by the Benefits Administration Committee for such purpose, a Member or Deferred Member may elect to reallocate (or transfer, as the case may be) on any Valuation Date all or part, in multiples of 1%, of his Accounts among the Investment Funds, provided however no more than 20% of a Member's Accounts may be invested in the SDA or the Xylem Stock Fund after such reallocation or transfer and no amounts may be reallocated or transferred into the Exelis Stock Fund or the ITT Stock Fund, except as provided in Section 7.4(d). The reallocation or transfer shall be effective as soon as administratively practicable after the Valuation Date.
- (b) The PFTIC may establish such rules and restrictions regarding the redistribution of investments as it deems appropriate, including restrictions on the maximum number of transfers in a calendar month.
- (c) Any amounts invested in a fund of guaranteed investment contracts or an investment fund covered by a prospectus or other document of similar import or effect shall be subject to any and all terms of such contracts, prospectus or other documents of similar import or effect, including any limitations therein placed on the exercise of any rights otherwise granted to a Member or Deferred Member under any other provisions of this Plan with respect to such amounts.
- (d) No more than 20% of a Member's Accounts may be invested in the Xylem Stock Fund. Notwithstanding the preceding sentence, a Member with more than 20% of his Accounts invested in the ITT Stock Fund under the ISP on October 31, 2011 (or such other date as may be designated by the PFTIC) may elect to direct that amounts invested in the Exelis Stock Fund and/or the ITT Stock Fund be transferred to the Xylem Stock Fund without regard to the 20% limit, provided however that such Member may not make any further investments in, or transfers into, the Xylem Stock Fund until the 20% limitation described in the preceding sentence has been complied with.

7.5 *Valuation Date*

The Valuation Date applicable with respect to reallocations made in accordance with Section 7.4 shall be the business day such election is received and processed by the Savings Plan Administrator or its designee and shall not be later than the next business day following the day on which the Member's completed request is received and processed by the Savings Plan Administrator or its designee.

7.6 *Voting of Xylem Stock*

Each Member, Deferred Member, or Beneficiary (in the event of the death of the Member or Deferred Member) is, for the purposes of this Section 7.6, hereby designated a named fiduciary within the meaning of Section 402(a)(2) of ERISA with respect to the shares of Xylem Stock allocated to his Accounts, determined as herein described. Each Member and Deferred Member (or Beneficiary in the event of the death of the Member or Deferred Member) may direct the Trustee as to the manner in which the Xylem Stock allocated to his Accounts, determined as herein described, is to be voted. An individual's proportionate share of the Xylem Stock Fund as to which he holds fiduciary status for voting purposes shall be determined at the time such voting rights are exercisable by multiplying the number of shares credited at that time to such portion by a fraction, the numerator of which is the value (as of the Valuation Date designated by the Benefits Administration Committee for this purpose) of that part of the Member's Accounts invested in the Xylem Stock Fund with respect to which the Member provides instructions to the Trustee and the denominator of which is the aggregate value of all amounts allocated to that part of all Member Accounts which is invested in the Xylem Stock Fund for which instructions are provided to the Trustee. Before each annual or special meeting of shareholders of Xylem, each Member, Deferred Member, and Beneficiary shall be furnished with information regarding how to obtain

a copy of the proxy solicitation material for such meeting and the form requesting instructions to the Trustee on how to vote the Xylem Stock allocated to such Member's, Deferred Member's and Beneficiary's Accounts. Upon receipt of such instructions, the Trustee shall vote such shares as instructed. In lieu of voting fractional shares as instructed by Members, Deferred Members, or Beneficiaries, the Trustee may vote the combined fractional shares of Xylem Stock to the extent possible to reflect the directions of Members, Deferred Members, or Beneficiaries with allocated fractional shares of each class of stock. The Trustee shall vote shares of Xylem Stock allocated to Accounts under the Plan but for which the Trustee received no valid voting instructions in the same manner and in the same proportion as the shares of Xylem Stock in the Accounts in the respective funds with respect to which the Trustee received valid voting instructions are voted. Instructions to the Trustee shall be in such form and pursuant to such regulations as the Benefits Administration Committee may prescribe.

Any instructions received by the Trustee from Members, Deferred Members, and Beneficiaries regarding the voting of Xylem Stock shall be confidential and shall not be divulged by the Trustee to the Company, or to any director, officer, employee or agent of the Company, it being the intent of this provision of this Section 7.6 to ensure that the Company (and its directors, officers, employees and agents) cannot determine the voting instructions given by any Member, Deferred Member, or Beneficiary.

In the event of a tender or exchange offer, the provisions of Article 15 shall control, rather than this Section.

7.7 Blackout Periods

Notwithstanding any provision of the Plan to the contrary, when required for administrative reasons, the Benefits Administration Committee may temporarily suspend, limit, or restrict the rights of Members, Deferred Members, Beneficiaries or alternate payees (as applicable) to direct or diversify the investment of some or all of their Accounts, to obtain loans from the Plan, and to obtain distributions (including in-service withdrawals) from the Plan. The number and length of such suspensions and the imposition of such limitations or restrictions shall be limited to the greatest extent practicable. Any suspension, limitation or restriction of rights under this Section shall comply with all applicable law and any guidance issued thereunder and may be imposed only if the Benefits Administration Committee timely provides notice of the suspension, limitation or restriction of such rights, as required by Section 101 of ERISA, any guidance issued thereunder, and any other applicable law.

ARTICLE 8

CREDITS TO MEMBERS' ACCOUNTS, VALUATION AND ALLOCATION OF ASSETS

8.1 *Before-Tax Savings, After-Tax Savings and Rollover Contributions*

Before-Tax Savings, After-Tax Savings and Rollover Contributions made on behalf of or by a Member shall be allocated to the Before-Tax Account, After-Tax Account or Rollover Account of such Member, as appropriate, as soon as practicable after such contributions are transferred to the Trust Fund.

8.2 *Company Matching Contributions*

Company Matching Contributions made for a Member shall be allocated to the Company Matching Account of such Member, as soon as practicable after such contributions are made to the Trust Fund.

8.3 *Company Core Contributions and Special Company Contributions*

Company Core Contributions made for a Member shall be allocated to the Company Core Account of such Member, as soon as practicable after such contributions are made to the Trust Fund. Special Company Contributions made for a Member shall be allocated to the Special Company Contribution Account of such Member, as soon as practicable after such contributions are made to the Trust Fund.

8.4 *Credits to Members' Accounts*

At the end of each business day in which the Plan is in effect and operation, the amount of each Member's credit in each of the Investment Funds shall be expressed and credited in dollars of contributions by the Member and Company allocated to a Member's Accounts for such day. For purposes of this Article 8, "business day" means each day on which the New York Stock Exchange or any successor to its business is open for trading or such other day(s) as may be designated by the PFTIC.

8.5 *Valuation of Assets*

At the end of each business day, the Trustee shall determine the total fair market value of all assets then held by it in each Investment Fund. The Benefits Administration Committee reserves the right to change from time to time the procedures used in valuing the Accounts or crediting (or debiting) the Accounts if it determines, after due deliberation and upon the advice of counsel and/or the current recordkeeper, that such an action is justified in that it results in a more accurate reflection of the fair market value of assets. In the event of a conflict between the provisions of this Article and such new administrative procedures, those new administrative procedures shall prevail.

8.6 *Allocation of Assets*

At the end of each business day when the value of all assets in each Investment Fund has been determined pursuant to Section 8.5, the Trustee shall determine the gain or loss in the value of such assets in each of the Investment Funds. Such gain or loss shall be allocated pro rata by Investment Fund to the balances credited to the Accounts of all Members and Deferred Members as of such business day.

8.7 *Dividends Paid with respect to Stock in the ESOP*

Dividends with respect to Exelis Stock and ITT Stock shall be reinvested in the Exelis Stock Fund and ITT Stock Fund, respectively. Dividends with respect to Xylem Stock shall be subject to the following provisions:

(a) *Dividend Election*

A Member or Deferred Member may elect, with respect to a dividend paid on Xylem Stock in the ESOP as of the record date of such dividend, to have the dividend either distributed in cash to the Member or Deferred Member or reinvested in shares of Xylem Stock, provided however that if the amount of dividends to be paid to the Member or Deferred Member is ten dollars or less, said dividends shall be

automatically reinvested in shares of Xylem Stock. The Savings Plan Administrator shall prescribe rules regarding the timing and manner of a dividend election.

(b) *Default Election*

In the absence of an affirmative dividend election, the Member or Deferred Member shall be deemed to have elected to have the dividend reinvested in Xylem Stock.

(c) *Effect and Duration of Election*

An election made in accordance with (a) or (b) above shall remain in effect until changed by the Member or Deferred Member in accordance with the rules established by the Savings Plan Administrator. The election shall apply to all dividends with a record date on or after the election date.

A Member or Deferred Member may change his dividend election at any time in the manner prescribed by the Savings Plan Administrator.

Notwithstanding any provision of this Section to the contrary, in the event that two or more dividend checks payable to a Member remain uncashed at one time, that action shall be deemed as an election by the Member to have his dividends reinvested in Xylem Stock in the Plan and the Savings Plan Administrator shall reinvest any further dividends payable to the Member until the Member cashes the outstanding checks and makes another affirmative election to receive his dividends in cash.

(d) *Cash Payment*

Dividends elected to be paid in cash shall be distributed to the Member or Deferred Member as soon as administratively practicable after the dividend is received by the Trustee in the Trust Fund. The amount of cash dividends distributed shall be reduced by the amount of any losses attributable to such dividends while held in the Trust Fund. No earnings attributable to such dividends shall be distributed.

ARTICLE 9

WITHDRAWALS PRIOR TO TERMINATION OF EMPLOYMENT

9.1 *General Conditions for Withdrawals*

At any time before Termination of Employment, a Member may request a withdrawal from his Accounts by submitting to the Benefits Administration Committee or its designee an election in a form or manner approved by the Benefits Administration Committee, and shall conform to the standards set by the Benefits Administration Committee, if any, regarding minimum and maximum amounts of withdrawals. Any such withdrawal shall be in accordance with the conditions of Section 9.2 or Section 9.3. For purposes of this Article 9, a Member's Accounts shall be valued as of the applicable Withdrawal Valuation Date. Amounts to be distributed to Members will not participate in the investment experience of the Plan after the Withdrawal Valuation Date. Such amounts generally will be paid as soon as administratively possible following the Withdrawal Valuation Date. Except where specifically provided otherwise, Savings by the Member under the Plan may be continued without interruption.

9.2 *Withdrawals from Certain Accounts*

Subject to the provisions of Section 9.1, a Member (but not a Deferred Member) can withdraw amounts in any whole dollar amount or percentage less than or equal to the described value of the following Accounts; provided, however, that the full withdrawable amount from each source from (a) through (h) below must be withdrawn before any amount can be withdrawn from the source next following on the list of sources from (a) through (h) below:

- (a) all or a portion of his After-Tax Account;
- (b) all or a portion of his Prior Plan Account;
- (c) all or a portion of his Rollover Account;
- (d) all or a portion of his Prior ESOP Account;
- (e) all or a portion of his Company Floor Account and Prior Company Contribution Account;
- (f) all or a portion of his Company Matching Account provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date;
- (g) all or a portion of his Company Core Account provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date; and
- (h) all or a portion of his Special Company Contribution Account provided the Member has attained age 59½ as of the proposed Withdrawal Valuation Date.

Withdrawals will be deemed to be deducted from each of the Investment Funds described in Article 7 on a pro rata basis, provided, however, that no amount shall be deemed to be deducted from the Xylem Stock Fund until all amounts have been withdrawn from all of the other Investment Funds, and provided further that amounts invested in a Member's SDA are not available as a source of any withdrawals described herein. Notwithstanding the foregoing, however, a Member may reallocate his balance in the SDA to the other Investment Funds in the Plan as provided in Article 7 and such Investment Funds (other than the Xylem Stock Fund) may then be available as a source for withdrawals in accordance with the provisions of this Article 9.

9.3 *Withdrawal from Before-Tax Account*

- (a) Subject to the provisions of Sections 9.1, a Member who has attained age 59½ as of a Withdrawal Valuation Date may withdraw all or any portion of his Before-Tax Account.
 - (b) Subject to the provisions of Section 9.1, a Member who has not attained age 59½ as of a Withdrawal Valuation Date and who has withdrawn all amounts available under Section 9.2 may withdraw all or
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a portion of his Before-Tax Account (except for the portion that represents investment earnings credited to his Before-Tax Account) provided he has an immediate and heavy financial need and the withdrawal is necessary to satisfy such need, as provided below. If a Member has not withdrawn all amounts available under Section 9.2, he must take a separate withdrawal of the amounts available under Section 9.2 and that withdrawal shall not be treated as a withdrawal due to hardship.

