
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 **September 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 October 25, 2013, there were 184,488,238 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 periods ended September 30,	Three Months		Nine Months	
	2013	2012	2013	2012
Revenue	\$ 965	\$ 931	\$ 2,804	\$ 2,822
Cost of revenue	581	557	1,715	1,702
Gross profit	384	374	1,089	1,120
Selling, general and administrative expenses	256	231	744	682
Research and development expenses	24	24	78	80
Restructuring charges	5	4	30	4
Separation costs	1	4	3	15
Operating income	98	111	234	339
Interest expense	14	14	41	41
Other non-operating (expense) income, net	(1)	3	(2)	1
Income before taxes	83	100	191	299
Income tax expense	10	28	31	75
Net income	\$ 73	\$ 72	\$ 160	\$ 224
Earnings per share:				
Basic	\$ 0.39	\$ 0.39	\$ 0.86	\$ 1.20
Diluted	\$ 0.39	\$ 0.38	\$ 0.86	\$ 1.20
Weighted average number of shares:				
Basic	185.2	185.9	185.5	185.7
Diluted	186.0	186.3	186.2	186.2
Dividends declared per share	\$ 0.1164	\$ 0.1012	\$ 0.3492	\$ 0.3036

See accompanying notes to condensed consolidated financial statements.

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

(in millions)

For the periods ended September 30,	Three Months		Nine Months	
	2013	2012	2013	2012
Net income	\$ 73	\$ 72	\$ 160	\$ 224
Other comprehensive income, before tax:				
Foreign currency translation adjustment	68	44	4	23
Net change in cash flow hedges:				
Unrealized gains	2	2	—	4
Amount of loss (gain) reclassified into net income	1	—	—	(1)
Net change in postretirement benefit plans:				
Amortization of net actuarial loss	5	2	14	7
Settlement	—	—	—	2
Other comprehensive income, before tax	76	48	18	35
Income tax expense related to items of other comprehensive income	2	1	4	4
Other comprehensive loss, net of tax	74	47	14	31
Comprehensive income	\$ 147	\$ 119	\$ 174	\$ 255

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2013	December 31, 2012
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 394	\$ 504
Receivables, less allowances for discounts and doubtful accounts of \$30 and \$34 in 2013 and 2012, respectively	845	776
Inventories, net	496	443
Prepaid and other current assets	120	110
Deferred income tax assets	44	41
Total current assets	1,899	1,874
Property, plant and equipment, net	478	487
Goodwill	1,704	1,647
Other intangible assets, net	497	484
Other non-current assets	206	187
Total assets	\$ 4,784	\$ 4,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 324	\$ 332
Accrued and other current liabilities	475	443
Short-term borrowings and current maturities of long-term debt	3	6
Total current liabilities	802	781
Long-term debt	1,199	1,199
Accrued postretirement benefits	400	400
Deferred income tax liabilities	173	173
Other non-current accrued liabilities	52	52
Total liabilities	2,626	2,605
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Common Stock – par value \$0.01 per share:		
Authorized 750.0 shares, issued 186.8 shares and 186.2 shares in 2013 and 2012, respectively	2	2
Capital in excess of par value	1,729	1,706
Retained earnings	359	264
Treasury stock – at cost 2.3 shares and 0.5 shares in 2013 and 2012, respectively	(61)	(13)
Accumulated other comprehensive income	129	115
Total stockholders' equity	2,158	2,074
Total liabilities and stockholders' equity	\$ 4,784	\$ 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 nine months September 30,	2013	2012
Operating Activities		
Net income	\$ 160	\$ 224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	72	68
Amortization	38	35
Share-based compensation	21	16
Restructuring charges	30	4
Other, net	11	1
Payments for restructuring	(24)	—
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(71)	(33)
Changes in inventories	(59)	(33)
Changes in accounts payable	4	(7)
Other, net	(19)	(45)
Net Cash – Operating activities	163	230
Investing Activities		
Capital expenditures	(91)	(81)
Acquisitions of businesses and assets, net of cash acquired	(81)	(12)
Proceeds from the sale of property, plant and equipment	7	4
Net Cash – Investing activities	(165)	(89)
Financing Activities		
Issuance of short-term debt	—	12
Principal payments of debt and capital lease obligations	(2)	(6)
Repurchase of common stock	(44)	(4)
Proceeds from exercise of employee stock options	2	22
Dividends paid	(65)	(56)
Other, net	—	(9)
Net Cash – Financing activities	(109)	(41)
Effect of exchange rate changes on cash	1	6
Net change in cash and cash equivalents	(110)	106
Cash and cash equivalents at beginning of year	504	318
Cash and cash equivalents at end of period	\$ 394	\$ 424
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 37	\$ 38
Income taxes (net of refunds received)	\$ 61	\$ 76

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.

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

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. The adoption of this guidance is not expected to have a material impact on our financial condition or 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. The adoption of this guidance is not expected to have a material impact on our financial condition or 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 nine months ended September 30, 2013, we spent \$84 million (\$81 million, net of cash acquired) on acquisitions. 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.

MultiTrobe

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

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

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.

Note 4. Restructuring Charges

During the three and nine months ended September 30, 2013, we recognized restructuring charges of \$5 million and \$30 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. During the three and nine months ended September 30, 2012 we recognized restructuring charges of \$4 million in each period. These charges primarily related to restructuring related severance payments for manufacturing reduction in force initiatives within our Water Infrastructure segment.

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
By component:				
Severance and other charges	\$ 4	\$ 4	\$ 28	\$ 4
Lease related charges	1	—	1	—
Other restructuring charges	—	—	1	—
Reversal of restructuring accruals	—	—	—	—
Total restructuring charges	<u>\$ 5</u>	<u>\$ 4</u>	<u>30</u>	<u>4</u>
By segment:				
Water Infrastructure	\$ 3	\$ 4	\$ 24	\$ 4
Applied Water	2	—	6	—
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 nine months ended September 30, 2013 and 2012.

(in millions)	2013	2012
Restructuring accruals - January 1	\$ 9	\$ 1
Restructuring charges	30	4
Cash payments	(24)	—
Other	—	(1)
Restructuring accruals - September 30	<u>\$ 15</u>	<u>\$ 4</u>
By segment:		
Water Infrastructure	\$ 12	\$ 4
Applied Water	3	—
Corporate and other	—	—

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

	2013	2012
Planned reductions - January 1	54	—
Additional planned reductions	439	39
Actual reductions	(346)	(27)
Planned reductions - September 30	<u>147</u>	<u>12</u>

Total expected costs associated with actions that commenced during the nine months ended September 30, 2013 are approximately \$26 million for Water Infrastructure and approximately \$11 million for Applied Water. These costs primarily comprise severance charges. We currently expect these actions to continue through 2014.

Note 5. Separation Costs

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Advisory fees and other	\$ —	\$ 1	\$ —	\$ 6
Rebranding and marketing costs	—	2	—	6
Information and technology costs	1	—	2	1
Employee retention and hiring costs	—	—	—	1
Lease termination and other real estate costs	—	—	1	—
Other	—	1	—	1
Total separation costs in operating income	1	4	3	15
Income tax benefit	(1)	(1)	(1)	(4)
Total separation costs, net of tax	\$ —	\$ 3	\$ 2	\$ 11

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 September 30, 2013 was \$10 million at an effective tax rate of 12.1%, compared to \$28 million at an effective tax rate of 27.8% for the same period in 2012. The income tax provision for the nine months ended September 30, 2013 was \$31 million at an effective tax rate of 16.4% compared to \$75 million at an effective tax rate of 25.2% for the same period in 2012. The decrease in the effective tax rate for the three and nine months ended September 30, 2013 as compared to the same periods in 2012 was primarily due to mix of earnings, including the impact of realignment efforts, as well as certain costs incurred for the change in chief executive officer made during the third quarter of 2013. Additionally, there was a tax benefit from special charges incurred by the Company associated with the settlement of legal proceedings with Xylem Group LLC.

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 September 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 expense 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 September 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (in millions)	\$ 73	\$ 72	\$ 160	\$ 224
Shares (in thousands):				
Weighted average common shares outstanding	185,044	185,650	185,294	185,386
Add: Participating securities (a)	122	281	165	340
Weighted average common shares outstanding — Basic	185,166	185,931	185,459	185,726
Plus incremental shares from assumed conversions: (b)				
Dilutive effect of stock options	175	186	180	231
Dilutive effect of restricted stock	661	231	547	195
Weighted average common shares outstanding — Diluted	186,002	186,348	186,186	186,152
Basic earnings per share	\$ 0.39	\$ 0.39	\$ 0.86	\$ 1.20
Diluted earnings per share	\$ 0.39	\$ 0.38	\$ 0.86	\$ 1.20

- (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 were otherwise 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	4,414	4,332	4,342	4,382
Restricted stock	655	876	758	904
Performance shares	106	—	88	—

Note 8. Inventories

(in millions)	September 30, 2013	December 31, 2012
Finished goods	\$ 217	\$ 182
Work in process	34	30
Raw materials	245	231
Total inventories, net	<u>\$ 496</u>	<u>\$ 443</u>

Note 9. Property, Plant and Equipment

(in millions)	September 30, 2013	December 31, 2012
Land, buildings and improvements	\$ 255	\$ 255
Machinery and equipment	673	653
Equipment held for lease or rental	191	183
Furniture and fixtures	88	90
Construction work in progress	52	40
Other	21	19
Total property, plant and equipment, gross	<u>1,280</u>	<u>1,240</u>
Less accumulated depreciation	<u>802</u>	<u>753</u>
Total property, plant and equipment, net	<u>\$ 478</u>	<u>\$ 487</u>

Depreciation expense of \$23 million and \$72 million was recognized during the three and nine months ended September 30, 2013, respectively, and \$24 million and \$68 million for the three and nine months ended September 30, 2012, respectively.

Note 10. Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill by reportable segment for the nine months ended September 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	5	4	9
Balance as of September 30, 2013	<u>\$ 1,138</u>	<u>\$ 566</u>	<u>\$ 1,704</u>

(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)	September 30, 2013			December 31, 2012		
	Carrying Amount	Accumulated Amortization	Net Intangibles	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	\$ 350	\$ (96)	\$ 254	\$ 317	\$ (75)	\$ 242
Proprietary technology	109	(35)	74	105	(29)	76
Trademarks	33	(15)	18	33	(14)	19
Patents and other	20	(17)	3	21	(17)	4
Indefinite-lived intangibles	148	—	148	143	—	143
	<u>\$ 660</u>	<u>\$ (163)</u>	<u>\$ 497</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 \$9 million and \$28 million was recognized in the three and nine months ended September 30, 2013, respectively, and \$8 million and \$25 million for the three and nine months ended September 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 September 30, 2013.