- (i) As a condition for receiving a withdrawal pursuant to the provisions of this Section 9.3(b), there must exist with respect to the Member an immediate and heavy financial need to draw upon his Accounts. For purposes of this subparagraph (b), the Benefits Administration Committee shall presume the existence of an immediate and heavy financial need if the requested withdrawal is on account of any of the following:
 - (A) expenses for (or necessary to obtain) medical care that would be deductible under Section 213(d) of the Code (determined without regard to whether the expenses exceed 7.5 percent of adjusted gross income);
 - (B) costs directly related to the purchase of a principal residence of the Member (excluding mortgage payments);
 - (C) payment of tuition and related educational fees, and room and board expenses, for the next 12 months of post-secondary education of the Member, his spouse, children or dependents (as defined in Section 152 of the Code and determined without regard to Sections 152(b)(1), (b)(2) and (d)(1)(B) of the Code);
 - (D) payment of amounts necessary to prevent eviction of the Member from his principal residence or to avoid foreclosure on the mortgage of his principal residence;
 - (E) payments for burial or funeral expenses for the Member's deceased parent, spouse, children or dependents (as defined in Section 152 of the Code and without regard to Section 152(d)(1)(B) of the Code);
 - (F) expenses for the repair of damages to the Member's principal residence that would qualify for the casualty deduction under Section 165 of the Code (determined without regard to whether the loss exceeds 10 percent of the Member's adjusted gross income); or
 - (G) the inability of the Member to meet such other expenses, debts, or other obligations recognized by the Internal Revenue Service as giving rise to immediate and heavy financial need for purposes of Section 401(k) of the Code.

The amount of the withdrawal may not be in excess of the amount of the financial need of the Member, including an additional amount equal to 20 percent of the amount otherwise needed to satisfy such financial need to pay any federal, state, or local taxes and any amounts necessary to pay any penalties reasonably anticipated to result from the hardship distribution.

- (ii) As a condition for receiving a withdrawal pursuant to the provisions of this Section 9.3(b), the Member must demonstrate that the requested withdrawal is necessary to satisfy the financial need described in (i) above. For purposes of this subparagraph, the Benefits Administration Committee shall presume that the withdrawal is necessary to satisfy the immediate and heavy financial need if the following requirements are met:
 - (A) The Member has obtained all distributions (other than hardship distributions) available under all other retirement plans maintained by the Company and all Associated Companies, including this Plan and including distribution of all cash dividends currently available to the Member under Section 8.7 of the Plan and all non-taxable loans available under all retirement plans maintained by the Company and all Associated Companies, including this Plan, provided that the loan repayments do not result in an additional financial hardship for the Member.
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- (B) The Member agrees to cease all Before-Tax Savings and After-Tax Savings under this Plan and under any other plans of the Company or of any Associated Company for a period of not less than six months following the hardship withdrawal.

The Benefits Administration Committee or its designee shall make determinations of financial hardship in a uniform and nondiscriminatory manner, with reference to all the relevant facts and circumstances and in accordance with applicable tax law under Section 401(k) of the Code.

9.4 *Form of Payment*

Withdrawal payments shall be made in the form of cash, except that the Member may request to receive the portion of his Accounts invested in the Xylem Stock Fund to be paid in shares of Xylem Stock, with any fractional shares being paid in cash.

9.5 *Death after Withdrawal Election*

If a Member elects a withdrawal and dies after the issuance of the check(s) or shares of Xylem Stock comprising such withdrawal but prior to negotiation of such check(s) comprising all or a portion of such distribution, then any unpaid cash portion of the withdrawal as represented by the non-negotiated check(s) shall be paid to his estate. If more than one check comprises such withdrawal and the Member negotiates the first check but dies prior to the issuance of any subsequent check, then any subsequent check shall be paid to his estate. If a Member elects a withdrawal and dies prior to the issuance of any check(s) or shares of Xylem Stock comprising such withdrawal, then the withdrawal election shall be voided.

9.6 *Direct Rollover*

Certain withdrawals or portions thereof paid pursuant to this Article 9 may be "eligible rollover distributions" as defined and discussed in Section 11.7 and are governed with respect thereto by such Section.

ARTICLE 10

LOANS

10.1 *General Conditions for Loans*

Subject to the restrictions in this Article 10, at any time before Termination of Employment, a Member may file an application in a form or manner approved by the Benefits Administration Committee requesting a loan from his Accounts. By filing the loan forms, the Member:

- (a) specifies the amount and the term of the loan;
- (b) agrees to the annual percentage rate of interest;
- (c) agrees to the finance charge;
- (d) promises to repay the loan; and
- (e) authorizes the Company to make regular payroll deductions to repay the loan, with the loan repayments computed based on the frequency of the Member's payroll payments.

The Member shall certify in such application as to the existence and amount of any outstanding loans (including any loans deemed distributed) from any qualified plans maintained by the Company and all Associated Companies. The Benefits Administration Committee may, in its sole discretion, deny a loan to a Member who is a director or executive officer (or the equivalent thereof) of the Company or of an Associated Company based on a reasonable concern regarding the legality of the loan under Section 13(k) of the Securities Exchange Act of 1934.

If at the time a loan is to be issued to a Member a prior loan has been deemed distributed to the Member and not repaid, a new loan may only be issued to a Member if the Member repays the unpaid loan balance, including accrued interest to the date of repayment.

To the extent required by law and under such rules as the Benefits Administration Committee shall adopt, loans shall also be made available on a reasonably equivalent basis to any Beneficiary or former Employee who maintains an account balance under the Plan and who is still a party-in-interest (within the meaning of Section 3(14) of ERISA).

10.2 *Amounts Available for Loans*

A Member may request a loan in any specified whole dollar amount which must be at least \$1,000 but which, when added to the outstanding balance of any other loans to the Member from this Plan or any other qualified plan of the Company or any Associated Company, including the amount of any unpaid deemed loan distribution and accrued interest thereon, does not exceed the lesser of:

- (a) 50% of his Accounts; or
- (b) \$50,000, reduced by the excess of (i) the Member's highest outstanding loan balance(s) from this Plan or any other plan sponsored by the Company or any Associated Company, if any, during the one-year period ending on the day before the day the loan is made, over (ii) the outstanding balance of loans to the Member from such plans on the date on which the loan is made.

For purposes of determining amounts actually available for loans, a Member's Accounts shall be determined based on the Loan Valuation Date at the time he files his loan request with the Savings Plan Administrator or its designee.

10.3 *Account Ordering for Loans*

For purposes of processing a loan, the amount of such loan will be deducted from the Member's Accounts in the order set by the Benefits Administration Committee under loan rules.

A loan is deducted from a Member's Accounts as of the Loan Valuation Date. Amounts so deducted and distributed to a Member as a Plan loan will not participate in the investment experience of the Plan except as such amounts are repaid to the Member's Accounts. Loans will be deemed to be deducted from each of the Investment Funds on a pro rata basis, provided, however, that no amount shall be deemed to be deducted from the Xylem Stock Fund until all amounts have been withdrawn from all of the other Investment Funds, and provided further that amounts invested in a Member's SDA are not available as a source of any loans described herein. Notwithstanding the foregoing, however, a Member may reallocate his balance in the SDA to the other Investment Funds and such Investment Funds may then be available as a source for loans.

10.4 *Interest Rate for Loans*

The Benefits Administration Committee shall establish and communicate to Members a reasonable rate of interest for loans commensurate with the interest rates charged by persons in the business of lending money for loans which would be made under similar circumstances, as determined by the Benefits Administration Committee, which interest rate shall remain in effect for the term of the loan, except that with respect to a Member who enters the uniformed services of the United States, the Member may elect to have the interest rate applicable to the unpaid loan balance during the period of leave reduced to 6%.

10.5 *Term and Repayment of Loan*

- (a) The term of any loan shall be for a period of from 1 to 60 whole months, at the election of the Member, provided that a Member who is using a loan to acquire his own principal residence may elect to repay a loan over a period of whole months between 1 and 180. Except as provided in (b) or (c) below, payments of principal and interest will be made by after-tax payroll deductions or in a manner agreed to by the Member and the Benefits Administration Committee in substantially level amounts, but no less frequently than quarterly, in an amount sufficient to amortize the loan over the repayment period. A Member who is actively employed by the Company cannot elect to cease payroll deductions for repayment of a loan. Except as set forth below with respect to Members who enter the uniformed services of the United States, no extension of the loan term shall be permitted after the loan is made. Repayment of the loan is made to the Member's Accounts from which the loan amount was deducted in the inverse order to the Account Ordering for Loans described in Section 10.3. Repayments are invested in the Member's Accounts in accordance with his current investment election. Loan repayments are not credited with investment experience under the Plan until the first business day following the day on which such repayments are received by the Trust Fund.
 - (b) If a Member with an outstanding loan takes a leave of absence to enter the uniformed services of the United States, and such Member will receive military differential wage payments (as defined in Section 3401(h) of the Code) in an amount equal to or greater than his loan repayment, his after-tax payroll deduction loan repayments shall continue during such leave of absence. If a Member with an outstanding loan takes a leave of absence to enter the uniformed services of the United States and such Member will not receive military differential wage payments sufficient to cover his loan repayments, his after-tax payroll deduction loan repayments shall be suspended during the period of leave unless the Member elects to make payments directly by certified check or money order. If payments are suspended, upon the Member's reemployment from the uniformed services, the period of repayment shall be extended by the number of months of the period of service in the uniformed services or, if greater, the number of months that would remain if the original loan term were five years plus the number of months in the period of absence; provided, however, if the Member incurs a Termination of Employment and requests a distribution pursuant to Article 11, the loan shall be canceled, and the outstanding loan balance shall be distributed pursuant to Article 11. The Member shall resume payments in the same amount as before the leave with the balance of the loan (including any interest that accrued during the period of uniformed service) due upon the expiration of the repayment period. Alternatively, the Member may elect to have the remaining balance (including any interest that accrued during the period of uniformed service) reamortized in substantially level installments over the extended term of the loan.
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- (c) If a Member with an outstanding loan takes an authorized leave of absence without pay or reduced pay that is less than the required loan payments, for reasons other than to enter the uniformed services of the United States, loan payments may be suspended at the request of the Member, for a period of up to 12 months or until the end of the term of the loan, if earlier. Upon a Member's reemployment from the leave of absence, the Member shall resume payments either in the same amount as before the leave with the full balance due upon the expiration of the repayment period or by reamortizing the loan in substantially level installments over the remaining term of the loan.

10.6 *Frequency of Loan Requests*

A Member may have no more than two loans outstanding at any time. Each loan shall be evidenced by a promissory note payable to the Plan.

10.7 *Prepayment of Loans*

A Member may prepay the entire outstanding balance of a loan, with interest to date of prepayment except as provided under Section 10.8, at any time. Partial prepayments are not permitted.

10.8 *Outstanding Loan Balance at Termination of Employment*

Upon a Member's Termination of Employment, the Deferred Member may continue to make periodic repayments of his outstanding loans provided that his Accounts plus his loan balance at the time of his Termination of Employment is greater than \$5,000, and provided further that if the Deferred Member requests a distribution of his remaining Accounts pursuant to Article 11, the unpaid loan balance shall be treated as an offset distribution.

If a Deferred Member fails to pay the loan balance in full or make loan repayments in accordance with Section 10.5, the Benefits Administration Committee may execute upon its security interest in the Member's Accounts under the Plan to satisfy the debt; provided, however, the Plan shall not levy against amounts held in the Member's Accounts until such time as a distribution of such Accounts could otherwise be made under the Plan.

10.9 *Loan Default*

Under certain circumstances, including, but not limited to, a Member's failure to make timely loan repayments, the Benefits Administration Committee may declare the Member's loan to be in default. If a Member's loan is not repaid in accordance with the terms contained in the promissory note and a default occurs, the Plan may execute upon its security interest in the Member's Accounts under the Plan to satisfy the debt; provided, however, the Plan shall not levy against amounts held in the Member's Accounts until such time as a distribution of such Accounts could otherwise be made under the Plan.

10.10 *Incorporation by Reference*

Any additional rules or restrictions as may be necessary to implement and administer Plan loans shall be in writing and communicated to Members. Such further documentation is hereby incorporated into the Plan by reference, and, pursuant to Section 13.3, the Benefits Administration Committee is hereby authorized to make such revisions to these rules, as it deems necessary or appropriate on the advice of counsel.

10.11 *Death after Loan Application*

If a Member applies for a loan and dies after a check for the loan amount has been issued but prior to negotiation of the check, then the loan shall be paid to his estate or voided, at the option of the Benefits Administration Committee. If a Member applies for a loan and dies before the check for the loan amount is issued, then the loan application shall be voided.

10.12 *Transfer of Loans*

The Benefits Administration Committee may designate that the Plan will accept the transfer of a loan from another qualified retirement plan on behalf of a Member who becomes an Employee as a result of an acquisition by the Company.

ARTICLE 11

DISTRIBUTIONS

11.1 *General*

- (a) Upon Termination of Employment, a Member may apply for distribution of the value of his Accounts. Alternatively, upon Termination of Employment, a Member whose Accounts exceed \$5,000 may elect to defer distribution of his Accounts until December 31 of the year in which he attains age 70½. If a Member terminates employment with no Accounts, he shall be deemed to have received a full distribution of his benefit at the time of his Termination of Employment. If a Member whose Accounts exceed \$5,000 does not apply for a distribution of his Accounts within 90 days of his Termination of Employment, he shall be deemed to be a Deferred Member. A Deferred Member may elect a partial distribution of any portion of his Accounts in a lump sum amount at any time, and from time to time, after his Termination of Employment, provided said Deferred Member is not receiving installment payments pursuant to an election under Section 11.3. All distributions under this Section 11.1(a) will be deemed to be deducted from each of the Deferred Member's Investment Funds on a pro rata basis, provided, however, that no amount shall be deemed to be deducted from the Xylem Stock Fund until all amounts have been withdrawn from all of the other Investment Funds, and provided further that amounts invested in an SDA are not available as a source of any partial distributions described herein. Notwithstanding the foregoing, however, a Deferred Member may reallocate the balance in his SDA to other Investment Funds in the Plan as provided in Article 7 and such Investment Funds may then be available as a source for partial distributions under this Section.
- (b) Upon the death of a Member or Deferred Member, the value of such Member's or Deferred Member's Accounts shall be distributed to his Beneficiary, subject to the following:
- (i) If the Member's or Deferred Member's Beneficiary is not the spouse of such Member or Deferred Member, the Member's or Deferred Member's Accounts shall be distributed to the Beneficiary in accordance with said Beneficiary's election under Section 11.3; provided the entire value of the Member's Accounts is distributed no later than five years from the Member's or Deferred Member's date of death. Such nonspouse Beneficiary may also elect partial distributions of the Member's benefit in lump sums from time to time during this five-year period, provided that the entire value of the Member's Accounts is distributed no later than five years from the Member's or Deferred Member's date of death.
- (ii) If the Member's or Deferred Member's Beneficiary is his spouse and the value of the Accounts to be distributed to the spouse Beneficiary exceeds \$5,000, such spouse Beneficiary may elect to defer receipt of the Member's or Deferred Member's Accounts until the December 31 Valuation Date of the year in which the Member or Deferred Member would have reached age 70½. If a spouse Beneficiary's Accounts exceed \$5,000 and the spouse Beneficiary does not apply for a distribution of his Accounts within 90 days of the Member's or Deferred Member's death, such spouse Beneficiary will be deemed to be a Deferred Member. Such spouse Beneficiary will receive distribution of the Accounts as of the date the Member or Deferred Member would have attained age 65, provided such spouse Beneficiary files application for such distribution. A spouse Beneficiary may, however, file application for distribution of such Accounts at any time prior to the December 31 Valuation Date of the year in which the Member or Deferred Member would have reached age 70½. In addition to the methods of distribution in Section 11.3, a spouse Beneficiary of a deceased Member or Deferred Member may elect a partial distribution of any portion of his Accounts in a lump-sum amount at any time, and from time to time and subject to the provisions of (a) above.
- (c) Notwithstanding any provision of the Plan to the contrary, distributions shall commence as follows:
- (i) A Member or Deferred Member who is a "5-percent owner" as defined in Section 416(i) of the Code must commence distribution of his Accounts no later than December 31 of the year in which he attains age 70½.
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- (ii) A Member or Deferred Member who is not a "5-percent owner" as defined in Section 416(i) of the Code must commence distribution of his Accounts after his Termination of Employment by December 31 of the later of the calendar year in which the Member attains age 70½ or the calendar year in which the Member's Termination of Employment occurs.
 - (iii) The Accounts of a Member or a Deferred Member who has attained age 70½ shall be paid under the payment method described in Section 11.3(c)(ii) below.
- (d) Notwithstanding the provisions of (a), (b), or (c), above, or Section 11.3 below, a Member or Deferred Member (or Beneficiary) may elect to commence distribution of the value of the Member's Accounts held in the ESOP portion of the Plan not later than one year after the end of the Plan Year:
- (i) in which the Member separates from service on or after attaining age 65 or by reason of Disability or death; or
 - (ii) which is the fifth Plan Year following the Plan Year in which the Member otherwise separates from service, unless the Member is reemployed by the Company or any Associated Company before such year.
- (e) Notwithstanding the foregoing, in the event a Member or Deferred Member fails to file a claim for benefits in accordance with the preceding sentence, the Member or Deferred Member shall be deemed to have elected to defer distribution of his Accounts to as soon as administratively practicable following the date the Member terminated employment or attained age 70½, if later; provided that in no event shall payment commence later than the April 1 following the calendar year in which the Member terminated employment or attained age 70½, if later.

11.2 *Valuation Date and Conditions of Distribution*

- (a) The value of any distribution will be determined as of the Valuation Date on which a completed application for the distribution by the Member, Deferred Member or Beneficiary is received and processed by the Savings Plan Administrator (or its designee) or the next business day.
- (b) Application by the Member, Deferred Member or Beneficiary must be in a form or manner approved by the Benefits Administration Committee or its designee.
- (c) Generally, all funds distributed will be paid as soon as practicable following the applicable Valuation Date. If part of the distribution is to be paid in stock, the stock certificate will be distributed after the check representing the cash distribution has been distributed.

11.3 *Methods of Distribution*

After Termination of Employment occurs, and as soon as practicable following application by the Member, Deferred Member or Beneficiary, distributions under the Plan shall be made in the following manner:

- (a) All distributions from other than the Xylem Stock Fund shall be made in cash.
 - (b) Unless the Member, Deferred Member or Beneficiary elects to take Xylem Stock for distributions from the Xylem Stock Fund, a distribution from such fund shall be in cash. In all cases, fractional shares shall be paid in cash.
 - (c) All distributions shall be made in the form of a lump sum payment, unless the Member, Deferred Member or Beneficiary elects otherwise, as provided below. All distributions shall be made as soon as practicable after receipt of the application by the Member, Deferred Member or Beneficiary in accordance with Section 11.2(b). However, with prior notice in a form or manner approved by the Benefits Administration Committee, distribution may be made in one of the installment methods of payment described in (i) or (ii) below, subject to the restrictions provided below or in Section 11.1(b).
 - (i) Provided the value of the Member's, Deferred Member's or Beneficiary's Accounts is at least \$5,000, and the first payment is at least \$1,000, by payment in annual installments over a
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period elected by the Member, Deferred Member or Beneficiary. The period over which annual installments may be paid may not exceed the life expectancy of the Member, Deferred Member or Beneficiary, or if the Member or Deferred Member (for this purpose Deferred Member does not include a spouse Beneficiary) is married, and so elects, the joint life expectancy of the Member or Deferred Member and the Member's or Deferred Member's spouse. All such installments shall be determined as follows:

- (A) The amount of the annual installments to be paid to each Member or Deferred Member (or Beneficiary in the event of the Member's or Deferred Member's death) making such an election shall be based upon the value of his Accounts as of the Valuation Date coinciding with or next following the date of receipt by the Savings Plan Administrator or its designee of his completed application and each anniversary thereof, and shall be determined by multiplying such value by a fraction, the numerator of which shall be one and the denominator of which shall be the number of unpaid annual installments.
 - (B) Any Member or Deferred Member who is no more than 70 years old and who elects annual installment payments may, at any time thereafter, elect, by filing a request with the Savings Plan Administrator or its designee, to cancel annual installment payments. The Valuation Date applicable to such election shall be the business day coinciding with or next following the date on which his completed request is received and processed by the Savings Plan Administrator or its designee. Such Member or Deferred Member may at any time thereafter, make another payment election under the Plan, provided that he may elect only a lump sum payment or partial distributions.
 - (C) If a Member or Deferred Member's Beneficiary is not his spouse, and the Member is deceased, annual installment payments to such Beneficiary may not extend beyond the end of the calendar year which contains the fifth anniversary of the death of the Member or Deferred Member.
- (ii) Provided the value of the Member's, Deferred Member's or Beneficiary's Accounts is at least \$5,000, and the first payment is at least \$1,000, by payment in annual installments over the Member's or Deferred Member's life expectancy or, if the Member or Deferred Member is married, and so elects, over the joint life expectancies of the Member or Deferred Member and the Member's or Deferred Member's spouse, as actuarially determined at the time of commencement of the initial installment and as redetermined annually thereafter. The amount of such installments will be based on the value of his Accounts as of the Valuation Date coinciding with or next following the date of receipt by the Savings Plan Administrator or its designee of his application and each anniversary thereof, and shall be determined by multiplying such value by a fraction, the numerator of which shall be one and the denominator of which shall be the number of years and fraction thereof of his life expectancy based on his age and the mortality table adopted by the Benefits Administration Committee for such purpose at the time the installment is payable. Any Member or Deferred Member who is no more than 70 years old and who elects annual installment payments over his life expectancy may at any time thereafter elect to cancel such payments by filing a request with the Savings Plan Administrator or its designee. Such Member or Deferred Member may, at any time thereafter, make another payment election under the Plan. Life expectancy installments described in this paragraph are not available to a Beneficiary who is not the spouse of a Member or Deferred Member.

Installment payments under (i) or (ii) above shall be made in the form of Xylem Stock or cash, or both, as provided in (a) and (b), above.

- (d) If a Member or Deferred Member elects a distribution other than installments as provided in (c)(i) or (c)(ii) above and the Member or Deferred Member dies after the Valuation Date applicable to such distribution but prior to negotiation of any check(s) comprising any portion of such distribution, then the distribution otherwise payable in cash shall be paid to his estate. If more than one check comprises the cash portion of such distribution and the Member or Deferred Member negotiates the first check but dies prior to the negotiation of any subsequent check, then any subsequent check shall be paid
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to his estate. If a Member or Deferred Member elects a distribution and the Member or Deferred Member dies prior to the Valuation Date applicable to such distribution, then the distribution shall be paid to his Beneficiary.

- (e) If a Member or Deferred Member elects installment distributions as provided in (c)(i) or (c)(ii) above and the Member or Deferred Member dies before all the installments are paid, then the following provisions shall apply:
- (i) If the Member's or Deferred Member's Beneficiary is not his spouse, and if an installment is paid with a Valuation Date that occurred prior to the date of death of the Member or Deferred Member and prior to the Member's or Deferred Member's negotiation of the check comprising all or a portion of such installment, then such installment (or portion thereof) shall be paid to his estate; the remaining value of the Member's or Deferred Member's Accounts shall be paid to his Beneficiary at one time.
 - (ii) If the Member's or Deferred Member's Beneficiary is not his spouse, such Beneficiary may request annual installment payments, provided that the number of installments does not extend beyond the end of the calendar year which contains the fifth anniversary of the death of the Member or Deferred Member.
 - (iii) If the Member's or Deferred Member's Beneficiary is his spouse, then such spouse Beneficiary may continue receiving payment of the deceased Member's or Deferred Member's Accounts pursuant to the same method of distribution elected by the Member or Deferred Member, except that the spouse's life expectancy shall be substituted for the life expectancy of the Member. The spouse Beneficiary may, at any time while receiving payment of such Accounts, elect, by filing a request with the Savings Plan Administrator or its designee, to cancel installment payments. Such spouse Beneficiary may at any time thereafter, elect a lump sum payment or partial distributions, subject to the provisions of Section 401(a)(9) of the Code.
- (f) The Accounts of a Member who, following Termination of Employment, fails to apply for distribution of such Accounts, shall be paid in cash (or, if the Member so elects shares of Xylem Stock) in the form of a lump sum payment, provided that the value of such Accounts is \$5,000 or less on a Valuation Date no earlier than the next business day following his Termination of Employment, without regard to the value of the Member's Accounts at the time of an earlier distribution.