(in millions; except number of instruments)

Foreign Currency Derivative	Number of Instruments	Total Notional Sold	Sell Notional Currency	Total Notional Purchased	Buy Notional Currency
Sell AUD/ Buy EUR Forward	4	6.0	Australian Dollar (AUD)	4.7	Euro (EUR)
Sell CAD/ Buy EUR Forward	4	4.6	Canadian Dollar (CAD)	3.5	Euro (EUR)
Sell GBP/ Buy EUR Forward	2	2.0	British Pound Sterling (GBP)	2.3	Euro (EUR)
Sell USD/ Buy EUR Forward	4	15.8	United States Dollar (USD)	12.2	Euro (EUR)
Buy SEK/ Sell EUR Forward	2	32.8	Euro (EUR)	280.0	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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Derivatives in Cash Flow Hedges				
Foreign Exchange Contracts				
Amount of gain recognized in OCI (a)	\$ 2	\$ 2	\$ —	\$ 4
Amount of (gain) reclassified from OCI into revenue (a)	—	—	(1)	—
Amount of loss (gain) reclassified from OCI into cost of revenue (a)	1	—	1	(1)

(a) Effective portion

As of September 30, 2013, \$1 million of the net unrealized gains 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 nine months ended September 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)	September 30, 2013	December 31, 2012
Derivatives designated as hedging instruments		
Assets		
Other current assets	\$ 2	\$ —
Liabilities		
Other current liabilities	(1)	—

Note 12. Accrued and Other Current Liabilities

(in millions)	September 30, 2013	December 31, 2012
Compensation and other employee-benefits	\$ 204	\$ 201
Customer-related liabilities	62	60
Accrued warranty costs	38	40
Accrued taxes	47	50
Other accrued liabilities	124	92
Total accrued and other current liabilities	\$ 475	\$ 443

Note 13. Credit Facilities and Long-Term Debt

(in millions)	September 30, 2013	December 31, 2012
Short-term borrowings and current maturities of long-term debt	\$ 3	\$ 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	\$ 1,199	\$ 1,199
Total debt	\$ 1,202	\$ 1,205

(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 (as defined below) was \$631 million and \$639 million as of September 30, 2013 and December 31, 2012, respectively. The fair value of our Senior Notes due 2021 (as defined below) was \$641 million and \$680 million as of September 30, 2013 and December 31, 2012, respectively.

(b) The unamortized discount is recognized as a reduction in the carrying value of the Senior Notes 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 September 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, the 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 September 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 September 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 \$163 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 September 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 September 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Domestic defined benefit pension plans:				
Net periodic benefit cost:				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	1	1	3	3
Expected return on plan assets	(1)	(1)	(3)	(3)
Amortization of net actuarial loss	1	—	3	1
Net periodic benefit cost	\$ 2	\$ 1	\$ 5	\$ 3
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of net actuarial loss	\$ (1)	\$ —	\$ (3)	\$ (1)
Change recognized in other comprehensive income	\$ (1)	\$ —	\$ (3)	\$ (1)
International defined benefit pension plans:				
Net periodic benefit cost:				
Service cost	\$ 3	\$ 2	\$ 10	\$ 7
Interest cost	7	8	21	22
Expected return on plan assets	(7)	(7)	(23)	(22)
Amortization of net actuarial loss	3	2	9	6
Settlement	—	—	—	2
Net periodic benefit cost	\$ 6	\$ 5	\$ 17	\$ 15
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of net actuarial loss	\$ (3)	\$ (2)	\$ (9)	\$ (6)
Settlement	—	—	—	(2)
Change recognized in other comprehensive income	\$ (3)	\$ (2)	\$ (9)	\$ (8)
Totals:				
Net periodic benefit cost	\$ 8	\$ 6	\$ 22	\$ 18
Recognized in other comprehensive income	(4)	(2)	(12)	(9)
Total recognized in comprehensive income	\$ 4	\$ 4	\$ 10	\$ 9

The total net periodic benefit cost for other postretirement employee benefit plans for the three and nine months ended September 30, 2013 was \$2 million and \$5 million, respectively, including amounts recognized in other comprehensive income of \$1 million and \$2 million, respectively. Total net periodic benefit cost for other postretirement benefit plans for the three and nine months ended September 30, 2012 was \$1 million and \$3 million, respectively. Amounts recognized in other comprehensive income were immaterial for the three and nine months ended September 30, 2012.

We contributed \$32 million and \$27 million to postretirement benefit plans during the nine months ended September 30, 2013 and 2012, respectively. Additional contributions ranging between approximately \$10 million and \$15 million are expected during the remainder of 2013.

Note 15. Stock-Based Compensation Plans

Share-based compensation expense was \$9 million and \$21 million during the three and nine months ended September 30, 2013, respectively, and \$6 million and \$16 million for the three and nine months ended September 30, 2012, respectively. The unamortized compensation expense related to our stock options, restricted shares and performance based shares was \$8 million, \$19 million and \$2 million, respectively, at September 30, 2013 and is expected to be recognized over a weighted average period of 1.7, 1.7 and 2.4 years, respectively. The amount of cash received from the exercise of stock options was \$2 million and \$22 million for the nine months ended September 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 nine months ended September 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		493	\$ 27.42
Vested		(587)	\$ 26.44
Forfeited		(151)	\$ 27.63
Outstanding at September 30, 2013		1,343	\$ 27.21

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 nine months ended September 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	(54)	\$ 27.49
Outstanding at September 30, 2013	65	\$ 27.49

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the nine months ended September 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	817	\$ 27.43	10.0
Exercised	(102)	\$ 21.72	1.9
Forfeited	(465)	\$ 28.15	5.7
Outstanding at September 30, 2013	4,333	\$ 26.57	6.5
Options exercisable at September 30, 2013	2,208	\$ 26.36	4.5

The aggregate intrinsic value of all outstanding and exercisable stock options as of September 30, 2013 was \$10 million and \$7 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 nine months ended September 30, 2013 was \$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. Capital Stock

On August 20, 2013, the Board of Directors authorized the repurchase up to \$250 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our shareholders and maintains our focus on growth. During the three and nine months ended September 30, 2013, we repurchased 1.0 million shares for \$25 million under this program. There are up to \$225 million in shares that may still be purchased under this plan.

On August 18, 2012, the Board of Directors authorized the repurchase of up to 2.0 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. There were no shares repurchased under this program during the three months ended September 30, 2013. There were 0.1 million shares repurchased for \$2 million under this program during the three months ended September 30, 2012. We repurchased 0.6 million and 0.1 million shares for \$17 million and \$2 million under this program for the nine months ended September 30, 2013 and 2012, respectively. There are up to 1.0 million shares that may still be purchased under this plan.

Aside from the aforementioned repurchase programs, we repurchased 0.2 million and less than 0.1 million shares for \$4 million and less than \$1 million during the three months ended September 30, 2013 and 2012, respectively, in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock. Likewise, we repurchased 0.2 million and 0.1 million shares for \$6 million and \$4 million during the nine months ended September 30, 2013 and 2012, respectively.

Note 17. Accumulated Other Comprehensive Income (Loss)

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

(in millions)	Foreign Currency Translation	Postretirement Benefit Plans	Derivative Instruments	Total
Balance at July 1, 2013	\$ 272	\$ (215)	\$ (2)	\$ 55
Foreign currency translation adjustment	68	—	—	68
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	—	(2)	—	(2)
Unrealized gain on foreign exchange agreements	—	—	2	2
Reclassification of unrealized loss on foreign exchange agreements into cost of revenue	—	—	1	1
Balance at September 30, 2013	\$ 340	\$ (212)	\$ 1	\$ 129

The following table provides the components of accumulated other comprehensive income for the nine months ended September 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	4	—	—	4
Amortization of net actuarial loss on postretirement benefit plans into:				
Cost of revenue	—	3	—	3
Selling, general and administrative expenses	—	8	—	8
Other non-operating expense, net	—	3	—	3
Income tax expense on amortization of postretirement benefit plan items	—	(4)	—	(4)
Reclassification of unrealized gain on foreign exchange agreements into revenue	—	—	(1)	(1)
Reclassification of unrealized loss on foreign exchange agreements into cost of revenue	—	—	1	1
Balance at September 30, 2013	\$ 340	\$ (212)	\$ 1	\$ 129

Note 18. 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, intellectual property matters, product liability and personal injury claims, employment and pension matters, government and commercial contract disputes.

On October 4, 2013, the Company and Xylem Group LLC entered into a settlement agreement with respect to the proceedings in the U.S. District Court for the Northern District of Georgia originally commenced on October 26, 2011 regarding the Company's use of the "XYLEM" mark. Pursuant to the settlement agreement, both parties released each other from all existing claims, and all claims have been dismissed by the U.S. District Court for the Northern District of Georgia with prejudice. The obligation for the settlement has been reflected on the September 30, 2013 Condensed Consolidated Balance Sheet.

We have estimated and accrued \$21 million and \$8 million as of September 30, 2013 and December 31, 2012 for these general legal matters, respectively. 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.

From time to time claims may be asserted against Xylem alleging injury caused by any of our products resulting from asbestos exposure. 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 has an obligation to 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 expect to 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 \$9 million and \$11 million as of September 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. We believe 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	24	23
Settlement of warranty claims	(26)	(23)
Other	—	(1)
Warranty accrual – September 30	\$ 38	\$ 41

Note 19. 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Water Infrastructure	\$ 619	\$ 595	\$ 1,766	\$ 1,788
Applied Water	360	350	1,086	1,078
Eliminations	(14)	(14)	(48)	(44)
Total	<u>\$ 965</u>	<u>\$ 931</u>	<u>\$ 2,804</u>	<u>\$ 2,822</u>
Operating Income:				
Water Infrastructure	\$ 88	\$ 85	\$ 171	\$ 253
Applied Water	40	43	125	135
Corporate and other	(30)	(17)	(62)	(49)
Total	<u>\$ 98</u>	<u>\$ 111</u>	<u>\$ 234</u>	<u>\$ 339</u>
Depreciation and Amortization:				
Water Infrastructure	\$ 27	\$ 27	\$ 83	\$ 77
Applied Water	7	7	21	21
Corporate and other	2	2	6	5
Total	<u>\$ 36</u>	<u>\$ 36</u>	<u>\$ 110</u>	<u>\$ 103</u>
Capital Expenditures:				
Water Infrastructure	\$ 18	\$ 18	\$ 57	\$ 59
Applied Water	7	6	26	19
Corporate and other	5	—	8	3
Total	<u>\$ 30</u>	<u>\$ 24</u>	<u>\$ 91</u>	<u>\$ 81</u>

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

(in millions)	Total Assets	
	September 30, 2013	December 31, 2012
Water Infrastructure	\$ 2,990	\$ 2,844
Applied Water	1,351	1,253
Corporate and other	443	582
Total	\$ 4,784	\$ 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 third quarter of 2013 of \$965 million, an increase of 3.7% compared to \$931 million during the third quarter of 2012. Revenue also increased 3.7% on a constant currency basis, driven by organic revenue growth across most end markets and strength in emerging markets, particularly in China and eastern Europe. The 2012 and 2013 acquisitions within our Water Infrastructure segment contributed \$21 million of incremental revenue for the third quarter 2013. Operating income for the third quarter of 2013 was \$98 million, reflecting a decrease of \$13 million or 11.7% compared to \$111 million in the third quarter of 2012 primarily due to costs incurred from our restructuring and realignment actions, special charges, continued investment in the business, increased pension costs and unfavorable price and mix headwinds, partially offset by sales volume increases combined with savings from our cost reduction initiatives and our restructuring activities in 2012 and 2013.

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

- Orders of \$955 million, or 8.3% growth from \$882 million in the third quarter of the prior year
- Net income of \$73 million, or \$0.39 per diluted share (\$0.49 on an adjusted basis) for the third quarter of 2013
- Cash flow from operating activities of \$163 million for the nine months ended September 30, 2013
- Xylem Board of Directors approved a share repurchase program of up to \$250 million in an effort to enhance shareholder return

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, special charges and tax-related special items. A reconciliation of adjusted net income is provided below.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
(In millions, except for per share data)				
Net income	\$ 73	\$ 72	\$ 160	\$ 224
Separation costs, net of tax (a)	—	3	—	11
Restructuring and realignment, net of tax	7	4	36	4
Special charges, net of tax	12	—	12	—
Tax-related special items	—	4	—	3
Adjusted net income	\$ 92	\$ 83	\$ 208	\$ 242
Weighted average number of shares - Diluted	186.0	186.3	186.2	186.2
Adjusted earnings per share	\$ 0.49	\$ 0.44	\$ 1.12	\$ 1.29

(a) Costs of \$1 million (\$0 million, net of tax) and \$3 million (\$2 million, net of tax) for the three and nine months ended September 30, 2013, respectively, associated with non-recurring separation activities are not excluded from adjusted net income.