In the event a Member who is subject to the provisions of the immediately preceding paragraph and whose Accounts are in excess of \$1,000 fails to make an affirmative election to either receive the lump sum payment in cash or have it directly rolled over to an eligible retirement plan pursuant to the provisions of Section 11.8 within such election period as shall be prescribed by the Benefits Administration Committee, the Benefits Administration Committee shall direct the Trustee to transfer such lump sum payment to an individual retirement plan (within the meaning of Section 7701(c)(37) of the Code) ("IRA") selected by the PFTIC. The IRA shall be maintained for the exclusive benefit of the Member on whose behalf such transfer is made. The transfer shall occur as soon as practicable following the end of the election period. The funds in the IRA shall be invested in an investment product designed to preserve principal and provide a reasonable rate of return, whether or not such return is guaranteed, consistent with liquidity, as determined from time to time by the PFTIC. In implementing the provisions of this paragraph, the Benefits Administration Committee and/or the PFTIC as appropriate pursuant to the terms of this paragraph, shall:

- (i) enter into a written agreement with each IRA provider setting forth the terms and conditions applicable to the establishment and maintenance of the IRA in conformity with applicable law;
 - (ii) furnish Members with notice of the Plan's automatic rollover provisions, including, but not limited to, a description of the nature of the investment product in which the assets of the IRA will be invested and how the fees and expenses attendant to the IRA will be allocated, and a statement that a Member may roll over the assets of the IRA to another eligible retirement plan. Such notice shall be provided to Members in such time and form as shall be prescribed by the Benefits Administration Committee in accordance with applicable law;
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- (iii) keep records, when appropriate, of a Member's after-tax basis in the amount transferred to the IRA; and
- (iv) fulfill such other requirements of the safe harbor contained in Department of Labor Regulation §2550.404a-2 and, if applicable, the conditions of Department of Labor Prohibited Transaction Class Exemption 2004-16.

Alternative methods of distribution may apply to that portion of a Member's or a Deferred Member's Accounts attributable to a Prior Plan Account, as specified in the applicable appendices to the Plan.

11.4 *Death of Beneficiary*

Notwithstanding any provision of the Plan to the contrary, upon the death of a Beneficiary with Accounts remaining in the Plan, the remaining value of all such Accounts shall be paid in a lump sum distribution within one year of the Beneficiary's death to the Beneficiary selected by the Beneficiary, if any, or if no such Beneficiary has been named by the Beneficiary, the remaining value of all such Accounts shall be paid in a lump sum distribution within one year of the Beneficiary's death to the estate of the Beneficiary.

11.5 *Proof of Death and Right of Beneficiary or Other Person*

The Benefits Administration Committee may require and rely on such proof of death and such evidence of the right of any Beneficiary or other person to receive the undistributed value of the Accounts of a deceased Member, Deferred Member or Beneficiary as the Benefits Administration Committee may deem proper, and its determination of death and of the right of such Beneficiary or other person to receive payment shall be conclusive. Payment to any Beneficiary shall be final and fully satisfy and discharge the obligation of the Plan with respect to any and all Accounts of a deceased Member or Deferred Member.

In the event of a dispute regarding the account of a deceased Member or Deferred Member, the Benefits Administration Committee may make a final determination, or initiate or participate in any action or proceeding as may be necessary or appropriate to determine any Beneficiary under the Plan.

During the pendency of any action or proceeding, the Benefits Administration Committee may deposit an amount equal to the disputed payment with the court and such deposit shall relieve the Plan of all of its obligations with respect to any such disputed Accounts. Alternatively the Benefits Administration Committee, at its discretion, may direct any disputed accounts be invested in the Stable Value Fund or such other as designated by the PFTIC pending the resolution of any dispute regarding a deceased Member's or Deferred Member's Accounts.

11.6 *Completion of Appropriate Notice.*

Except as provided in this Section, if the value of a Member's Accounts exceeds \$5,000, an election by the Member or Deferred Member (for this purpose Deferred Member does not include a spouse Beneficiary) to receive a distribution prior to age 65 shall not be valid unless the written election is made after the Member or Deferred Member has received the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations and within a reasonable time before the effective date of the commencement of the distribution as prescribed by said regulations. Such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

- (a) the Benefits Administration Committee clearly informs the Member that he has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option); and
- (b) the Member, after receiving the notice under Sections 411 and 417 of the Code, affirmatively elects a distribution.

The Benefits Administration Committee may permit any notices to be given electronically, in accordance with procedures to be established in the Benefits Administration Committee's sole discretion.

11.7 *Direct Rollover of Certain Distributions*

Notwithstanding any other provision of this Plan, with respect to any withdrawal or distribution from this Plan pursuant to Article 9 or this Article 11 which is determined by the Savings Plan Administrator or its designee to be an "eligible rollover distribution," the distributee may elect, at the time and in a manner prescribed by the Benefits Administration Committee for such purpose, to have the Plan make a "direct rollover" of all or part of such withdrawal or distribution to a maximum of two "eligible retirement plans" which accept such rollover. The following definitions apply to the terms used in this Section 11.8:

- (a) "Distributee" means:
 - (i) a Member or Deferred Member;
 - (ii) a Member's or Deferred Member's spouse Beneficiary;
 - (iii) a Member's or Deferred Member's spouse or former spouse who is the alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code with regard to the interest of the spouse or former spouse; and
 - (iv) a nonspouse Beneficiary.
 - (b) "Eligible rollover distribution" is any withdrawal or distribution of all or any portion of an individual's vested account balance owing to the credit of a distributee, except that the following distributions shall not be eligible rollover distributions:
 - (i) any distribution that is one of a series of substantially equal periodic payments made for the life or life expectancy of the distributee, or for a specified period of ten years or more;
 - (ii) any distribution required under Section 401(a)(9) of the Code;
 - (iii) after-tax amounts (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities) unless such amount is rolled over or transferred (i.e., directly rolled) to an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, or a Roth individual retirement account described in Section 408A(b) of the Code; or transferred (i.e., directly rolled) to a qualified plan described in Section 401(a) of the Code or to an annuity plan described in Section 403(b) of the Code provided such plan agrees to separately account for such after-tax amount and earnings thereon;
 - (iv) any in-service withdrawal that is made on account of hardship; and
 - (v) any other distribution that is not an eligible rollover distribution under the Code or regulations thereunder.
 - (c) "Eligible retirement plan" means any of the following types of plans that accept the distributee's eligible rollover distribution:
 - (i) a qualified plan described in Section 401(a) of the Code;
 - (ii) an annuity plan described in Section 403(a) of the Code;
 - (iii) an individual retirement account or individual retirement annuity described in Section 408(a) or 408(b) of the Code, respectively;
 - (iv) an annuity contract described in Section 403(b) of the Code;
 - (v) an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a
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state and which agrees to separately account for amounts transferred into such plan from this Plan; and

- (vi) a Roth IRA described in Section 408A of the Code

Notwithstanding the foregoing, with respect to a non-spouse Beneficiary, as defined in (a)(iv) above, an eligible retirement plan will only be an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, or a Roth individual retirement account described in Section 408A(b) of the Code (collectively, "IRA") that is established on behalf of the non-spouse Beneficiary and that will be treated as an inherited IRA pursuant to the provisions of Sections 402(c)(11) and 408(d)(3)(C)(ii) of the Code.

- (d) "Direct rollover" means a payment by the Plan directly to the eligible retirement plan specified by the distributee in cash and/or shares.

In the event that the provisions of this Section 11.7 or any part thereof cease to be required by law as a result of subsequent legislation or otherwise, this Section 11.7 or applicable part thereof shall be of no further force or effect without necessity of further amendment of the Plan.

11.8 *Elective Transfers from Plan*

The Accounts of a Member or Deferred Member shall be eligible for an elective transfer to a like transferee employee plan in connection with an asset or stock acquisition, merger, or other similar transaction involving a change in employer of the Member or Deferred Member (i.e., an acquisition or disposition within the meaning of Treasury Regulation Section 1.410(b)-2(f)) or, with the permission of the Benefits Administration Committee, in connection with the Member or Deferred Member's transfer of employment to a different job for which service does not result in additional allocations under the Plan as set forth herein.

- (a) *Elective Transfer.* An elective transfer of a Member's or Deferred Member's Accounts between this Plan and another qualified plan maintained by a transferee shall be available only if the transfer meets the requirements of Section 414(l) of the Code and each of the following requirements have been met:

- (i) *Voluntary Election*

- (A) *Member Election*

- The transfer must have been conditioned upon a voluntary, fully informed election by the Member or Deferred Member to transfer such Accounts to such transferee plan.

- (B) *Benefit Retention Alternative*

- In making the voluntary election provided for in this section, the Member or Deferred Member shall have had the option of retaining such Member's or Deferred Member's Accounts (including all optional forms of benefit) under this Plan. Restrictions may apply to the Member's or Deferred Member's Accounts as set forth in the applicable Appendices.

- (C) *Spousal Election*

- If Sections 401(a)(11) and 417 of the Code otherwise apply to the Accounts, the spousal consent requirements of such section must have been met with respect to the transfer of benefits.

- (D) *Notice Requirement*

- The notice requirement under Section 417 of the Code, if applicable, must have been met with respect to the Member or Deferred Member and spousal transfer election.

(ii) *Amount of Benefit Transferred*

The amount of the Accounts transferred, including the amount of any contemporaneous Section 401(a)(31) of the Code transfer to the transferee plan, must have equaled the entire balance of Accounts under the Plan of the Member or Deferred Member whose Accounts are being transferred.

(iii) *Benefit Under the Transferee Plan*

An elective transfer may be permitted even if the Member's or Deferred Member's Accounts are not fully vested, provided that the requirements of Section 411(a)(10) of the Code are satisfied by the transferee employee plan.

(b) *Status of Elective Transfer as Distribution*

The transfer of Accounts pursuant to the elective transfer rules of this Section generally is not treated as a distribution for purposes of Section 401(a) of the Code (except to the extent the Member is eligible to receive a full distribution of his Accounts under this Plan on the date of the transfer). In all cases, however, the transfer is not treated as a distribution for purposes of the minimum distribution requirements of Section 401(a)(9) of the Code.

11.9 *Elective Transfer to Plan*

The Plan shall accept elective transfers from plans qualified under Section 401(a) of the Code that result from an asset or stock acquisition, merger, or other similar transaction involving a change in employer of an individual who is eligible to become a Member (i.e., an acquisition or disposition within the meaning of Treasury Regulation Section 1.410(b)-2(f)) or, with the permission of the Benefits Administration Committee, in connection with the individual's transfer of employment to a different job for which service does not result in additional allocations under the Plan, provided that the elective transfer meets the requirements of Section 414(l) of the Code and Treasury Regulation Section 1.411(d)-(4), Q&A-3.

11.10 *Minimum Required Distributions*

Notwithstanding any other provision of this Article 11, all distributions from the Plan shall conform to the requirements of Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Distributions under this Article 11 shall meet the requirements of Treasury Regulation Sections 1.401(a)(9)-2 through 1.401(a)(9)-9. Such requirements shall be administered in accordance with the regulations issued under Section 401(a)(9) of the Code, as follows:

- (a) The portion of any distribution that constitutes a required minimum distribution under Section 401(a)(9) of the Code shall be the lesser of:
- (i) the quotient obtained by dividing the Member's Accounts by the distribution period in the Uniform Lifetime Table set forth in Treasury Regulation Section 1.401(a)(9)-9, using the Member's age as of the Member's birthday in the distribution calendar year; or
 - (ii) if the Member's sole designated beneficiary for the distribution calendar year is the Member's spouse, and the spouse is more than ten years younger than the Member, the quotient obtained by dividing the Member's Accounts by the number in the Joint and Last Survivor Table set forth in Treasury Regulation Section 1.401(a)(9)-9, using the Member's and spouse's attained ages as of the Member's and the spouse's birthdays in the distribution calendar year.

The provisions of Section 401(a)(9) of the Code and the regulations thereunder shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

- (b) For purposes of paragraph (a) above, the following definitions apply:

- (i) "Designated beneficiary" means the individual who is designated as the Beneficiary and is the designated beneficiary under Section 401(a)(9) of the Code and applicable Treasury
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Regulations. In the event a trust is designated as the beneficiary of the Member, the beneficiaries of the trust shall be deemed designated beneficiaries provided the applicable requirements set forth in Treasury Regulation Section 1.401(a)(9)-4 are met.

- (ii) "Distribution calendar year" means a calendar year for which a minimum distribution is required. For a Member who is a 5-percent owner in active service, the first distribution calendar year is the calendar year in which the Member attains age 70½. For a Member who is not a 5-percent owner, the first distribution calendar year is the later of the calendar year in which the Member attains age 70½ or the year in which the Member terminates employment.
 - (iii) "Life expectancy" means life expectancy as computed by use of the Single Life Table in Treasury Regulation Section 1.401(a)(9)-9, Q & A-1.
 - (iv) "Member's Accounts" means the balance of the Member's Accounts as of the last Valuation Date in the calendar year immediately preceding the distribution calendar year ("valuation calendar year") increased by the amount of contributions made and allocated or forfeitures allocated to the Member's Accounts as of dates in the valuation calendar year after such last Valuation Date and decreased by distributions made in the valuation calendar year after such last Valuation Date. The Member's Accounts for the valuation calendar year include any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.
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ARTICLE 12

MANAGEMENT OF FUNDS

12.1 *Appointment of PFTIC*

The PFTIC shall consist of the individuals holding the following corporate titles:

- (a) Treasurer;
- (b) Assistant Treasurer;
- (c) Vice President, Total Rewards;
- (d) Director, Global Benefits;
- (e) Director, Financial Planning and Analysis; and
- (f) Manager, Benefits Accounting & Administration.

Any member of the PFTIC may resign by delivering his written resignation to the Board of Directors and Secretary of the PFTIC.

12.2 *Duties of PFTIC*

The PFTIC shall be responsible for the management of the assets of the Plan, except as otherwise expressly provided herein. The members of the PFTIC shall elect a Chairman from their number and a Secretary who may be, but need not be, one of the members of the PFTIC; may appoint from their number such committees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel and employ agents and such clerical and accounting services as they may require in carrying out the provisions of the Plan; and may allocate among themselves or delegate to other persons all or such portion of their duties hereunder as they in their sole discretion decide.

The PFTIC shall have the authority to appoint and provide for use of investment managers, and to establish one or more Trusts for the Plan pursuant to trust instruments approved or authorized by the PFTIC. In discharging its responsibility, the PFTIC shall evaluate and monitor the investment performance of the investment managers and the Trustee.

The PFTIC is designated a named fiduciary of the Plan within the meaning of Section 402(a) of ERISA.

12.3 *Meetings*

The PFTIC shall hold meetings upon such notice, at such place or places, and at such time or times as it may determine. The action of at least a majority of the members of the PFTIC expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the PFTIC and shall have the same effect for all purposes as if assented to by all members of the PFTIC at the time in office. No member of the PFTIC shall receive any compensation for his service as such.

12.4 *Compensation and Bonding*

The members of the PFTIC shall serve without compensation for their services as such. Except as may otherwise be required by law, no bond or other security need be required of any member in that capacity in any jurisdiction.

12.5 *Trust Fund*

All the funds of the Plan shall be held by a Trustee appointed from time to time by the PFTIC in one or more trusts under a trust instrument or instruments approved or authorized by the PFTIC for use in providing the

benefits of the Plan; provided that no part of the corpus or income of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Members, Deferred Members and Beneficiaries.

12.6 *Benefit Statements*

A Member and a Deferred Member (or, in the event of the death of the Member or Deferred Member, a Beneficiary) shall be furnished with a statement setting forth the value of his Accounts, the Vested Portion of his Accounts and such other information as required under Section 105(a) of ERISA. Such statement shall be furnished in the time and manner prescribed by Section 105(a) of ERISA and related guidance thereto.

12.7 *Fiscal Year*

The fiscal year of the Plan and the Trust shall end on the 31st day of December of each year or at such other date as may be designated by the PFTIC.

ARTICLE 13

ADMINISTRATION OF PLAN

13.1 *Plan Administrator*

The responsibility for carrying out all phases of the administration of the Plan, except those connected with management of assets, shall be placed in a Benefits Administration Committee. The Benefits Administration Committee shall be the administrator of the Plan within the meaning of Section 3(16)(A) of ERISA and shall have authority and responsibility for general supervision of the administration of the Plan.

13.2 *Appointment of Benefits Administration Committee*

The Benefits Administration Committee shall consist of the individuals holding the following corporate titles:

- (a) Treasurer;
- (b) Assistant Treasurer;
- (c) Vice President, Total Rewards;
- (d) Director, Global Benefits;
- (e) Director, Financial Planning and Analysis; and
- (f) Manager, Benefits Accounting & Administration.

Any member of the Benefits Administration Committee shall be deemed to have resigned upon termination of employment with the Company and all Associated Companies.

13.3 *Powers of Benefits Administration Committee.*

- (a) The Benefits Administration Committee is designated a named fiduciary within the meaning of Section 402(a) of ERISA and shall have authority and responsibility for general supervision of the administration of the Plan. For purposes of the regulations under Section 404(c) of ERISA, the Benefits Administration Committee shall be the designated fiduciary responsible for safeguarding the confidentiality of all information relating to the purchase, sale and holding of employer securities and the exercise of shareholder rights appurtenant thereto. The Benefits Administration Committee shall safeguard such information pursuant to written procedures providing for such confidentiality. In addition, for purposes of avoiding any situation for undue employer influence in the exercise of any shareholder rights, the Benefits Administration Committee shall appoint an independent fiduciary, who shall not be affiliated with any sponsor of the Plan, to ensure the maintenance of confidentiality pursuant to the regulations under Section 404(c) of ERISA.
 - (b) The Benefits Administration Committee shall have total and complete discretion to interpret the Plan, including, but not limited to, the discretion to (i) decide all questions arising in the administration, interpretation and application of the Plan including the power to construe and interpret the Plan; (ii) decide all questions relating to an individual's eligibility to participate in the Plan and/or eligibility for benefits and the amounts thereof; (iii) decide all facts relevant to the determination of eligibility for benefits or participation; and (iv) determine the amount, form and timing of any distribution to be made hereunder. In making its decisions, the Benefits Administration Committee shall be entitled to, but need not rely upon, information supplied by a Member, Deferred Member, Beneficiary, or representative thereof.
 - (c) The members of the Benefits Administration Committee shall elect a Chairman from their number and a Secretary who may be, but need not be, one of the members of the Benefits Administration Committee; may appoint from their number such committees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make
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any payment on their behalf; may retain counsel and employ agents and such clerical and accounting services as they may require in carrying out the provisions of the Plan; and may allocate among themselves or delegate to other persons all or such portion of their duties hereunder as they in their sole discretion decide. The Benefits Administration Committee may also delegate to any other person or persons the authority and responsibility of administering the Plan including, but not limited to, telephone access by voice response or representatives, and completing Plan transactions using forms or by other means, in accordance with the provisions of the Plan and any policies which, from time to time, may be established by the Benefits Administration Committee.

- (d) Subject to the limitations of the Plan, the Benefits Administration Committee from time to time shall establish rules or regulations for the administration of the Plan and the transaction of its business. The Benefits Administration Committee shall have full discretionary authority, except as to matters which the Board of Directors from time to time may reserve to itself, to interpret the Plan and to make factual determinations regarding any and all matters arising hereunder, including but not limited to, the right to determine eligibility for benefits, the right to construe the terms of the Plan and the right to remedy possible ambiguities, inequities, inconsistencies or omissions. The Benefits Administration Committee shall also have the right to exercise powers otherwise exercisable by the Board of Directors hereunder to the extent that the exercise of such powers does not involve the management of Plan assets nor, in the judgment of the Benefits Administration Committee, a substantial number of persons. In addition, where the number of persons is deemed to be substantial, the Benefits Administration Committee shall have the further right to exercise such powers as may be delegated to the Benefits Administration Committee by the Board of Directors.
- (e) Subject to applicable federal and state Law, all interpretations, determinations and decisions of the Benefits Administration Committee or the Board of Directors in respect of any matter hereunder shall be final, conclusive and binding on all parties affected thereby.

13.4 *Meetings*

The Benefits Administration Committee shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine.

13.5 *Action by Benefits Administration Committee*

The action of at least a majority of the members of the Benefits Administration Committee expressed from time to time, by a vote at a meeting or in writing without a meeting, shall constitute the action of the Benefits Administration Committee and shall have the same effect for all purposes as if assented to by all members of the Benefits Administration Committee at that time in office.

13.6 *Compensation*

No member of the Benefits Administration Committee shall receive any compensation from the Plan for his services as such and, except as required by law, no bond or other security shall be required of him in such capacity in any jurisdiction.

13.7 *Plan Assets*

The Trustee shall be appointed by the PFTIC and shall enter into an agreement with the PFTIC for the purpose of investing and reinvesting contributions designated for the Xylem Stock Fund or other assets of the Plan as provided in Article 12. The PFTIC shall provide for the investing and reinvesting of contributions in designated investment funds as required herein. All benefits to which a Member or Beneficiary may be entitled from the Plan will be paid at the direction of the Benefits Administration Committee.

13.8 *Powers and Duties*

The powers and duties of the Benefits Administration Committee, PFTIC and the Trustee with respect to each group's responsibilities under the Plan shall be specified herein or in a separate trust agreement.

13.9 *Records*

The Benefits Administration Committee shall see that books of account are kept which show all receipts and disbursements and a complete record of the operation of the Plan, including records of each Member's Account.

13.10 *Claims*

When any individual claim for benefits is denied in whole or in part, such denial shall be handled under the claims and appeals procedures established by the Benefits Administration Committee.

ARTICLE 14

AMENDMENT AND TERMINATION

14.1 *Amendment of Plan*

The Board of Directors or its delegate reserves the right at any time and from time to time, and retroactively if deemed necessary or appropriate to conform with governmental regulations or other policies, to modify or amend in whole or in part any or all of the provisions of the Plan; provided that no such modification or amendment (a) shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of Members, Deferred Members and Beneficiaries; or (b) shall increase the duties of the Trustee without its consent thereto in writing, other than to comport with changes in the Code, ERISA or the rules thereunder. Except as may be required to conform with governmental regulations, no such amendment shall adversely affect the rights of any Member or Deferred Member with respect to contributions made on his behalf prior to the date of such amendment.

However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan. Except to the extent permitted under Section 411(d)(6) of the Code and regulations issued thereunder, no amendment shall be made which has the effect of decreasing the balance of the Accounts of any Member or of reducing the nonforfeitable percentage of the balance of the Accounts of a Member below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted, or if later, the date on which the amendment becomes effective. In addition, no amendment shall be made that has the effect of eliminating or restricting an optional form of benefit to the extent it is protected under Section 411(d)(6) of the Code.

14.2 *Termination of Plan*

- (a) The Plan is entirely voluntary on the part of the Company. The Board of Directors reserves the right at any time to terminate the Plan or to suspend, reduce or partially or completely discontinue contributions thereto. In the event of such termination or partial termination of the Plan or complete discontinuance of contributions, the interests of Members and Deferred Members shall automatically become nonforfeitable.
- (b) Upon termination of the Plan, Before-Tax Savings, with earnings thereon, shall be distributed to Members only if (i) neither the Company nor an Associated Company establishes or maintains a successor defined contribution plan, and (ii) payment is made to the Members in the form of a lump-sum distribution (as defined in Section 402(e)(4)(D) of the Code, without regard to subclauses (I) through (IV) of clause (i) thereof). For purposes of this paragraph, a "successor defined contribution plan" is a defined contribution plan (other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code ("ESOP") or a simplified employee pension as defined in Section 408(k) of the Code ("SEP")) which exists at the time the Plan is terminated or within the 12-month period beginning on the date all assets are distributed. However, in no event shall a defined contribution plan be deemed a successor plan if fewer than 2 percent of the employees who are eligible to participate in the Plan at the time of its termination are or were eligible to participate under another defined contribution plan of the Company or an Associated Company (other than an ESOP or a SEP, as herein defined) at any time during the period beginning 12 months before and ending 12 months after the date of the Plan's termination.

14.3 *Merger or Consolidation of Plan*

The Board of Directors or its delegate may, in its sole discretion, merge this Plan with another qualified plan or transfer a portion of the Plan's assets or liabilities to another qualified plan, subject to any applicable legal requirement. The Plan may not be merged or consolidated with, nor may its assets or liabilities be transferred to, any other plan unless each Member, Deferred Member, or Beneficiary under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

ARTICLE 15

TENDER OFFER

15.1 *Applicability*

The provisions of this Article 15 shall apply in the event any person, either alone or in conjunction with others, makes a tender offer, or exchange offer, or otherwise offers to purchase or solicits an offer to sell to such person one percent or more of the outstanding shares of a class of Xylem Stock held by the Trustee hereunder (herein jointly and severally referred to as a "tender offer"). As to any tender offer, each Member and Deferred Member (or Beneficiary in the event of the death of the Member or Deferred Member) shall have the right to determine confidentially whether shares held subject to the Plan will be tendered.