- "operating expenses excluding separation, restructuring and realignment costs and special charges" defined as operating expenses, adjusted to exclude non-recurring separation costs from the Spin-off (not excluded in 2013), restructuring and realignment costs and special charges.
- "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 special charges, and "adjusted segment operating margin" defined as adjusted segment operating income divided by total segment revenue.

- "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.
- "special charges" defined as costs incurred by the Company associated with the settlement of legal proceedings with Xylem Group LLC, as well as certain costs incurred for the change in chief executive officer made during the third quarter of 2013.
- "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)	Nine Months Ended September 30,	
	2013	2012
Net cash provided by operating activities	\$ 163	\$ 230
Capital expenditures	(91)	(81)
Separation cash payments (a)	—	22
Free cash flow	\$ 72	\$ 171

- (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 \$4 million.

2013 Outlook

The current global market conditions, particularly the economic conditions within Europe and the United States, have had a varied impact on the results of the Company during 2013. During the first half of the year, we were heavily impacted by the adverse economic environment in Europe, as well as overall difficult market conditions which inhibited our growth. We have seen the region stabilize during the third quarter with the exception of southern Europe, where we continue to experience year-over-year declines and expect ongoing weakness and uncertainty. 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. We expect the stabilization experienced in the third quarter to continue throughout the remainder of 2013. We are continuing to execute restructuring and realignment actions to reposition our European and North American business to optimize our cost structure and improve our operational efficiency and effectiveness. During the third quarter of 2013, we incurred \$5 million and \$7 million in restructuring and realignment costs, respectively. We expect to incur approximately \$40 to \$50 million in restructuring costs, and approximately \$25 to \$30 million in realignment costs for the full year. As a result of the restructuring actions in 2013, we continue to anticipate approximately \$14 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 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			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	Change	2013	2012	Change
Revenue	\$ 965	\$ 931	3.7 %	\$ 2,804	\$ 2,822	(0.6) %
Gross Profit	384	374	2.7 %	1,089	1,120	(2.8) %
<i>Gross Margin</i>	39.8%	40.2%	(40) bp	38.8%	39.7%	(90) bp
Operating expenses excluding separation, restructuring and realignment costs and special charges (a)	254	255	(0.4) %	783	762	2.8 %
<i>Expense to revenue ratio</i>	26.3%	27.4%	(110) bp	27.9%	27.0%	90 bp
Separation costs (a)	—	4	NM*	—	15	NM*
Restructuring and realignment costs	12	4	200.0 %	52	4	1,200.0 %
Special charges	20	—	NM*	20	—	NM*
Total operating expenses	286	263	8.7 %	855	781	9.5 %
Operating Income	98	111	(11.7) %	234	339	(31.0) %
<i>Operating Margin</i>	10.2%	11.9%	(170) bp	8.3%	12.0%	(370) bp
Interest and other non-operating expense, net	15	11	36.4 %	43	40	7.5 %
Income tax expense	10	28	(64.3) %	31	75	(58.7) %
<i>Tax rate</i>	12.1%	27.8%	(1,580) bp	16.4%	25.2%	(880) bp
Net Income	\$ 73	\$ 72	1.4 %	\$ 160	\$ 224	(28.6) %

(a) Separation costs of \$1 million and \$3 million for the three and nine months ended September 30, 2013, respectively, are included within the \$254 million and \$783 million of operating expenses.

* NM - Not meaningful percentage change

Revenue

Revenue generated during the three and nine months ended September 30, 2013 was \$965 million and \$2,804 million, respectively, reflecting an increase of \$34 million or 3.7% and a decrease of \$18 million or 0.6%, respectively, compared to the same prior year periods. On a constant currency basis, revenue increased 3.7% and declined 0.7% for the three and nine months ended September 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 nine months ended September 30, 2013:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Change	% Change	Change	% Change
2012 Revenue	\$ 931		\$ 2,822	
Organic growth	13	1.4%	(87)	(3.1)%
Acquisitions	21	2.3%	67	2.4 %
Constant Currency	34	3.7%	(20)	(0.7)%
Foreign currency translation (a)	—	—%	2	0.1 %
Total change in revenue	34	3.7%	(18)	(0.6)%
2013 Revenue	\$ 965		\$ 2,804	

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

The following table summarizes revenue by segment:

(In millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012	As Reported Change	Constant Currency Change	2013	2012	As Reported Change	Constant Currency Change
Water Infrastructure	\$ 619	\$ 595	4.0%	4.7%	\$ 1,766	\$ 1,788	(1.2)%	(1.1)%
Applied Water	360	350	2.9%	1.7%	1,086	1,078	0.7 %	(0.1)%
Eliminations	(14)	(14)			(48)	(44)		
Total	\$ 965	\$ 931	3.7%	3.7%	\$ 2,804	\$ 2,822	(0.6)%	(0.7)%

Water Infrastructure

Water Infrastructure revenue increased \$24 million, or 4.0% for the third quarter of 2013 (4.7% increase at constant currency) and decreased \$22 million, or 1.2% for the nine months ended September 30, 2013 (1.1% decrease at constant currency) compared to the respective 2012 periods. The increase in the third quarter was primarily driven by \$21 million from acquisitions and an increase in organic revenue due to higher volumes in Europe and strength in emerging markets partially offset by negative price realization. The decrease for the nine months ended September 30, 2013 was due to the weakness experienced in the transport and treatment applications, particularly in Europe during the first half of 2013, which was partially offset by contributions from acquisitions of \$67 million.

Organic revenue increased \$7 million or 1.2% during the quarter ended September 30, 2013 driven primarily from increased volumes in transport applications within northern and central Europe as strength, especially in the mining and construction business, reflected modest market recovery in the regions. Growth in transport applications was also bolstered by increases in the dewatering business of the United States from fracking activity, higher stock levels by distributors and continued benefits from efforts related to Superstorm Sandy. The increase in transport was partially offset by weakness in southern Europe and a decline in public utility large capital projects. Additionally, treatment negatively impacted organic growth as revenue decreased compared to 2012 predominately as a result of non-recurring large projects in Europe shipped in the prior year, lower demand for mixers used in Biogas applications due to the elimination of government incentives in certain European countries and continued project delays in the United States from government funding uncertainty. Strong performance in the emerging markets,

particularly in China and Eastern Europe, also provided significant growth in both the transport and treatment applications.

Organic revenue decreased \$86 million or 4.8% during the nine months ended September 30, 2013 substantially due to the lower volumes in the first six months of 2013. The organic revenue growth in the third quarter of 2013 was more than offset by the significant declines in the transport and treatment applications from weakness in the European market, shipment of large custom projects in the same period of 2012 and distributors maintaining lower stock levels. Additionally, test applications, which had flat organic growth in the third quarter of 2013, experienced lower revenue for the nine months ended September 30, 2013 from 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.

Applied Water

Applied Water revenue increased \$10 million, or 2.9% for the third quarter of 2013 (1.7% increase at constant currency) and increased \$8 million, or 0.7% for the nine months ended September 30, 2013 (0.1% decrease at constant currency) compared to the respective 2012 periods.

Organic revenue increased \$6 million, or 1.7% for the third quarter of 2013 driven mostly by double-digit growth in emerging markets, with particular strength in China, with growth across most market applications. The developed markets were largely flat, led by increases in commercial building services in the United States from promotional programs and in northern Europe as well as growth in irrigation in the United States due to dry weather conditions and benefits from price realization. These increases were offset by reductions in residential building services and weakness in industrial water in the United States.

Organic revenue decreased \$1 million, or 0.1% during the nine months ended September 30, 2013 as continued weakness in the European businesses through the first nine months, driven by southern Europe, was mostly offset by incremental price realization, strength in emerging markets across industrial water and commercial building services and modest growth in the United States. The slight increase in the United States was led by building services and irrigation, partially offset by declines in industrial water.

Orders / Backlog

Orders received during the third quarter of 2013 of \$955 million increased by \$73 million, or 8.3% over the third quarter of the prior year (8.4% increase at constant currency), including a benefit of \$20 million from acquisitions. Orders received during the nine months ended September 30, 2013 of \$2,926 million increased by \$70 million from the prior year, or 2.5% (2.5% increase at constant currency), which includes a benefit of \$71 million from acquisitions. Organic order growth increased 6.1% for the third quarter and was flat for the nine months ended September 30, 2013.

Water Infrastructure segment orders increased \$53 million, or 9.4% to \$617 million (9.9% increase at constant currency) for the quarter ended September 30, 2013 as compared to the prior year, including \$20 million from acquisitions. Organic orders increased 6.4% during the third quarter principally due to the strength in the emerging markets and higher demand for treatment applications, particularly mixers and aeration equipment. The increase was also driven by the dewatering business from restocking by distributors and dry weather conditions in the prior year period as well as the recovery of market conditions within the Americas. For the nine months ended September 30, 2013 orders increased \$46 million, or 2.5% to \$1,865 million (2.7% increase at constant currency) as compared to the prior year. Organic orders decreased by 1.2% on a year-to-date basis, which is attributable to the lower volume and economic uncertainty in Europe during the first six months of 2013.

Applied Water segment orders increased \$21 million, or 6.3% (5.7% increase at constant currency) and \$25 million, or 2.3% (2.0% increase at constant currency) for the three and nine months ended September 30, 2013, respectively. Organic order volume increased for the three month period as a result of similar market dynamics impacting revenue across all regions as well as larger orders within the industrial water market which have longer lead times which did not ship during the quarter. For the nine

months ended September 30, 2013, the increase in orders in the segment was due to strong performance in the commercial building services market in China as well as orders within the residential building services market in the United States during the first six months of 2013, partially offset by weakness in Southern Europe across all end markets.

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 \$752 million at September 30, 2013, an increase of \$62 million or 9.0% as compared to \$690 million at September 30, 2012 and an increase of \$105 million or 16.2% as compared to \$647 million at December 31, 2012. We anticipate that approximately 62% of the backlog at September 30, 2013 will be recognized as revenue in the remainder of 2013.

Gross Margin

Gross margin declined to 39.8% from 40.2% for the three months ended September 30, 2013 from 2012 driven by negative price realization and geographic sales mix, partially mitigated by revenue volume increases. For the nine months ended September 30, 2013, gross margin decreased to 38.8% from 39.7% from the prior year, primarily due to the overall revenue volume declines, geographic sales mix and additional costs associated with recent acquisitions. These negative impacts 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 nine months ended September 30, 2013 and 2012:

(In millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Change	2013	2012	Change
Selling, general and administrative expenses (SG&A)	\$ 256	\$ 231	10.8 %	\$ 744	\$ 682	9.1 %
SG&A as a % of revenue	26.5%	24.8%	170 bp	26.5%	24.2%	230 bp
Research and development expenses (R&D)	24	24	— %	78	80	(2.5) %
R&D as a % of revenue	2.5%	2.6%	(10) bp	2.8%	2.8%	— bp
Restructuring charges	5	4	25.0 %	30	4	650.0 %
Separation costs	1	4	(75.0) %	3	15	(80.0) %
Operating expenses	\$ 286	\$ 263	8.7 %	\$ 855	\$ 781	9.5 %
Expense to revenue ratio	29.6%	28.2%	140 bp	30.5%	27.7%	280 bp

Selling, General and Administrative Expenses

SG&A increased by \$25 million to \$256 million or 26.5% of revenue in the third quarter of 2013, as compared to \$231 million or 24.8% of revenue in the third quarter of 2012; and increased by \$62 million to \$744 million or 26.5% of revenue in the nine months ended September 30, 2013, as compared to \$682 million or 24.2% of revenue in 2012. The increase in SG&A expenses as a percentage of revenue is primarily due to an increase in realignment costs of \$6 million and \$21 million for the three and nine months ended September 30, 2013, respectively, incurred by the Company to reposition our European business in an effort to optimize our cost structure and improve our operational efficiency and effectiveness. Further impacting the increase were the combined impacts from the legal settlement with Xylem Group LLC and costs incurred for the change in our chief executive officer of \$20 million. Acquisitions, increased pension costs and investments in growth platforms also impacted the increase.