15.2 *Instructions to Trustee*

In the event a tender offer for Xylem Stock is commenced, the Benefits Administration Committee, promptly after receiving notice of the commencement of such tender offer, shall transfer certain of its recordkeeping functions to an independent recordkeeper. The functions so transferred shall be those necessary to preserve the confidentiality of any directions given by the Members and Deferred Members (or Beneficiary in the event of the death of the Member or Deferred Member) in connection with the tender offer. The Trustee may not take any action in response to a tender offer except as otherwise provided in this Article 15. Each Member is, for all purposes of this Article 15, hereby designated a named fiduciary within the meaning of Section 402(a)(2) of ERISA with respect to the shares of Xylem Stock allocated to his Accounts, determined as herein described. An individual's proportionate share of the Xylem Stock Fund as to which he holds fiduciary status for purposes of responding to a tender or exchange offer shall be determined at the time such fiduciary rights are exercisable by multiplying the number of shares credited at that time to the Xylem Stock Fund by a fraction, the numerator of which is the value (as of the Valuation Date designated by the Benefits Administration Committee for this purpose) of that part of the Member's Accounts invested in the Xylem Stock Fund and the denominator of which is the aggregate value of all amounts allocated to the Xylem Stock Fund. Each Member and Deferred Member (or Beneficiary in the event of the death of the Member or Deferred Member) may direct the Trustee to sell, offer to sell, exchange or otherwise dispose of the Xylem Stock allocated to any such individual's Accounts in accordance with the provisions, conditions and terms of such tender offer and the provisions of this Article 15, provided, however, that such directions shall be confidential and shall not be divulged by the Trustee or independent recordkeeper to the Company or to any director, officer, employee or agent of the Company, it being the intent of this provision of Section 15.2 to ensure that the Company (and its directors, officers, employees and agents) cannot determine the direction given by any Member, Deferred Member or Beneficiary. Such instructions shall be in such form and shall be filed in such manner and at such time as the Trustee may prescribe. The confidentiality provision of this Section shall likewise apply to the directions given to, and actions taken by, the Trustee pursuant to Section 15.5.

15.3 *Trustee Action on Member Instructions*

The Trustee shall sell, offer to sell, exchange or otherwise dispose of the Xylem Stock allocated to the Member's, Deferred Member's or Beneficiary's Accounts with respect to which it has received directions to do so under this Article 15 or as provided in Section 15.5. The proceeds of a disposition directed by a Member, Deferred Member or Beneficiary from his Accounts under this Article 15 shall be allocated to such individual's Accounts and be governed by the provisions of Section 15.5 or other applicable provisions of the Plan and the trust agreements established under the Plan.

15.4 *Action With Respect to Members Not Instructing the Trustee or Not Issuing Valid Instructions*

To the extent to which Members, Deferred Members and Beneficiaries do not issue valid directions to the Trustee to sell, offer to sell, exchange or otherwise dispose of the Xylem Stock allocated to their Accounts, such individuals shall be deemed to have directed the Trustee that such shares remain invested in Xylem Stock subject to all provisions of the Plan, including Section 15.5 and the trust agreements established under the Plan.

15.5 *Investment of Plan Assets after Tender Offer*

To the extent possible, the proceeds of a disposition of Xylem Stock in an individual's Accounts shall be reinvested in Xylem Stock by the Trustee as expeditiously as possible in the exercise of the Trustee's fiduciary responsibility and shall otherwise be held by the Trustee subject to the provisions of the trust agreement, the Plan and any applicable note or loan agreement. In the event that Xylem Stock is no longer available to be acquired following a tender offer, the Company may direct the substitution of new employer securities for the Xylem Stock or for the proceeds of any disposition of Xylem Stock. Pending the substitution of new employer securities or the termination of the Plan and trust, the Trust Fund shall be invested in such securities as the Trustee shall determine; provided, however, that, pending such investment, the Trustee shall invest the cash proceeds in short-term securities issued by the United States of America or any agency or instrumentality thereof or any other investments of a short-term nature, including corporate obligations or participations therein and interim collective or common investment funds.

ARTICLE 16

GENERAL AND ADMINISTRATIVE PROVISIONS

16.1 *Relief from Liability*

The Plan is intended to constitute a Plan as described in Section 404(c) of ERISA and Title 29 of the Code of Federal Regulations Section 2550.404c-1. The Plan fiduciaries are relieved of any liability for any losses that are the direct and necessary result of investment instructions given by any Member, Deferred Member or Beneficiary.

16.2 *Payment of Expenses*

- (a) Direct charges and expenses arising out of the purchase or sale of securities and taxes levied on or measured by such transactions, and any investment management fees, with respect to any Investment Fund, may be paid in part by the Company. Any such charges, expenses, taxes and fees not paid by the Company shall be paid from the Investment Fund with respect to which they are incurred.
- (b) An annual charge to the Trust Fund of up to 0.25% of the market value of the assets held by such Trust Fund may be charged and applied to satisfy expenses incurred in conjunction with Plan administration, including, but not limited to, Trustee, recordkeeping, and audit fees; the Company shall pay all other expenses reasonably incurred in administering the Plan, including expenses of the Benefits Administration Committee, the PFTIC and the Trustee, such compensation to the Trustee as from time to time may be agreed between the PFTIC and Trustee, fees for legal services, any investment management fees not paid pursuant to Section 16.2(a), and all taxes, if any.

16.3 *Source of Payment*

Benefits under the Plan shall be payable only out of the Trust Fund, and the Company shall not have any legal obligation, responsibility or liability to make any direct payment of benefits under the Plan. Neither the Company nor the Trustee guarantees the Trust Fund against any loss or depreciation or guarantees the payment of any benefit hereunder. No person shall have any rights under the Plan with respect to the Trust Fund, or against the Company, except as specifically provided for herein.

16.4 *Inalienability of Benefits*

Except as specifically provided in the Plan or as Section 401(a)(13) of the Code or other applicable law may otherwise require or as may be required under the terms of a qualified domestic relations order, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempts so to do shall be void, nor shall any such benefit be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of the person entitled to such benefit; and in the event that the Benefits Administration Committee shall find that any attempt has been made to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any of the benefits under the Plan of any Member, Deferred Member or Beneficiary who is or may become entitled to benefits hereunder, except as specifically provided in the Plan or as applicable law may otherwise require, then such benefit shall cease and terminate, and in that event the Benefits Administration Committee shall hold or apply the same to or for the benefit of such Member, Deferred Member or Beneficiary who is or may become entitled to benefits hereunder, his spouse, children, parents or other blood relatives, or any of them.

A Member's benefit under the Plan shall be offset or reduced by the amount the Member is required to pay to the Plan under the circumstances set forth in Section 401(a)(13)(C) of the Code.

A Member's benefit under the Plan shall be distributed as required because of the enforcement of a federal tax levy made pursuant to Section 6331 of the Code or the collection by the United States on a judgment resulting from an unpaid tax assessment.

16.5 *No Right to Employment*

Nothing herein contained nor any action taken under the provisions hereof shall be construed as giving any Employee the right to be retained in the employ of the Company.

16.6 *Inability to Locate Member or Beneficiary*

Notwithstanding the foregoing, if the Benefits Administration Committee is unable to locate any person to whom a payment is due under the Plan or any person fails to present a check for payment in a timely manner, the amount due such person shall be forfeited at such time as the Benefits Administration Committee shall determine in its sole discretion and pursuant to nondiscriminatory rules established for that purpose (but in all events prior to the time such payment would otherwise escheat under any applicable State law). If, however, such a person later files a claim for such payment before the Plan is terminated, the benefit will be reinstated and payment made without any interest earned thereon.

16.7 *Uniform Action*

Action by the Benefits Administration Committee shall be uniform in nature as applied to all persons similarly situated, and no such action shall be taken which will discriminate in favor of any Members who are Highly Compensated Employees.

16.8 *Headings*

The headings of the sections in this Plan are placed herein for convenience of reference and in the case of any conflict, the text of the Plan, rather than such headings, shall control.

16.9 *Use of Pronouns*

The masculine pronouns as used herein shall be equally applicable to both men and women, and words used in the singular are intended to include the plural, whenever appropriate.

16.10 *Construction*

The Plan shall be construed, regulated and administered in accordance with the laws of the State of New York, subject to the provisions of applicable federal laws.

ARTICLE 17

TOP-HEAVY PROVISIONS

17.1 *Definitions*

The following definitions apply to the terms used in this Section:

- (a) "applicable determination date" means the last day of the preceding Plan Year;
- (b) "top-heavy ratio" means the ratio of (i) the value of the aggregate of the Accounts under the Plan for key employees to (ii) the value of the aggregate of the Accounts under the Plan for all key employees and non-key employees;
- (c) "key employee" means any employee or former employee (including any deceased employee) who at any time during the Plan Year that includes the determination date was an officer of the Company or Associated Company having Statutory Compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner (as defined in Section 416(i)(1)(B)(i) of the Code) of the Company or Associated Company, or a 1-percent owner (as defined in Section 416(i)(1)(B)(ii) of the Code) of the Company or Associated Company having Statutory Compensation of more than \$150,000. The determination of who is a key employee will be made in accordance with Section 416(i) of the Code and the applicable regulations and other guidance of general applicability issued thereunder;
- (d) "non-key employee" means any Employee who is not a key employee;
- (e) "applicable Valuation Date" means the Valuation Date coincident with or immediately preceding the last day of the preceding Plan Year;
- (f) "required aggregation group" means any other qualified plan(s) of the Company or an Associated Company (including plans that terminated within the five-year period ending on the applicable determination date) in which there are Members who are key employees or which enable(s) the Plan to meet the requirements of Section 401(a)(4) or 410 of the Code; and
- (g) "permissive aggregation group" means each plan in the required aggregation group and any other qualified plan(s) of the Company or an Associated Company in which all members are non-key employees, if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.

17.2 *Determination of Top Heavy Status*

For purposes of this Section, the Plan shall be "top-heavy" with respect to any Plan Year if as of the applicable determination date the top-heavy ratio exceeds 60 percent. The top-heavy ratio shall be determined as of the applicable Valuation Date in accordance with Sections 416(g)(3) and (4) of the Code and Article 5 of this Plan, and shall take into account any contributions made after the applicable Valuation Date but before the last day of the Plan Year in which the applicable Valuation Date occurs. The determination of whether the Plan is top-heavy is subject to the following:

- (a) the Accounts under the Plan will be combined with the account balances or the present value of accrued benefits under each other plan in the required aggregation group and, in the Company's discretion, may be combined with the account balances or the present value of accrued benefits under any other qualified plan in the permissive aggregation group;
 - (b) the Accounts for an employee as of the applicable determination date shall be increased by the distributions made with respect to the employee under the Plan and any plan aggregated with the Plan under Section 416(g)(2) of the Code during the one-year period (five-year period in the case of a distribution made for a reason other than severance from employment, death, or disability) ending on the applicable determination date;
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- (c) distributions under any plan that terminated within the five-year period ending on the applicable determination date shall be taken into account if such plan contained key employees and, therefore, would have been part of the required aggregation group; and
- (d) if an individual has not performed services for the Company or an Associated Company at any time during the one-year period ending on the applicable determination date, such individual's accounts and the present value of his or her accrued benefits shall not be taken into account.

17.3 *Minimum Requirements*

For any Plan Year with respect to which the Plan is top-heavy, an additional Company contribution shall be allocated on behalf of each Member (or each Employee eligible to become a Member) who is not a "key employee," and who has not separated from service as of the last day of the Plan Year, to the extent that the amounts allocated to his Accounts as a result of contributions made on his behalf under Sections 5.1 and 5.2 for the Plan Year would otherwise be less than 3% of his Statutory Compensation. However, if the greatest percentage of Statutory Compensation contributed on behalf of a key employee under Sections 4.1, 5.1, and 5.2 for the Plan Year (disregarding any contributions made under Section 5.5 for the Plan Year) would be less than 3%, such lesser percentage shall be substituted for "3%" in the preceding sentence. Notwithstanding the foregoing provisions of this Section 17.3, no minimum contribution shall be made with respect to a Member, or an Employee who is eligible to become a Member, if the required minimum benefit under Section 416(c)(1) of the Code is provided by any qualified defined benefit plan of the Company or an Associated Company.

ARTICLE 18

QUALIFIED DOMESTIC RELATIONS ORDERS

18.1 *Applicability of Article*

The Benefits Administration Committee shall apply the provisions of this Article with regard to a Domestic Relations Order (as defined below) to the extent not inconsistent with Section 414(p) of the Code.

18.2 *Establishment of Procedures*

The Benefits Administration Committee shall establish procedures, consistent with Section 414(p) of the Code, to determine the qualified status of any Domestic Relations Order (as defined below), to administer distributions under any Qualified Domestic Relations Order (as defined below), and to provide to the Member and the Alternate Payee(s) (as defined below) all notices required under Section 414(p) of the Code with respect to any Domestic Relations Order. Such procedures shall be binding on all Members and Alternate Payees.

18.3 *Determination of Qualified Domestic Relations Order Status*

Within a reasonable period of time after the receipt of a certified copy of a Domestic Relations Order (or any modification thereof), the Benefits Administration Committee or its designee shall determine whether such order is a Qualified Domestic Relations Order. The Benefits Administration Committee shall have full and complete discretion to determine whether a domestic relations order constitutes a qualified domestic relations order and whether the Alternate Payee otherwise qualifies for benefits hereunder.

18.4 *Establishment of Segregated Accounts and Payment Procedures*

(a) *Separate Account for Deferred Amounts*

If a Domestic Relations Order has been determined to be a Qualified Domestic Relations Order in accordance with Section 18.3, a separate account for the benefits of the Alternate Payee named in such order shall be established.

(b) *Temporary Holding Account*

If, during any period in which the issue of (i) whether a Domestic Relations Order is a Qualified Domestic Relations Order, or (ii) whether a proposed Domestic Relations Order would, if it were perfected as a Domestic Relations Order, be a Qualified Domestic Relations Order is being determined (by the Benefits Administration Committee, by a court of competent jurisdiction, or otherwise), the Alternate Payee would be entitled to any payment if the order has been determined to be a Qualified Domestic Relations Order, the Benefits Administration Committee shall separately account for, and may cause to be segregated in a separate account, all amounts which would have been payable to any Alternate Payee during such period if such order had been determined to be a Qualified Domestic Relations Order.

(c) *Payment from Temporary Holding Account in Certain Cases*

If, by the expiration of the 18-month period beginning on the date the first payment would be required to be made to an Alternate Payee under a Domestic Relations Order, either it has been determined that a Domestic Relations Order is not a Qualified Domestic Relations Order or the issue as to whether such order is a Qualified Domestic Relations Order has not been resolved, the Benefits Administration Committee shall cause to be paid all amounts which have been segregated (or separately accounted for) by reason of such order pursuant to paragraph (b) above, including any earnings having accrued thereon, to the person or persons who would have been entitled to such amounts if there had been no order. Notwithstanding the preceding sentence, if the Member or his or her Beneficiaries are not yet entitled, or have not elected, to receive benefit payments under the Plan, such amounts, including all earnings having accrued thereon, shall be restored to the Member's Accounts and invested in accordance with the investment election most recently submitted by the Member pursuant to Section 7.4.

(d) *Payment from Separate Account and Temporary Holding Account to Alternate Payee of Order if Determined to be a Qualified Domestic Relations Order*

If a Domestic Relations Order (or any modification thereof) is determined to be a Qualified Domestic Relations Order, the Benefits Administration Committee shall instruct the Trustee to apply, on a prospective basis, the terms and provisions of such Qualified Domestic Relations Order, and, in the event any amounts were segregated (or separately accounted for) by reason of such order pursuant to paragraph (b) above, the Benefits Administration Committee shall cause to be paid in accordance with the provisions of the Plan all amounts which have been so segregated (and have not been released pursuant to paragraph (c)) (or separately accounted for), including any earnings having accrued thereon, to the Alternate Payee(s) entitled thereto.

18.5 *Subsequent Determination or Order to be Applied Prospectively*

If a determination is made after the expiration of the 18-month period beginning on the date the first payment would be required to be made to an Alternate Payee under a Domestic Relations Order that such order (or any modification thereof) is a Qualified Domestic Relations Order, such order shall be applied prospectively only.

18.6 *Withdrawals, Distributions and Loans by or to Members .*

(a) *Withdrawals and Distributions*

A Member or Deferred Member shall not be permitted to withdraw from the Plan, nor shall there be distributed to a Member or Deferred Member, any amounts being held in a segregated account by reason of a Domestic Relations Order.

(b) *Loans*

In determining the maximum amount of any loan to a Member pursuant to Article 10, the Benefits Administration Committee shall not include any portion of the Member's Accounts being held in a segregated account (or being separately accounted for) by reason of a Domestic Relations Order.

18.7 *Earliest Commencement Date*

A Domestic Relations Order shall not fail to be a Qualified Domestic Relations Order merely because it provides for distribution to the Alternate Payee prior to the Member's Termination of Employment. Notwithstanding anything herein to the contrary, if the amount payable to the Alternate Payee under the Qualified Domestic Relations Order is less than \$5,000, such amount shall be paid in one lump sum as soon as practicable following the qualification of the order. If the amount exceeds \$5,000, it may be paid as soon as practicable following the qualification of the order if the Qualified Domestic Relations Order so provides and the Alternate Payee consents thereto; otherwise, it may not be payable before the earliest of the Member's Termination of Employment, the time such amount could otherwise be withdrawn under the terms of this Plan, or the Member's attainment of age 50.

18.8 *Definitions*

For purposes of this Article:

- (a) *Alternate Payee* shall mean any spouse, former spouse, child or other dependent of a Member who is recognized by a Domestic Relations Order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to such Member.
 - (b) *Domestic Relations Order* shall mean any judgment, decree or order (including approval of a property settlement agreement) which:
 - (i) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child, or other dependent of a Member; and
 - (ii) is made pursuant to a state domestic relations law (including a community property law).
 - (c) *Qualified Domestic Relations Order* shall mean a Domestic Relations Order which meets the requirements of Section 414(p)(1) of the Code.
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APPENDIX A

Notwithstanding anything contained herein to the contrary, Special Company Contributions shall be made under Section 5.2(b) as follows:

A. Special DC Credit Contribution

With respect to an Employee who:

- (i) was an "Employee" (as defined under the provisions of the ITT Salaried Retirement Plan as in effect immediately prior to October 31, 2011) on October 30, 2011 and becomes a Member of the Plan on October 31, 2011; and
- (ii) was not a participant in the ITT Salaried Retirement Plan in 2011 as a result of the restructuring of the ITT Corporation

the Company shall make a Special DC Credit Contribution to the Plan for the 2011 Plan Year.

Such Special DC Credit Contribution shall be equal to the amount that would have been contributed as a Core Contribution to the Plan if the Plan had been in effect prior to the October 31, 2011, based on the Salary such Employee received during the period beginning on the date he was most recently hired or rehired by ITT Corporation or one of its subsidiaries prior to October 31, 2011 and ending on October 31, 2011 and while he was an "Employee" (as defined in the ITT Salaried Retirement Plan as in effective immediately prior to October 31, 2011).

B. Transition Credit Contributions

The Company shall make Transition Credit Contributions subject to the following:

1. Eligibility

The following Employees shall be eligible for Transition Credit Contributions:

- (i) each Employee who was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011 and who becomes a Member of the Plan on October 31, 2011;
- (ii) each individual who was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011, who remained an employee of ITT Corporation or one of its subsidiaries after October 30, 2011, and who becomes an Employee immediately following termination of employment with ITT Corporation or one of its subsidiaries and prior to March 1, 2012; and
- (iii) each individual who was an employee of ITT Corporation or one of its subsidiaries on October 30, 2011, who became an employee of Exelis Inc. on October 31, 2011, and who becomes an Employee immediately following termination of employment with Exelis Inc. and prior to March 1, 2012.

2. Amount

- (i) With respect to a Member whose age and Service as of the first day of the applicable Plan Year, as defined below, total 60 to 69 points, the Company shall make a Transition Credit Contribution equal to three percent of the Member's Salary for the Plan Year.
 - (ii) With respect to a Member whose age and Service as of the first day of the applicable Plan Year, as defined below, total 70 or more points, the Company shall make a Transition Credit Contribution equal to five percent of the Member's Salary for the Plan Year.
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For purposes of the preceding provisions, a Member's age and Service shall be calculated on a basis uniformly applicable to all Members similarly situated as established by the Benefits Administration Committee.

3. Timing and Frequency

Subject to paragraph 4 below, Transition Credit Contributions shall be made for each Plan Year and shall be made no later than the due for the corporate tax return for the Plan Year for which the Transition Credit Contributions are made. Notwithstanding the foregoing, if an eligible Member terminates employment during the Plan Year for which a Transition Credit Contribution is payable, such Member's Transition Credit Contribution for such Plan Year shall be made as soon as practicable following the end of the calendar [year] in which the Member terminates employment.

4. Duration

Transition Credit Contributions shall be made beginning as of October 31, 2011 and until the earliest of:

- (i) October 31, 2016;
- (ii) a Member's commencement of his traditional pension plan (TPP) benefit from the ITT Salaried Retirement Plan;
- (iii) a change in control of Xylem;
- (iv) a Member's termination of employment (regardless of whether the Member is subsequently reemployed); or
- (v) a Member's death.

The following Appendices B through H apply to certain Members or Deferred Members who had benefits transferred to the Plan from the ISP attributable to accounts that were transferred into the ISP from another qualified plan, as specified in the applicable Appendix

APPENDIX B

This Appendix B shall apply solely to Members and Deferred Members who formerly participated in the Allis-Chalmers Savings Plan (the "Allis-Chalmers Plan") and with respect to whom assets were transferred to the ISP from the Allis-Chalmers Plan. All service recognized under the Allis-Chalmers Plan for purposes of eligibility to participate and vesting shall be recognized hereunder as Service.

- A.** Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment a Member or Deferred Member described above may elect to receive those amounts transferred from the Allis-Chalmers Plan to the ISP in the distribution forms described herein:
1. In installments at intervals not more frequently than once per calendar quarter over a period of years not exceeding the joint life expectancy of the Member or Deferred Member and his spouse, as determined under Section 72 of the Code and the regulations thereunder.
 2. In installments at intervals not more frequently than once per calendar quarter over a period of years which does not extend beyond the Member's or Deferred Member's life expectancy, calculated as follows:
 - (i) the fixed payment shall be determined annually at the time payments are to commence, and as of the first day of each succeeding Plan Year, by multiplying the amount transferred to the ISP from the Allis-Chalmers Plan by a fraction, the numerator of which is one, and the denominator is the Member's or Deferred Member's life expectancy as of the date of such determination, as determined under Section 72 of the Code and the regulations thereunder; and
 - (ii) then dividing the amount determined under (i) above, by the number of payments to be paid to the Member or Deferred Member during that Plan Year.
 3. By purchasing an annuity contract for the benefit of the Member or Deferred Member from a legal reserve life insurance company selected by the Company. If the Member or Deferred Member is married, such annuity contract shall be in the form of a qualified joint and survivor annuity unless the Member or Deferred Member, with his spouse's consent unless it is established to the satisfaction of the Benefits Administration Committee that the spouse cannot be located, elects another form of annuity contract and does not revoke such election within the 90-day period ending on the first day of the first period for which an amount is received as an annuity. Any election by a Member or Deferred Member to waive a qualified joint and survivor annuity must be in writing. The spouse's consent must be in writing, must acknowledge the effect of such election and be witnessed by a notary public. A qualified joint and survivor annuity means an annuity for the life of the Member or Deferred Member with a survivor annuity for the life of the spouse which is not less than 50 percent and not more than 100 percent of the annuity which is payable during the joint lives of the Member or Deferred Member and the spouse, and which is the actuarial equivalent of a single life annuity for the life of the Member or Deferred Member.

The Member or Deferred Member shall, no less than 30 days and no more than 90 days prior to the first day of the first period for which an amount is received as an annuity, be provided a written explanation of (i) the terms and conditions of the qualified joint and survivor annuity; (ii) the Member's or Deferred Member's right to make and the effect of an election to waive the qualified joint and survivor annuity form of benefit; (iii) the rights of the Member's or Deferred Member's spouse; and (iv) the right to make, and the effect of, a revocation of a previous election to waive the qualified joint and survivor annuity. If an annuity form other than a qualified joint and survivor annuity is elected hereunder, such annuity may not be in a form that will provide for payments over a period extending beyond either the life of the Member or Deferred Member (or the lives of the Member or Deferred Member and his designated Beneficiary) or the life expectancy of the Member or Deferred Member (or the life expectancy of the Member or Deferred Member and his designated Beneficiary), and such other forms available under the annuity contract shall be so designed as to provide that at least 50 percent of the

reserve that would be required to provide payments to the Member or Deferred Member in the normal form under the Plan will be applied to him over his normal life expectancy.

The Company shall cause the contract to be assigned or delivered to the person or persons then entitled to payment under it. Before the assignment or delivery of an annuity contract, such contract shall be rendered nontransferable except by surrender to the issuing insurance company.