Research and Development Expenses

R&D spending was flat at \$24 million or 2.5% of revenue in the third quarter of 2013 as compared to \$24 million or 2.6% of revenue in the comparable period of 2012; and decreased by \$2 million to \$78 million or 2.8% of revenue in the nine months ended September 30, 2013, as compared to \$80 million or 2.8% 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 nine months ended September 30, 2013, we recognized restructuring charges of \$5 million and \$30 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 a decrease in headcount and consolidation of facilities within both our Water Infrastructure and Applied Water segments. During the three and nine months ended September 30, 2012, we recognized restructuring charges of \$4 million in each period. These charges primarily relate to restructuring related severance payments for manufacturing reduction in force initiatives within our Water Infrastructure segment.

Total expected costs associated with actions that commenced during the nine months ended September 30, 2013 are approximately \$26 million for Water Infrastructure and approximately \$11 million for Applied Water. These costs primarily comprise severance charges. These actions are currently expected to continue through 2014. As a result of actions initiated during the nine months ended September 30, 2013, we estimate net savings of approximately \$14 million in 2013 and annual future net savings beginning in 2014 of approximately \$34 million.

We continue to expect to incur approximately \$40 to \$50 million in restructuring costs for the full year which contemplates additional actions beyond those discussed above. As a result of all of the actions taken and expected to be taken in 2013, we continue to anticipate approximately \$14 to \$15 million of total net savings to be realized during 2013, and annual future total net savings beginning in 2014 of \$34 to \$36 million.

Separation Costs

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(in millions)	2013	2012	2013	2012
Advisory fees and other	\$ —	\$ 1	\$ —	\$ 6
Rebranding and marketing costs	—	2	—	6
Information and technology costs	1	—	2	1
Employee retention and hiring costs	—	—	—	1
Lease termination and other real estate costs	—	—	1	—
Other	—	1	—	1
Total separation costs in operating income	1	4	3	15
Income tax (benefit) expense	(1)	(1)	(1)	(4)
Total separation costs, net of tax	\$ —	\$ 3	\$ 2	\$ 11

Operating Income

We generated operating income of \$98 million during the third quarter of 2013, a \$13 million decrease compared to \$111 million in the third quarter of 2012, and \$234 million in the nine months ended September 30, 2013, a decrease of \$105 million compared to \$339 million in 2012. The following table illustrates operating income results for our business segments:

(In millions)	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	Change	2013	2012	Change
Water Infrastructure	\$ 88	\$ 85	3.5 %	\$ 171	\$ 253	(32.4) %
Applied Water	40	43	(7.0) %	125	135	(7.4) %
Segment operating income	128	128	— %	296	388	(23.7) %
Corporate and other	(30)	(17)	76.5 %	(62)	(49)	26.5 %
Total operating income	\$ 98	\$ 111	(11.7) %	\$ 234	\$ 339	(31.0) %
<i>Operating margin</i>						
Water Infrastructure	14.2%	14.3%	(10) bp	9.7%	14.1%	(440) bp
Applied Water	11.1%	12.3%	(120) bp	11.5%	12.5%	(100) bp
Total Xylem	10.2%	11.9%	(170) bp	8.3%	12.0%	(370) 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			Nine Months Ended		
	September 30,			September 30,		
	2013	2012	Change	2013	2012	Change
Water Infrastructure						
Operating income	\$ 88	\$ 85	3.5 %	\$ 171	\$ 253	(32.4) %
Separation costs	—	—	NM*	—	3	NM*
Restructuring and realignment costs	8	4	100.0 %	40	4	900.0 %
Adjusted operating income**	\$ 96	\$ 89	7.9 %	\$ 211	\$ 260	(18.8) %
Adjusted operating margin**	15.5%	15.0%	50 bp	11.9%	14.5%	(260) bp
Applied Water						
Operating income	\$ 40	\$ 43	(7.0) %	\$ 125	\$ 135	(7.4) %
Separation costs	—	1	NM*	—	2	NM*
Restructuring and realignment costs	4	—	NM*	12	—	NM*
Adjusted operating income**	\$ 44	\$ 44	— %	\$ 137	\$ 137	— %
Adjusted operating margin**	12.2%	12.6%	(40) bp	12.6%	12.7%	(10) bp
Total Xylem						
Operating income	\$ 98	\$ 111	(11.7) %	\$ 234	\$ 339	(31.0) %
Separation costs	—	4	NM*	—	15	NM*
Restructuring and realignment costs	12	5	140.0 %	52	5	940.0 %
Special charges	20	—	NM*	20	—	NM*
Adjusted operating income**	\$ 130	\$ 120	8.3 %	\$ 306	\$ 359	(14.8) %
Adjusted operating margin**	13.5%	12.9%	60 bp	10.9%	12.7%	(180) bp

* NM - Not meaningful percentage change

** Costs associated with non-recurring separation activities of \$1 million and \$3 million for the three and nine months ended September 30, 2013, respectively, are not excluded from adjusted operating income.

Water Infrastructure

Operating income for our Water Infrastructure segment increased \$3 million or 3.5% (increased \$7 million or 7.9% on an adjusted basis) for the quarter ended September 30, 2013 and decreased by \$82 million or 32.4% (decreased \$49 million or 18.8% on an adjusted basis) for the nine months ended September 30, 2013, compared with the same respective prior year periods. The increase for the three months ended September 30, 2013 is related to revenue volume increases, cost reduction initiatives and restructuring savings which were partially offset by cost inflation, including increased pension costs. The decrease for the nine months ended September 30, 2013 was driven by the year-to-date revenue volume decline, inflation costs, negative price realization, foreign exchange headwinds, increased pension costs and investments in growth platforms, specifically acquisitions and new product launches.

Applied Water

Operating income for our Applied Water segment decreased \$3 million or 7.0% (flat on an adjusted basis) for the quarter ended September 30, 2013 compared with the prior year as the increase in revenue

volume and benefits from cost reductions, price realization and restructuring savings were offset by inflation costs, including increased pension costs, and geographic sales mix. Operating income decreased for the segment by \$10 million or 7.4% (flat on an adjusted basis) for the nine months ended September 30, 2013, compared with the same period for the prior year as lean initiatives and price realization offset inflation costs, including increased pension costs, lower revenue volume, and geographic sales mix.

Interest Expense

Interest expense was \$14 million and \$41 million for the respective three and nine months ended September 30, 2013 and 2012, primarily related to the interest on the \$1.2 billion aggregate principal amount of senior notes issued in September 2011. See "Funding and Liquidity Strategy" for further details.

Income Tax Expense

The income tax provision for the three months ended September 30, 2013 was \$10 million at an effective tax rate of 12.1%, compared to \$28 million at an effective tax rate of 27.8% for the same period in 2012. The income tax provision for the nine months ended September 30, 2013 was \$31 million at an effective tax rate of 16.4%, compared to \$75 million at an effective tax rate of 25.2% for the same period in 2012. The decrease in the effective tax rate for the three and nine months ended September 30, 2013 as compared to the same periods in 2012 was primarily due to mix of earnings, including the impact of realignment efforts, as well as certain costs incurred for the change in chief executive officer made during the third quarter of 2013. Additionally, there was a tax benefit from special charges incurred by the Company associated with the settlement of legal proceedings with Xylem Group LLC.

Liquidity and Capital Resources

The following table summarizes our sources and uses of cash:

(In millions)	Nine Months Ended September 30,		
	2013	2012	Change
Operating activities	\$ 163	\$ 230	\$ (67)
Investing activities	(165)	(89)	(76)
Financing activities	(109)	(41)	(68)
Foreign exchange	1	6	(5)
Total	\$ (110)	\$ 106	\$ (216)

Sources and Uses of Liquidity

Operating Activities

During the nine months ended September 30, 2013, net cash provided by operating activities declined by \$67 million as compared to the prior year. The year-over-year decrease was driven by an increase in the use of working capital, due to accounts receivable primarily from longer collection times in Europe and increased inventories to support a higher backlog as well as to be able to support a higher mix of book and bill business. Additionally, revenue volume declines during the first half of 2013 reduced cash inflow from income. Payments made for restructuring and realignment activities in 2013 also contributed to the decline.

Investing Activities

Cash used in investing activities was \$165 million for the first nine months of 2013 as compared to \$89 million in the prior year due almost entirely to an increase in cash used for acquisitions of \$69 million. Additionally, capital expenditures increased \$10 million due primarily to information technology investments within both the Applied Water segment and Corporate as a result of system requirements subsequent to the Spin-off from ITT.

Financing Activities

Cash used in financing activities was \$109 million for the first nine months of 2013 as compared to \$41 million in the prior year, primarily driven by an increase in share repurchase activity of \$40 million. Additionally, there was a decrease in proceeds from the exercise of stock options of \$20 million and a \$9 million, or 16%, increase in dividends paid to shareholders.

The 2013 share repurchase activity was impacted by \$25 million of repurchases under a new share repurchase program approved on August 20, 2013 by the Board of Directors to repurchase up to \$250 million in shares.

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 September 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, the 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 September 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 September 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 \$163 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 September 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 September 30, 2013, the R&D Facility Agreement remains undrawn.

Non-U.S. Operations

We generated approximately 63% and 62% of our revenue from non-U.S. operations for the three and nine months ended September 30, 2013, respectively, and 62% for both the three and nine months ended September 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 September 30, 2013, our foreign subsidiaries were holding \$325 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 consolidated 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 18 "Commitments and Contingencies" to the condensed consolidated financial statements for further information and any updates.

On October 4, 2013, the Company and Xylem Group LLC entered into a settlement agreement with respect to the proceedings in the U.S. District Court for the Northern District of Georgia originally commenced on October 26, 2011 regarding the Company's use of the "XYLEM" mark. Pursuant to the settlement agreement, both parties released each other from all existing claims, and all claims have been dismissed by the U.S. District Court for the Northern District of Georgia with prejudice.

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 September 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)	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (b)
7/1/13 - 7/31/13	—	—	—	24.9
8/1/13 - 8/31/13	0.3	24.63	0.3	267.3
9/1/13 - 9/30/13	0.7	26.23	0.7	252.9

(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. There were no shares purchased under this program during the three months ended September 30, 2013 and there are 1.0 million shares (approximately \$28 million) that may still be purchased under this plan.

On August 20, 2013, the Board of Directors authorized the repurchase of shares up to \$250 million with no expiration date. The program's objective is to deploy our capital in a manner that benefits our shareholders and maintains our focus on growth. During the three months ended September 30, 2013, 1.0 million shares were repurchased at an average price of \$25.63 per share for a total cost of \$25 million. There are up to \$225 million in shares that may still be purchased under this plan.

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)

October 29, 2013

XYLEM INC.
EXHIBIT INDEX

Exhibit Number	Description	Location
(3.1)	Second Amended and Restated Articles of Incorporation of Xylem Inc.	Filed herewith.
(3.2)	Amended and Restated By-laws of Xylem Inc.	Filed herewith.
(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)	Letter agreement dated September 8, 2013 between Steven R. Loranger and Xylem Inc.	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 September 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.

SECOND AMENDED AND RESTATED ARTICLES OF INCORPORATION
of
XYLEM INC.

ARTICLE FIRST

The name of the corporation is Xylem Inc. (the "Corporation").

ARTICLE SECOND

The address of the registered office of the Corporation in the State of Indiana is 251 East Ohio Street, Suite 1100, Indianapolis, Indiana 46204. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Indiana Business Corporation Law ("IBCL").

ARTICLE FOURTH

(a) The aggregate number of shares of stock that the Corporation shall have authority to issue is 800,000,000 shares, consisting of 750,000,000 shares designated "Common Stock" and 50,000,000 shares designated "Preferred Stock". The shares of Common Stock shall have a par value of \$0.01 per share, and the shares of Preferred Stock shall not have any par or stated value, except that, solely for the purpose of any statute or regulation imposing any fee or tax based upon the capitalization of the Corporation, the shares of Preferred Stock shall be deemed to have a par value of \$.01 per share

(b) The Board of Directors of the Corporation shall have the full authority permitted by law, at any time and from time to time, to divide the authorized and unissued shares of Preferred Stock into classes or series, or both, and to determine the preferences, limitations and relative voting and other rights of any such class or series of Preferred Stock, with such divisions and determinations to be accomplished by an amendment to these Amended and Restated Articles of Incorporation ("Articles of Incorporation") which amendment may, except as otherwise provided by law, be made solely by action of the Board of Directors, which shall have the full authority permitted by law to make such divisions and determinations.

(c) Each holder of shares of Common Stock shall be entitled to one vote for each share of Common Stock held of record on all matters on which the holders of shares of Common Stock are entitled to vote. No holder of shares of Common Stock will be permitted to cumulate votes at any election of directors.

(d) Subject to all the rights of the holders of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment thereof, dividends payable in cash, stock or otherwise. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and subject to the rights of the holders of the Preferred Stock, the remaining assets of the Corporation available for distribution shall be distributed to the holders of the Common Stock ratably according to the number of shares of Common Stock held by such holder.

ARTICLE FIFTH

(a) The number of directors constituting the Board of Directors of the Corporation shall be not less than three nor more than twenty-five, with the exact number to be fixed from time to time solely by resolution of the Board of Directors acting by not less than a majority of the directors in office. Prior to the annual meeting of shareholders to be held in 2016 (the "2016 Annual Meeting"), the Board of Directors shall be divided into three (3) classes, as nearly equal in number as possible, with the term of office of one class expiring each year. At each annual meeting of shareholders prior to the 2016 Annual Meeting, each class of directors whose term shall then expire shall be elected to hold office for a three-year term. All directors of the Corporation elected at or after the 2016 Annual Meeting shall be elected for a term expiring at the next annual meeting of shareholders, with each such director to hold office until such director's successor shall have been elected and qualified, or until his or her earlier death, retirement, resignation or removal. Notwithstanding the foregoing, any director whose term expires at the annual meeting of shareholders scheduled to be held in 2017 or 2018 shall continue to hold office until the end of the term for which such director was elected and until such director's successor shall have been elected and qualified, or until his or her earlier death, retirement, resignation or removal.

(b) In the case of any vacancy on the Board of Directors, including a vacancy created by an increase in the number of directors, the vacancy shall be filled by the Board of Directors with the director so elected to serve (i) in the case of any vacancy so filled prior to the 2016 Annual Meeting, for the remainder of the term of the director being replaced or, in the case of an additional director, for the remainder of the term of the class to which the director has been assigned, with each such director to hold office until his or her successor is elected and qualified and (ii) in the case of any vacancy so filled at or after the 2016 Annual Meeting, until the next annual meeting of shareholders, with each such director to hold office until his or her successor is elected and qualified. Until the 2016 Annual Meeting, if the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

(c) In a contested election of directors (i.e. any election where the number of nominees exceeds the number of directors to be elected), directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. In an uncontested election of directors, directors shall be elected by a majority of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Any director or directors may be removed from office at any time, but only for cause and only upon the affirmative vote of at least a majority of the shares then entitled to vote at a meeting called, and notice provided, in accordance with the IBCL, these Articles of Incorporation and the By-Laws of the Corporation.

(d) Special meetings of shareholders of the Corporation may be called only by the Chairman of the Board of Directors or by a majority vote of the entire Board of Directors.

(e) Holders of the Common Stock of the Corporation shall not have any preemptive rights to subscribe for additional issues of shares of Common Stock of the Corporation except as may be agreed from time to time by the Corporation and any such shareholder.

(f) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation, if any, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of such class or series of Preferred Stock.

ARTICLE SIXTH

To the fullest extent permitted by applicable law as then in effect, no director or officer shall be personally liable to the Corporation or any of its shareholders for damages for any action taken as a director or officer, or any failure or omission to take any action, regardless of the nature of the breach or alleged breach, including any breach or alleged breach of the duty of care, the duty of loyalty or the duty of good faith. Any repeal or modification of this ARTICLE SIXTH shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

ARTICLE SEVENTH

The holders of the capital stock of the Corporation shall not be personally liable for the payment of the Corporation's debts and the private property of the holders of the capital stock of the Corporation shall not be subject to the payment of debts of the Corporation to any extent whatsoever.

ARTICLE EIGHTH

Subject to any express provision of the laws of the State of Indiana, these Articles of Incorporation or the By-laws of the Corporation, the By-laws of the Corporation may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the Board of Directors at any regular or special meeting of the Board of Directors, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board of Directors.

ARTICLE NINTH

The Corporation reserves the right to supplement, amend or repeal any provision contained in these Articles of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Indiana, and all rights conferred on shareholders herein are granted subject to this reservation.

**AMENDED AND RESTATED
BY-LAWS
of
XYLEM INC.**

1. SHAREHOLDERS.

1.1. *Place of Shareholders' Meetings.* All meetings of the shareholders of Xylem Inc. (the "Corporation") shall be held at such place or places, within or outside the state of Indiana, as may be fixed by the Corporation's Board of Directors (the "Board", and each member thereof a "Director") from time to time or as shall be specified in the respective notices thereof.

1.2. *Day and Time of Annual Meetings of Shareholders.* An annual meeting of shareholders shall be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Failure to hold an annual meeting of shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation.

1.3. *Purposes of Annual Meetings.* (a) At each annual meeting, the shareholders shall elect the members of the Board for the succeeding term. At any such annual meeting any business properly brought before the meeting may be transacted.

(b) To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given written notice thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not less than 90 calendar days nor more than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not earlier than 120 calendar days prior to such annual meeting and not later than 90 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made. In no event shall the public announcement of an adjournment or postponement of a meeting commence a new time period, or extend any time period, for the giving of written notice. Any such notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Articles of Incorporation or By-laws of the Corporation, the language of the proposed amendment, (ii) the name and address of the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, (iv) any material interest of the shareholder, and the beneficial owner, if any, on whose behalf the proposal is made, in such business, (v) if the shareholder or beneficial owner, if any, intends or is part of a group that intends to (x) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or (y) otherwise solicit proxies or votes in support of such shareholder's proposal, a representation to that effect, (vi) any other information relating to such shareholder and beneficial owner, if any, required to be disclosed in a proxy statement or other filings required to be made in connection with

solicitations of proxies for the proposal, pursuant to and in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder, (vii) a description of any agreement, arrangement or understanding with respect to the proposal and/or the voting of shares of any class or series of stock of the Corporation between or among the shareholder giving the notice, the beneficial owner, if any, on whose behalf the proposal is made, any of their respective affiliates or associates and/or any others acting in concert with any of the foregoing (collectively, "Proponent Persons", which term, for purposes of Section 2.2 herein, shall include each nominee (and his or her respective affiliates or associates and/or any others acting in concert with such nominee) and shall be defined as if the foregoing clause had, in each case, replaced the word "proposal" with the word "nomination"); and (viii) a description of any agreement, arrangement or understanding (including without limitation any swap or other derivative or short position, profits interest, hedging transaction, borrowed or loaned shares, any contract to purchase or sell, acquisition or grant of any option, right or warrant to purchase or sell, or other instrument) to which any Proponent Person is a party, the intent or effect of which may be (x) to transfer to or from any Proponent Person, in whole or in part, any of the economic consequences of ownership of any security of the Corporation, (y) to increase or decrease the voting power of any Proponent Person with respect to shares of any class or series of capital stock of the Corporation and/or (z) to provide any Proponent Person, directly or indirectly, with the opportunity to profit or share in any profit derived from, or to otherwise benefit economically from, or to mitigate any loss resulting from, the value (or any increase or decrease in the value) of any security of the Corporation. A shareholder providing notice of business proposed to be brought before a meeting shall update and supplement such notice from time to time to the extent necessary so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is fifteen calendar days prior to the meeting or any adjournment or postponement thereof; such update and supplement shall be delivered in writing to the Secretary of the Corporation at the principal executive offices of the Corporation not later than five (5) days after the record date for the meeting (in the case of any update and supplement required to be made as of the record date), and not later than ten calendar days prior to the date for the meeting or any adjournment or postponement thereof (in the case of any update and supplement required to be made as of fifteen calendar days prior to the meeting or any adjournment or postponement thereof). The foregoing notice requirements shall be deemed satisfied by a shareholder if the shareholder has notified the Corporation of his or her intention to present a proposal at an annual meeting and such shareholder's proposal has been included in a proxy statement that has been prepared by management of the Corporation to solicit proxies for such annual meeting; provided, however, that, if such shareholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. No business shall be conducted at an annual meeting of shareholders except in accordance with this Section 1.3(b), and the chairman of any annual meeting of shareholders may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures or if the shareholder solicits proxies in support of such shareholder's proposal without such shareholder having made the representation required by clause (v) of the preceding sentence.

1.4. *Special Meetings of Shareholders.* (a) Except as otherwise expressly required by applicable law, special meetings of the shareholders or of any class or series entitled to vote may be called for any purpose or purposes by the Chairman or by a majority vote of the entire Board in accordance with these By-Laws and the Corporation's Articles of Incorporation to be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Only such business as is specified in the notice of any special meeting of the shareholders shall come before such meeting.

(b) Special meetings shall be held at such date, time and place as may be fixed by the Board in accordance with these by-laws.

1.5. *Notice of Meetings of Shareholders.* Except as otherwise expressly required or permitted by applicable law, not less than ten days nor more than sixty days before the date of every shareholders'

meeting the Secretary shall give to each shareholder of record entitled to vote at such meeting written notice stating the place, day and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called and indication that notice is being issued by or at the direction of the person or persons calling the meeting. Except as provided in Section 1.6(d) or as otherwise expressly required by applicable law, notice of any adjourned meeting of shareholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken. Any notice, if mailed, shall be deemed to be given when deposited in the United States mail, postage prepaid, addressed to the shareholder at the address for notices to such shareholder as it appears on the records of the Corporation.

1.6. *Quorum of Shareholders.* (a) Unless otherwise expressly required by applicable law, at any meeting of the shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of votes thereat shall constitute a quorum. Shares of the Corporation's stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in an election of the directors of such other corporation is held by the Corporation, shall neither be counted for the purpose of determining the presence of a quorum nor entitled to vote at any meeting of the shareholders.