4. A Member or Deferred Member may elect to receive the benefits to which this Appendix B applies in any combination of the forms enumerated herein.
- B.** Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, in the event a Member or Deferred Member dies before his benefit attributable to amounts transferred from the Allis-Chalmers Plan to the ISP, or any portion thereof, has been paid to him, the unpaid balance of such amount shall be paid to his designated Beneficiary as follows:
1. If the beneficiary is an individual or individuals, the amount described in paragraph (B) above shall be paid to such Beneficiary in one of the methods described in paragraph (A) above, as elected by such Beneficiary. In the case of a Beneficiary who elects to receive installments or an annuity, payments thereunder shall not extend beyond the life expectancy of the Beneficiary.
 2. If the Beneficiary is other than an individual or individuals, the Member's or Deferred Member's benefit subject to this Appendix B shall be paid in a lump sum payment.
- C.** Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, in the event a Member or Deferred Member dies after installments have commenced, the remainder of his distributable benefit will be paid to his Beneficiary in a single lump sum except that such Beneficiary may elect to receive such benefit in the installment forms described in paragraph (A) above. If the Beneficiary so elects, installments shall be over a period of years not exceeding the number of years that installments would have continued to be paid to the Member or Deferred Member had he lived, provided the Member or Deferred Member had been receiving installments under subsection (A)(1) and over a period of years which does not extend beyond the Member's or Deferred Member's life expectancy on the day before the date of his death, provided the Member or Deferred Member has been receiving installments under subsection (A)(2).
- D.** Notwithstanding anything in this Appendix B to the contrary, single sum payments shall be made, installments shall commence, and annuity contracts shall be purchased not later than one year after the date of the Member's or Deferred Member's death. In the event a Beneficiary dies before he has received the entire amount payable to him under this Appendix B, the Beneficiary's beneficiary shall be paid the balance of the amount payable hereunder in a single lump sum payment within one year of the Beneficiary's death.
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APPENDIX C

This Appendix C shall apply solely to Members and Deferred Members who formerly participated in the ITT Higbie Manufacturing Company Retirement Profit-Sharing Plan (the "Higbie Plan") and with respect to whom assets and liabilities were transferred to the ISP from the Higbie Plan. All service recognized under the Higbie Plan for purposes of eligibility to participate and vesting were recognized under the ISP as Service.

A. Subject to Section 11.3 with respect to Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment after attaining age 50 and 10 years of Service or attaining age 65, a Member described above may elect to receive those amounts transferred from the Higbie Plan to the ISP in the distribution forms described herein. Such amounts shall commence, as selected by the Member, as of the earlier of the Valuation Date next following a Member's Termination of Employment on or after his age 65 or any Valuation Date selected by the Member following the Member's attainment of age 50 and 10 years of Service but prior to the Valuation Date next following his age 65:

1. In approximately equal monthly or annual installments over a period not to exceed 10 years.
2. By purchasing an annuity contract for the benefit of the Member or Deferred Member from a legal reserve life insurance company selected by the Company. If the Member elects to receive his benefits hereunder in the form of an annuity and if the Member is married on the date benefits commence, such annuity contract shall be in the form of a 50 percent qualified joint and survivor annuity unless the Member, with his spouse's consent unless it is established to the satisfaction of the Benefits Administration Committee that the spouse cannot be located, elects another form of annuity contract and does not revoke such election within the 90-day period ending on the first day of the first period for which an amount is received as an annuity. Any election by a Member or Deferred Member to waive a qualified joint and survivor annuity must be in writing. The spouse's consent must be in writing, must acknowledge the effect of such election and be witnessed by a notary public. A qualified joint and survivor annuity means an annuity for the life of the Member with a survivor annuity for the life of the spouse which is not less than 50 percent and not more than 100 percent of the annuity which is payable during the joint lives of the Member and the spouse, and which is the actuarial equivalent of a single life annuity for the life of the Member. In the event the Member elects to receive his benefit hereunder in the form of an annuity other than a joint and survivor annuity with his spouse as Beneficiary, the value of the benefit payable to the Member under the annuity shall never be less than 51 percent of the total value of the benefits payable under the annuity to the Member and his Beneficiary.

The Member shall, no less than 30 days and no more than 90 days prior to the first day of the first period for which an amount is received as an annuity, be provided a written explanation of (i) the terms and conditions of the qualified joint and survivor annuity; (ii) the Member's or Deferred Member's right to make and the effect of an election to waive the qualified joint and survivor annuity form of benefit; (iii) the rights of the Member's or Deferred Member's spouse; and (iv) the right to make, and the effect of, a revocation of a previous election to waive the qualified joint and survivor annuity. If an annuity form other than a qualified joint and survivor annuity is elected hereunder, such annuity may not be in a form that will provide for payments over a period extending beyond either the life of the Member (or the lives of the Member and his designated Beneficiary) or the life expectancy of the Member (or the life expectancy of the Member and his designated Beneficiary), and such other forms available under the annuity contract shall be so designed as to provide that at least 50 percent of the reserve that would be required to provide payments to the Member in the normal form under the Plan will be applied to him over his normal life expectancy.

B. In the event of the death of a Member or Deferred Member prior to commencing benefits hereunder, such benefit shall be paid to his Beneficiary as of the Valuation Date coincident with or next following the Member's or Deferred Member's date of death in a single sum payment or in installment payments, if the Member or Deferred Member has named one Beneficiary and has so elected, such amount shall be payable in 120 equal, as near as may be, monthly installments, with any funds remaining at the death of the Beneficiary to go to the Beneficiary's estate in one lump sum, or if no Beneficiary survives the Member or Deferred Member, such amounts shall be payable to the Member's or Deferred Member's estate in a single lump sum. In either case, the Member or Deferred Member may name one or more contingent Beneficiaries to take in full at such

Member's or Deferred Member's death in the event the primary Beneficiary or Beneficiaries have not survived the Member or Deferred Member.

- C.** In the event of the death of a Member who is receiving installments pursuant to paragraph (A)(1) hereof and who has designated a Beneficiary to receive installment payments pursuant to paragraph (B) hereof, such Member's installment payments shall continue until the July 31 next following the Member's death and thereafter shall be payable pursuant to paragraph (B) above in 120 equal, as near as may be, monthly installments, with any amounts remaining at the death of the Beneficiary to go to the Beneficiary's estate in a single lump sum.
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APPENDIX D

This Appendix D shall apply solely to Members and Deferred Members who formerly participated in the General Motors Savings-Stock Purchase Program for Salaried Employees in the United States (the "GM Plan") and with respect to whom assets and liabilities were transferred to the ISP from the GM Plan. All service recognized under the GM Plan for purposes of eligibility to participate and vesting was recognized as Service under the ISP.

- A.** Subject to Section 11.3 with respect to a Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment, a Member or Deferred Member described above may elect to receive those amounts transferred from the GM Plan to the ISP in the distribution forms described herein:
1. In installment payments on a monthly, quarterly, semi-annual, or annual basis. Installments are to be paid in whole dollar amounts, with \$1,200 as the minimum annual installment. A Member or Deferred Member may change the timing, amount, or discontinue installment payments. Installment payments will commence:
 - (i) for monthly payments, the first of the month next following the month in which the Member's or Deferred Member's election is received by the Plan; and
 - (ii) for quarterly, semi-annual, and annual payments, not sooner than the month next following the month in which the Plan receives the Member's or Deferred Member's election.
 2. A Member or Deferred Member who has incurred a Termination of Employment may elect to withdraw a portion of the amounts hereunder at any time, but no more frequently than once per calendar year. In addition to any partial withdrawal, a Member or Deferred Member may elect, at any time, to receive a complete distribution of the amounts with respect to which this Appendix D applies.
- B.** A Member or Deferred Member shall be permitted to defer commencement of benefits hereunder until the April 1 next following the date such Member or Deferred Member attains age 70½.
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APPENDIX E

This Appendix E shall apply solely to Members and Deferred Members who formerly participated in the Goulds Pumps, Inc. Retirement Savings and Investment Plan (the "Goulds Plan") and with respect to whom assets and liabilities were transferred to the ISP from the Goulds Plan. All service recognized under the Goulds Plan for purposes of eligibility to participate and vesting was recognized as Service under the ISP.

- A.** Subject to Section 11.3 with respect to a Accounts that are less than \$5,000 and in addition to the distribution forms enumerated in Section 11.3 of the Plan, upon incurring a Termination of Employment a Member or Deferred Member described above may elect to receive those amounts transferred from the Goulds Plan to the Plan in installment payments on a monthly or quarterly basis, as the Member elects, over a term certain. The maximum length of the term certain shall be the joint life expectancy of the Member and his designated beneficiary. If the installments are to be distributed over the life expectancy of the Member or the joint life of the Member and his Beneficiary, the life expectancy or joint life expectancies, as applicable of such persons shall be calculated at the time distributions commence and shall not thereafter be recalculated. The initial value of the obligation for the installment payments shall be equal to the amount of the Member's Account balance. Distributions must satisfy the requirements of Section 401(a)(9)(G) of the Code.
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APPENDIX F

This Appendix F shall apply solely to Members who are Deferred Members who were employed at ITT Automotive Brake Systems ("Brakes") or at ITT Automotive Electrical Systems, Inc. ("ESI").

- A.** Each Member who was employed at Brakes as of September 25, 1998, the closing date of the sale of Brakes, was 100% vested in his Accounts as of such date.
 - B.** Each Member who was employed at ESI as of September 28, 1998, the closing date of the sale of ESI, was 100% vested in his Accounts as of such date.
 - C.** Effective September 25, 1998, a Member employed at Brakes was permitted, between September 25, 1998 and the date of the trust to trust transfer of his Accounts to the qualified retirement plan sponsored by Continental AG, to reallocate the investment of amounts in his Company Contribution Account into any other fund offered by the ISP, regardless of the age of the Member.
 - D.** Effective September 28, 1998, a Member employed at ESI was permitted, between September 28, 1998 and the date of the trust to trust transfer of his Accounts to the qualified retirement plan sponsored by Valeo, to reallocate the investment of amounts in his Company Contribution Account into any other fund offered by the ISP, regardless of the age of the Member. Amounts that were invested in the ITT Stock Fund on the date of the trust to trust transfer to the qualified retirement plan sponsored by Valeo were transferred in kind.
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APPENDIX G

This Appendix G shall apply solely to individuals who were salaried employees of Water Pollution Control Corporation ("WPCC").

- A.** Each individual who was a salaried employee of WPCC on February 28, 1999 was an Employee for purposes of the ISP as of March 1, 1999.
 - B.** In accordance with the terms and conditions of the Stock Purchase Agreement for WPCC dated January 3, 1999, an individual who became an Employee of ITT Corporation on March 1, 1999 as a result of ITT Corporation's acquisition of WPCC was credited with all uninterrupted service rendered by such salaried employee while employed by WPCC prior to March 1, 1999. Such service was credited solely for the purposes of determining eligibility and vesting under the ISP and only to the extent such service was credited by WPCC under a qualified retirement plan for these purposes.
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APPENDIX H

This Appendix H shall apply solely to Members who are Deferred Members who were employed at Precision Die Casting ("PDC"), Pomona, or Palm Coast Utility ("PCUC").

- A.** Each Member who was employed at PDC as of March 13, 1998, was permitted to request an elective transfer to the ISP or a complete distribution through March 12, 2000. On or after March 13, 2000, such a Member was not be permitted to elect a transfer or distribution of his Accounts until the Member terminates employment with the buyer of PDC, dies or becomes Disabled. Effective March 13, 1998, such a Member also was not permitted to request a loan or a withdrawal (other than a full distribution prior to March 13, 2000) from his Accounts.
- B.** Each Member who was employed at Pomona as of September 25, 1998, was permitted to request an elective transfer to the ISP or a complete distribution through September 24, 2000. On or after September 25, 2000, such a Member was not be permitted to elect a transfer or distribution of his Accounts until the Member terminates employment with the buyer of Pomona, dies or becomes Disabled. Effective September 25, 1998, such a Member also was not permitted to request a loan or a withdrawal (other than a full distribution prior to September 25, 2000) from his Accounts.
- C.** Each Member who was employed at PCUC as of January 22, 1999, was permitted to request an elective transfer to the ISP or a complete distribution pursuant to Article 11 of his Accounts through January 21, 2001. On or after January 22, 2001, such a Member was not be permitted to elect a transfer or distribution of his Accounts until the Member terminates employment with the buyer of PCUC, dies or becomes Disabled. Effective January 22, 1999, such a Member also was not permitted to request a loan or a withdrawal (other than a full distribution prior to January 22, 2001) from his Accounts.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gretchen W. McClain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2013

/s/ Gretchen W. McClain _____

Gretchen W. McClain

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael T. Speetzen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2013

/s/ Michael T. Speetzen

Michael T. Speetzen

Senior Vice President and

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the "Company") for the period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gretchen W. McClain, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gretchen W. McClain

Gretchen W. McClain

President and Chief Executive Officer

July 30, 2013

A signed original of this written statement required by Section 906 has been provided to Xylem Inc. and will be retained by Xylem Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the "Company") for the period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael T. Speetzen, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael T. Speetzen

Michael T. Speetzen

Senior Vice President and Chief Financial Officer

July 30, 2013

A signed original of this written statement required by Section 906 has been provided to Xylem Inc. and will be retained by Xylem Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