(b) At any meeting of the shareholders at which a quorum shall be present, a majority of those present in person or by proxy may adjourn the meeting from time to time without notice other than announcement at the meeting. In the absence of a quorum, the officer presiding thereat shall have power to adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting other than announcement at the meeting shall not be required to be given, except as provided in Section 1.6(d) below and except where expressly required by applicable law.

(c) At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting originally called, but only those shareholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board.

(d) If a new date, time and place of an adjourned meeting is not announced at the original meeting before adjournment, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in the manner specified in Section 1.5 to each shareholder of record entitled to vote at the meeting.

1.7. *Chairman and Secretary of Meeting.* The Chairman or, in his or her absence, another officer of the Corporation designated by the Chairman, shall preside at meetings of the shareholders. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary, an Assistant Secretary shall so act, or if neither is present, then the presiding officer may appoint a person to act as secretary of the meeting.

1.8. *Voting by Shareholders.* (a) Except as otherwise expressly required by applicable law, at every meeting of the shareholders each shareholder shall be entitled to the number of votes specified in the Articles of Incorporation, in person or by proxy, for each share of stock standing in his or her name on the books of the Corporation on the date fixed pursuant to the provisions of Section 5.6 of these By-laws as the record date for the determination of the shareholders who shall be entitled to receive notice of and to vote at such meeting.

(b) When a quorum is present at any meeting of the shareholders, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless express provision of law or the Articles of Incorporation require a greater number of affirmative votes.

(c) Except as required by applicable law, the vote at any meeting of shareholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot,

each ballot shall be signed by the shareholder voting, or by his or her proxy, if there be such proxy, and shall state the number of shares voted.

1.9. *Proxies.* Any shareholder entitled to vote at any meeting of shareholders may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy by (i) the shareholder or the shareholder's designated officer, director, employee or agent executing a writing by signing it or by causing the shareholder's signature or the signature of the designated officer, director, employee or agent of the shareholder to be affixed to the writing by any reasonable means, including by facsimile signature; (ii) the shareholder transmitting or authorizing the transmission of an electronic submission which may be by any electronic means, including data and voice telephonic communications and computer network to (a) the person who will be the holder of the proxy; (b) a proxy solicitation firm; or (c) a proxy support service organization or similar agency authorized by the person who will be the holder of the proxy to receive the electronic submission, which electronic submission must either contain or be accompanied by information from which it can be determined that the electronic submission was transmitted by or authorized by the shareholder; or (iii) any other method allowed by law.

1.10. *Inspectors.* (a) The election of Directors and any other vote by ballot at any meeting of the shareholders shall be supervised by at least two inspectors. Such inspectors may be appointed by the Chairman before or at the meeting. If the Chairman shall not have so appointed such inspectors or if one or both inspectors so appointed shall refuse to serve or shall not be present, such appointment shall be made by the officer presiding at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

(b) The inspectors shall (i) ascertain the number of shares of the Corporation outstanding and the voting power of each, (ii) determine the shares represented at any meeting of shareholders and the validity of the proxies and ballots, (iii) count all proxies and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting, and their count of all proxies and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

1.11. *List of Shareholders.* (a) At least five business days before every meeting of shareholders, the Corporation shall cause to be prepared and made a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order by voting group, if any, and showing the address of each shareholder and the number of shares registered in the name of each shareholder.

(b) During ordinary business hours for a period of at least five business days prior to the meeting, such list shall be open to examination by any shareholder for any purpose germane to the meeting, either at the Corporation's principal office or a place identified in the meeting notice in the city where the meeting will be held.

(c) The list shall also be produced and kept at the time and place of the meeting, and it may be inspected during the meeting by any shareholder or the shareholder's agent or attorney authorized in writing.

(d) The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by this Section 1.11 or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

1.12. *Confidential Voting.* (a) Proxies and ballots that identify the votes of specific shareholders shall be kept in confidence by the tabulators and the inspectors of election unless (i) there is an opposing solicitation with respect to the election or removal of Directors, (ii) disclosure is required by applicable law, (iii) a shareholder expressly requests or otherwise authorizes disclosure, or (iv) the

Corporation concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes.

(b) The tabulators and inspectors of election and any authorized agents or other persons engaged in the receipt, count and tabulation of proxies and ballots shall be advised of this By-law and instructed to comply herewith.

(c) The inspectors of election shall certify, to the best of their knowledge based on due inquiry, that proxies and ballots have been kept in confidence as required by this Section 1.12.

2. DIRECTORS.

2.1. *Powers of Directors.* The business and affairs of the Corporation shall be managed by or under the direction of the Board, which may exercise all the powers of the Corporation except such as are by applicable law, the Articles of Incorporation or these By-laws required to be exercised or performed by the shareholders.

2.2. *Number, Method of Election, Terms of Office of Directors.* The number of Directors which shall constitute the whole Board shall be such as set forth in, and as determined in accordance with, the Articles of Incorporation. Prior to the annual meeting of shareholders to be held in 2016 (the "2016 Annual Meeting"), the Directors shall be divided into three classes as nearly equal in number as possible as provided in the Articles of Incorporation. At each annual meeting of shareholders prior to the 2016 Annual Meeting, each class of Directors whose term shall then expire shall be elected to hold office for a three-year term. All Directors elected at or after the 2016 Annual Meeting shall be elected for a term expiring at the next annual meeting of shareholders, with each such Director to hold office until such Director's successor shall have been elected and qualified, or until his or her earlier death, retirement, resignation or removal. Notwithstanding the foregoing, any Director whose term expires at the annual meeting of shareholders scheduled to be held in 2017 or 2018 shall continue to hold office until the end of the term for which such Director was elected and until such Director's successor shall have been elected and qualified, or until his or her earlier death, retirement, resignation or removal. Directors need not be shareholders of the Corporation or citizens of the United States of America.

Nominations of persons for election as Directors may be made by the Board or by any shareholder who is a shareholder of record at the time of giving of the notice of nomination provided for in this Section 2.2 and who is entitled to vote for the election of Directors. Any shareholder of record entitled to vote for the election of Directors at a meeting may nominate a person or persons for election as Directors only if written notice of such shareholder's intent to make such nomination is given in accordance with the procedures for bringing business before the meeting set forth in Section 1.3(b) of these By-Laws, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not later than (i) with respect to an election to be held at an annual meeting of shareholders, not less than 90 calendar days nor more than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not earlier than 120 calendar days prior to such annual meeting and not later than 90 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of Directors, not earlier than 120 calendar days prior to such special meeting and not later than 90 calendar days prior to such special meeting or 10 calendar days following the date on which public announcement of the date of the special meeting is first made and of the nominees to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a meeting commence a new time period, or extend any time period, for the giving of written notice. Any such notice shall set forth: (a) the name and address of the shareholder

who intends to make the nomination and the beneficial owner, if any, on whose behalf the nomination is made and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder, any beneficial owner on whose behalf the nomination is made and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each shareholder, the beneficial owner, if any, on whose behalf the nomination is made and nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission in connection with solicitations of proxies for the election of directors in an election contest; (e) the consent of each nominee to serve as a Director if so elected; (f) if the shareholder or beneficial owner, if any, intends to (x) deliver a proxy statement and/or form of proxy to the holders of at least the percent of the Corporation's outstanding capital stock required to elect the nominee and/or (y) otherwise solicit proxies of votes from shareholders in support of such shareholder's nominee(s), a representation to that effect; (g) a description of any agreement, arrangement or understanding with respect to the nomination and/or the voting of shares of any class or series of stock of the Corporation between or among the Proponent Persons; and (viii) a description of any agreement, arrangement or understanding (including without limitation any swap or other derivative or short position, profits interest, hedging transaction, borrowed or loaned shares, any contract to purchase or sell, acquisition or grant of any option, right or warrant to purchase or sell or other instrument) to which any Proponent Person is a party, the intent or effect of which may be (x) to transfer to or from any Proponent Person, in whole or in part, any of the economic consequences of ownership of any security of the Corporation, (y) to increase or decrease the voting power of any Proponent Person with respect to shares of any class or series of capital stock of the Corporation and/or (z) to provide any Proponent Person, directly or indirectly, with the opportunity to profit or share in any profit derived from, or to otherwise benefit economically from, or to mitigate any loss resulting from, the value (or any increase or decrease in the value) of any security of the Corporation. A shareholder providing notice of a proposed nomination shall update and supplement such notice from time to time to the extent necessary so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is fifteen calendar days prior to the meeting or any adjournment or postponement thereof; such update and supplement shall be delivered in writing to the Secretary of the Corporation at the principal executive offices of the Corporation not later than five calendar days after the record date for the meeting (in the case of any update and supplement required to be made as of the record date), and not later than ten calendar days prior to the date for the meeting or any adjournment or postponement thereof (in the case of any update and supplement required to be made as of fifteen calendar days prior to the meeting or any adjournment or postponement thereof). The chairman of any meeting of shareholders to elect Directors and the Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures or if the shareholder solicits proxies in support of such shareholder's nominee(s) without such shareholder having made the representation required by (f) of the preceding sentence. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

In an uncontested election (i.e. any election in which the number of nominees does not exceed the number of Directors to be elected), Directors shall be elected by a majority of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Any Director nominee that does not receive the requisite votes shall not be elected. Any Director nominee who fails to be elected but who is a Director at the time of the election shall promptly provide a written resignation to the Chairman or the Secretary and remain a Director until a successor shall have been elected and qualified (a "Holdover Director").

The Nominating and Governance Committee (or the equivalent committee then in existence) shall promptly consider the resignation and all relevant facts and circumstances concerning the vote and the

best interests of the Corporation and its shareholders. After consideration, the Nominating and Governance Committee shall make a recommendation to the Board whether to accept or reject the tendered resignation, or whether other action should be taken.

The Board will act on the Nominating and Governance Committee's recommendation no later than its next regularly scheduled Board Meeting or within 90 days after certification of the shareholder vote, whichever is earlier.

The Board will promptly publicly disclose its decision (by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) and the reasons for its decision.

Any Holdover Director who tenders a resignation shall not participate in the Nominating and Governance Committee's recommendation or Board action regarding whether to accept the resignation offer. If a Holdover Director's resignation is not accepted, such Holdover Director shall continue to serve until his or her successor is duly elected and qualified or his or her earlier resignation or removal. If a Holdover Director's resignation is accepted, then the Board may fill the resulting vacancy, or decrease the size of the Board, pursuant to the provisions of Article Fifth of the Articles of Incorporation.

If each member of the Nominating and Governance Committee receives less than a majority of the votes cast at the same election, then the Board shall appoint a committee composed of three independent Directors (with an independent Director being a Director that has been determined by the Board to be "independent" under such criteria as it deems applicable, including, without limitation, applicable New York Stock Exchange rules and regulations and other applicable law) who received more than a majority of the votes cast to consider the resignation offers and recommend to the Board whether to accept the offers. However, if there are fewer than three independent Directors who receive a majority or more of the votes cast in the same election then the Board will promptly consider the resignation and all relevant facts and circumstances concerning the vote and the best interests of the Corporation and its shareholders and act no later than its next regularly scheduled Board Meeting or within 90 days after certification of the shareholder vote, whichever is earlier. If all Directors receive less than a majority of the votes cast at the same election, the election shall be treated as a contested election and the majority vote requirement shall be inapplicable.

2.3. *Vacancies on Board.* (a) Any Director may resign from office at any time by delivering a written resignation to the Chairman or the Secretary. The resignation will take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

(b) Any vacancy resulting from the death, retirement, resignation, or removal of a Director and any newly created Directorship resulting from any increase in the authorized number of Directors may be filled by vote of a majority of the Directors then in office, though less than a quorum. In the case of any vacancy so filled prior to the 2016 Annual Meeting, any Director so chosen shall hold office for the remainder of the term of the Director being replaced or, in the event of an increase in the number of Directors, of the class to which he or she is assigned, with each such Director to hold office until his or her successor is duly elected and qualified, or until his or her earlier death, retirement, resignation or removal. In the case of any vacancy so filled at or after the 2016 Annual Meeting, any Director so chosen shall serve until the next annual meeting of shareholders, with such Director to hold office until such Director's successor shall have been elected and qualified, or until his or her earlier death, retirement, resignation or removal. If there are no Directors in office, then an election of Directors may be held in the manner provided by applicable law.

2.4. *Meetings of the Board.* (a) The Board may hold its meetings, both regular and special, either within or outside the state of Indiana, at such places as from time to time may be determined by the Board or as may be designated in the respective notices or waivers of notice thereof.

(b) Regular meetings of the Board shall be held at such times and at such places as from time to time shall be determined by the Board.

(c) The first meeting of each newly elected Board shall be held as soon as practicable after the annual meeting of the shareholders and shall be for the election of officers and the transaction of such other business as may come before it.

(d) Special meetings of the Board shall be held whenever called by direction of the Chairman or at the request of Directors constituting one-third of the number of Directors then in office.

(e) Members of the Board or any Committee of the Board may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

(f) The Secretary shall give notice to each Director of any meeting of the Board by mailing the same at least two days before the meeting or by telegraphing or delivering the same not later than the day before the meeting. Such notice need not include a statement of the business to be transacted at, or the purpose of, any such meeting. Any and all business may be transacted at any meeting of the Board. No notice of any adjourned meeting need be given. No notice to or waiver by any Director shall be required with respect to any meeting at which the Director is present.

2.5. *Quorum and Action.* Except as otherwise expressly required by applicable law, the Articles of Incorporation or these By-laws, at any meeting of the Board, the presence of at least one-third of the entire Board shall constitute a quorum for the transaction of business; but if there shall be less than a quorum at any meeting of the Board, a majority of those present may adjourn the meeting from time to time. Unless otherwise provided by applicable law, the Articles of Incorporation or these By-laws, the vote of a majority of the Directors present (and not abstaining) at any meeting at which a quorum is present shall be necessary for the approval and adoption of any resolution or the approval of any act of the Board.

2.6. *Presiding Officer and Secretary of Meeting.* The Chairman or, in the absence of the Chairman, a member of the Board selected by the members present, shall preside at meetings of the Board. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the presiding officer may appoint a secretary of the meeting.

2.7. *Action by Consent without Meeting.* Any action required or permitted to be taken at any meeting of the Board or of any Committee thereof may be taken without a meeting if all members of the Board or Committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of their proceedings.

2.8. *Standing Committees.* By resolution adopted by a majority of the entire Board, the Board may, from time to time, establish such Standing Committees (including, without limitation, an Audit Committee, a Compensation and Personnel Committee and a Nominating and Governance Committee) with such powers of the Board as it may consider appropriate, consistent with applicable law, the Articles of Incorporation and these By-laws and which are specified by resolution or by committee charter approved by a majority of the entire Board. By resolution adopted by a majority of the entire Board, the Board shall elect, from among its members, individuals to serve on such Standing Committees established by this Section 2.8.

2.9. *Other Committees.* By resolution passed by a majority of the entire Board, the Board may also appoint from among its members such other Committees as it may from time to time deem desirable and may delegate to such Committees such powers of the Board as it may consider appropriate, consistent with applicable law, the Articles of Incorporation and these By-laws. Except to the extent inconsistent with the resolutions creating a Committee, Sections 2.4, 2.5, 2.7 and 10 of these By-

laws, which govern meetings, action without meetings, notice and waiver of notice, quorum and voting requirements and telephone participation in meetings of the Board, shall apply to each Committee (including any Standing Committee) and its members as well.

2.10. *Compensation of Directors.* Unless otherwise restricted by the Articles of Incorporation or these By-laws, Directors shall receive for their services on the Board or any Committee thereof such compensation and benefits, including the granting of options, together with expenses, if any, as the Board may from time to time determine. The Directors may be paid a fixed sum for attendance at each meeting of the Board or Committee thereof and/or a stated annual sum as a Director, together with expenses, if any, of attendance at each meeting of the Board or Committee thereof. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

2.11. *Mandatory Classified Board Structure .* The provisions of IC 23-1-33-6(c) shall not apply to the Corporation.

3. OFFICERS.

3.1. *Officer, Titles, Elections, Terms.* (a) The Board may from time to time elect a Chairman, a Chief Executive, a Vice Chairman, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Corporate Vice Presidents, a Chief Financial Officer, a Chief Accounting Officer, a Controller, a Treasurer, a Secretary, a General Counsel, one or more Assistant Controllers, one or more Assistant Treasurers, one or more Assistant Secretaries, and one or more Deputy General Counsels, to serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election and until their successors are elected and qualified or until their earlier death, retirement, resignation or removal.

(b) The Board may elect or appoint at any time such other officers or agents with such duties as it may deem necessary or desirable. Such other officers or agents shall serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election or appointment and, in the case of such other officers, until their successors are elected and qualified or until their earlier death, retirement, resignation or removal. Each such officer or agent shall have such authority and shall perform such duties as may be provided herein or as the Board may prescribe. The Board may from time to time authorize any officer or agent to appoint and remove any other such officer or agent and to prescribe such person's authority and duties.

(c) No person may be elected or appointed an officer who is not a citizen of the United States of America if such election or appointment is prohibited by applicable law or regulation.

(d) Any vacancy in any office may be filled for the unexpired portion of the term by the Board. Each officer elected or appointed during the year shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until his or her successor is elected or appointed and qualified or until his or her earlier death, retirement, resignation or removal.

(e) Any officer or agent elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the entire Board.

(f) Any officer may resign from office at any time. Such resignation shall be made in writing and given to the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

3.2. *General Powers of Officers.* Except as may be otherwise provided by applicable law or in Article 6 or Article 7 of these By-laws, the Chairman, any Vice Chairman, the President, any Executive

Vice President, any Senior Vice President, any Corporate Vice President, the Chief Financial Officer, the General Counsel, the Chief Accounting Officer, the Controller, the Treasurer and the Secretary, or any of them, may (i) execute and deliver in the name of the Corporation, in the name of any Division of the Corporation or in both names any agreement, contract, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any Division of the Corporation, including without limitation agreements or contracts with any government or governmental department, agency or instrumentality, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, instrument, power of attorney or other document.

3.3. *Powers of the Chairman or Chief Executive.* The Chairman shall be the Chief Executive (as defined in Section 3.11) of the Corporation unless the Board specifically elects the President to be Chief Executive of the Corporation, in which case the President shall be the Chief Executive. If either the Chairman or the President is the Chief Executive, then he or she shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chief Executive shall manage and direct the business and affairs of the Corporation and shall communicate to the Board and any Committee thereof reports, proposals and recommendations for their respective consideration or action. He or she may do and perform all acts on behalf of the Corporation. The Chairman (whether or not the Chief Executive) shall preside at meetings of the Board and the shareholders.

3.4. *Powers and Duties of a Vice Chairman.* A Vice Chairman shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.5. *Powers and Duties of the President.* Unless the President is Chief Executive, the President shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws. If the President is the Chief Executive, then Section 3.3 shall be applicable.

3.6. *Powers and Duties of Executive Vice Presidents, Senior Vice Presidents and Corporate Vice Presidents.* Executive Vice Presidents, Senior Vice Presidents and Corporate Vice Presidents shall have such powers and perform such duties as the Board, the Chairman, or the Chief Executive may from time to time prescribe or as may be prescribed in these By-laws.

3.7. *Powers and Duties of the Chief Financial Officer.* The Chief Financial Officer shall have such powers and perform such duties as the Board, the Chairman, Chief Executive, or any Vice Chairman may from time to time prescribe or as may be prescribed in these By-laws. The Chief Financial Officer shall cause to be prepared and maintained (i) a stock ledger containing the names and addresses of all shareholders and the number of shares of each class and series held by each and (ii) the list of shareholders for each meeting of the shareholders as required by Section 1.11 of these By-laws. The Chief Financial Officer shall be responsible for the custody of all stock books and of all unissued stock certificates.

3.8. *Powers and Duties of the Chief Accounting Officer, Controller and Assistant Controllers.* (a) The Chief Accounting Officer, Controller or the Corporate Vice President, Finance, as determined by the Chief Financial Officer, shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Chief Accounting Officer, Controller, or the Corporate Vice President, Finance as determined by the Chief Financial Officer, shall prepare and render such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chairman or the Chief Executive may require, and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of the Chief Accounting Officer, Controller, or the Corporate Vice President, Finance.

(b) Each Assistant Controller shall perform such duties as from time to time may be assigned

by the Controller or by the Board. In the event of the absence, incapacity or inability to act of the Controller, then any Assistant Controller may perform any of the duties and may exercise any of the powers of the Controller.

3.9. *Powers and Duties of the Treasurer and Assistant Treasurers.* (a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer.

(b) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer (i) may sign all receipts and vouchers for payments made to the Corporation, (ii) shall render a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Treasurer. Each Assistant Treasurer shall perform such duties as may from time to time be assigned by the Treasurer or by the Board. In the event of the absence, incapacity or inability to act of the Treasurer, then any Assistant Treasurer may perform any of the duties and may exercise any of the powers of the Treasurer.

3.10. *Powers and Duties of the Secretary and Assistant Secretaries.* (a) The Secretary shall keep the minutes of all proceedings of the shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these By-laws and as required by applicable law. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Secretary.

(b) Each Assistant Secretary shall perform such duties as may from time to time be assigned by the Secretary or by the Board. In the event of the absence, incapacity or inability to act of the Secretary, then any Assistant Secretary may perform any of the duties and may exercise any of the powers of the Secretary.

3.11. *Applicable Definition.* As used in these By-laws, the term "Chief Executive" shall refer to the Chairman unless the President is elected to be the Chief Executive, pursuant to Section 3.3, in which case the term "Chief Executive" shall refer to the President.

4. INDEMNIFICATION.

4.1.(a) *Right to Indemnification.* The Corporation, to the fullest extent permitted by applicable law as then in effect, shall indemnify any person who is or was a Director or officer of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Director or officer of the Corporation with respect to a Proceeding that was commenced by such Director or officer prior to a Change in Control (as defined in Section 4.4(e)(i) of this Article 4). Any Director or officer of the Corporation entitled to indemnification as provided in this Section 4.1(a) is hereinafter called an "Indemnitee". Any right of an Indemnitee to indemnification shall be a contract right and shall include the right to receive, prior to the conclusion of any Proceeding, payment of any expenses incurred by the Indemnitee in connection with such Proceeding, consistent with the provisions of applicable law as then in effect and the other provisions of this Article 4.

(b) *Effect of Amendments.* Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article 4 (including, without limitation, this Section 4.1(b)) shall adversely affect the rights of any Director or officer under this Article 4 (i) with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision or (ii) after the occurrence of a Change in Control, with respect to any Proceeding arising out of any action or omission occurring prior to such amendment, repeal or adoption of an inconsistent provision, in either case without the written consent of such Director or officer.

4.2. *Insurance, Contracts and Funding.* The Corporation may purchase and maintain insurance to protect itself and any indemnified person against any expenses, judgments, fines and amounts paid in settlement as specified in Section 4.1(a) or Section 4.5 of this Article 4 or incurred by any indemnified person in connection with any Proceeding referred to in such Sections, to the fullest extent permitted by applicable law as then in effect. The Corporation may enter into contracts with any Director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity in furtherance of the provisions of this Article 4 and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article 4.

4.3. *Indemnification; Not Exclusive Right.* The right of indemnification provided in this Article 4 shall not be exclusive of any other rights to which any indemnified person may otherwise be entitled, and the provisions of this Article 4 shall inure to the benefit of the heirs and legal representatives of any indemnified person under this Article 4 and shall be applicable to Proceedings commenced or continuing after the adoption of this Article 4, whether arising from acts or omissions occurring before or after such adoption.

4.4. *Advancement of Expenses; Procedures; Presumptions and Effect of Certain Proceedings; Remedies.* In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to the advancement of expenses and the right to indemnification under this Article 4:

(a) *Advancement of Expenses.* All reasonable expenses incurred by or on behalf of the Indemnitee in connection with any Proceeding shall be advanced to the Indemnitee by the Corporation

within 20 days after the receipt by the Corporation of a statement or statements from the Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Any such statement or statements shall reasonably evidence the expenses incurred by the Indemnitee and shall include any written affirmation or undertaking required by applicable law in effect at the time of such advance.

(b) *Procedures for Determination of Entitlement to Indemnification*. (i) To obtain indemnification under this Article 4, an Indemnitee shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Indemnitee and reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification (the "Supporting Documentation"). The determination of the Indemnitee's entitlement to indemnification shall be made not later than 60 days after receipt by the Corporation of the written request for indemnification together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that the Indemnitee has requested indemnification.

(ii) The Indemnitee's entitlement to indemnification under this Article 4 shall be determined in one of the following ways: (A) by a majority vote of the Disinterested Directors (as hereinafter defined), if they constitute a quorum of the Board; (B) by a written opinion of Independent Counsel (as hereinafter defined) if (x) a Change in Control (as hereinafter defined) shall have occurred and the Indemnitee so requests or (y) a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (C) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to indemnification to the shareholders for their determination); or (D) as provided in Section 4.4(c) of this Article 4.

(iii) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 4.4(b)(ii), a majority of the Disinterested Directors shall select the Independent Counsel, but only an Independent Counsel to which the Indemnitee does not reasonably object; provided, however, that if a Change in Control shall have occurred, the Indemnitee shall select such Independent Counsel, but only an Independent Counsel to which a majority of the Disinterested Directors does not reasonably object.

(c) *Presumptions and Effect of Certain Proceedings*. Except as otherwise expressly provided in this Article 4, if a Change in Control shall have occurred, the Indemnitee shall be presumed to be entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification together with the Supporting Documentation in accordance with Section 4.4(b) of this Article 4, and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under Section 4.4(b) of this Article 4 to determine entitlement to indemnification shall not have been appointed or shall not have made a determination within 60 days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Indemnitee shall be deemed to be, and shall be, entitled to indemnification unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. The termination of any Proceeding described in Section 4.1 of this Article 4, or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, adversely affect the right of the Indemnitee to indemnification or create a presumption that the Indemnitee did not act in good faith and in a manner which the Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(d) *Remedies of Indemnitee*. (i) In the event that a determination is made pursuant to

Section 4.4(b) of this Article 4 that the Indemnitee is not entitled to indemnification under this Article 4, (A) the Indemnitee shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Indemnitee's sole option, in (x) an appropriate court of the state of Indiana or any other court of competent jurisdiction or (y) an arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association; (B) any such judicial proceeding or arbitration shall be *de novo* and the Indemnitee shall not be prejudiced by reason of such adverse determination; and (C) if a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Corporation shall have the burden of proving that the Indemnitee is not entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control).

(ii) If a determination shall have been made or deemed to have been made, pursuant to Section 4.4(b) or (c) of this Article 4, that the Indemnitee is entitled to indemnification, the Corporation shall be obligated to pay the amounts constituting such indemnification within five days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. In the event that (x) advancement of expenses is not timely made pursuant to Section 4.4(a) of this Article 4 or (y) payment of indemnification is not made within five days after a determination of entitlement to indemnification has been made or deemed to have been made pursuant to Section 4.4(b) or (c) of this Article 4, the Indemnitee shall be entitled to seek judicial enforcement of the Corporation's obligation to pay to the Indemnitee such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the state of Indiana or any other court of competent jurisdiction, contesting the right of the Indemnitee to receive indemnification hereunder due to the occurrence of an event described in Subclause (A) or (B) of this Clause (ii) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(iii) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 4.4(d) that the procedures and presumptions of this Article 4 are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Article 4.

(iv) In the event that the Indemnitee, pursuant to this Section 4.4(d), seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of, this Article 4, the Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any expenses actually and reasonably incurred by the Indemnitee if the Indemnitee prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be prorated accordingly.

(e) *Definitions.* For purposes of this Article 4:

(i) "Change in Control" means a change in control of the Corporation of a nature that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A (or any amendment or successor provision thereto) promulgated under the Securities Exchange Act of 1934 (the "Act"), whether or not the Corporation is then subject to such reporting requirement; provided that, without limitation, such a change in control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Corporation representing 20% or more of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election

of Directors without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such acquisition; (B) the Corporation is a party to any merger or consolidation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Corporation's common stock would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of the Corporation's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; (C) there is a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation, or liquidation or dissolution of the Corporation; (D) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or (E) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (including for this purpose any new Director whose election or nomination for election by the shareholders was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

(ii) "Disinterested Director" means a Director who is not or was not a party to the proceeding in respect of which indemnification is sought by the Indemnitee.

(iii) "Independent Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent: (a) the Corporation or the Indemnitee in any matter material to either such party or (b) any other party to the Proceeding giving rise to a claim for indemnification under this Article 4. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the Indemnitee in an action to determine the Indemnitee's rights under this Article 4.

4.5. *Indemnification of Employees and Agents.* Notwithstanding any other provision of this Article 4, the Corporation, to the fullest extent permitted by applicable law as then in effect, may indemnify any person other than a Director or officer of the Corporation who is or was an employee or agent of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an employee or agent of the Corporation or, at the request of the Corporation, a director, officer, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such employee, fiduciary or agent in connection with any such Proceeding, consistent with the provisions of applicable law as then in effect.

4.6. *Severability.* If any of this Article 4 shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

5. CAPITAL STOCK.

5.1. *Stock Certificates.* (a) Shares of stock of each class of the Corporation may be issued in book-entry form or evidenced by certificates. Every certificate shall state on its face (or in the case of book-entry shares, the statement evidencing ownership of such shares shall state) the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom the certificate (or bookentry statement) was issued, and the number and class of shares and the designation of the series, if any, the certificate (or book-entry statement) represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon his written request and without charge, a summary of the designations, relative rights, preferences, and limitations applicable to each class and the variations in rights, preferences, and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series), which certificate, if any, shall otherwise be in such form as the Board shall prescribe and as provided in Section 5.1(d).

(b) If a certificate is countersigned by a transfer agent other than the Corporation or its employee, or by a registrar other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles, and, if permitted by applicable law, any other signature on the certificate may be a facsimile.

(c) In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer at the date of issue.

(d) Any certificates of stock shall be issued in such form not inconsistent with the Articles of Incorporation. They shall be numbered and registered in the order in which they are issued. No certificate shall be issued until fully paid.

(e) All certificates surrendered to the Corporation shall be cancelled (other than treasury shares) with the date of cancellation and shall be retained by or under the control of the Chief Financial Officer, together with the powers of attorney to transfer and the assignments of the shares represented by such certificates, for such period of time as such officer shall designate.

5.2. *Record Ownership.* A record of the name of the person, firm or corporation and address of each holder of stock, the number of shares of each class and series represented thereby and the date of issue thereof shall be made on the Corporation's books. The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in any share on the part of any person, whether or not it shall have express or other notice thereof, except as required by applicable law.

5.3. *Transfer of Record Ownership.* Transfers of stock shall be made on the books of the Corporation only by direction of the person named in the certificate (or book-entry statement) or such person's attorney, lawfully constituted in writing, and only upon the surrender of the certificate, if any, therefor and a written assignment of the shares evidenced thereby. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer if, when the certificates, if any, are presented to the Corporation for transfer, both the transferor and transferee request the Corporation to do so.

5.4. *Lost, Stolen or Destroyed Certificates.* New certificates or uncertificated shares representing shares of the stock of the Corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed in such manner and on such terms and conditions as the Board from time to time may authorize in accordance with applicable law.

5.5. *Transfer Agent; Registrar; Rules Respecting Certificates.* The Corporation shall maintain one or more transfer offices or agencies where stock of the Corporation shall be transferable. The Corporation shall also maintain one or more registry offices where such stock shall be registered. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of stock certificates (or book-entry statements) in accordance with applicable law.

5.6. *Fixing Record Date for Determination of Shareholders of Record.* (a) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to notice of, or to vote at, any meeting of the shareholders or any adjournment thereof, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty days nor less than ten days before the date of a meeting of the shareholders. If no record date is fixed by the Board, the record date for determining the shareholders entitled to notice of or to vote at a shareholders' meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting and shall fix a new record date if such adjourned meeting is more than 120 days after the date of the original meeting. (b) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or in order to make a determination of the shareholders for the purpose of any other lawful action, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty days prior to such action. If no record date is fixed by the Board, the record date for determining the shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

6. SECURITIES HELD BY THE CORPORATION.

6.1. *Voting.* Unless the Board shall otherwise order, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Corporate Vice President, the Chief Financial Officer, the Chief Accounting Officer, the Controller, the Treasurer or the Secretary shall have full power and authority, on behalf of the Corporation, (i) to attend, act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock and at such meeting to exercise any or all rights and powers incident to the ownership of such stock, and to execute on behalf of the Corporation a proxy or proxies empowering another or others to act as aforesaid, and (ii) to delegate to any employee or agent such power and authority.

6.2. *General Authorization to Transfer Securities Held by the Corporation.* (a) Any of the following officers, to wit: the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Corporate Vice President, the Chief Financial Officer, the Chief Accounting Officer, the Controller, the Treasurer, any Assistant Controller, any Assistant Treasurer, and each of them, hereby is authorized and empowered (i) to transfer, convert, endorse, sell, assign, set over and deliver any and all shares of stock, bonds, debentures, notes, subscription warrants, stock purchase warrants, evidences of indebtedness, or other securities now or hereafter standing in the name of or owned by the Corporation and to make, execute and deliver any and all written instruments of assignment and transfer necessary or proper to effectuate the authority hereby conferred, and (ii) to delegate to any employee or agent such power and authority.

(b) Whenever there shall be annexed to any instrument of assignment and transfer executed pursuant to and in accordance with the foregoing Section 6.2(a), a certificate of the Secretary or any Assistant Secretary in office at the date of such certificate setting forth the provisions hereof, stating that they are in full force and effect, setting forth the names of persons who are then officers of the corporation, and certifying as to the employees or agents, if any, to whom any such power and authority

have been delegated, all persons to whom such instrument and annexed certificate shall thereafter come shall be entitled, without further inquiry or investigation and regardless of the date of such certificate, to assume and to act in reliance upon the assumption that (i) the shares of stock or other securities named in such instrument were theretofore duly and properly transferred, endorsed, sold, assigned, set over and delivered by the Corporation, and (ii) with respect to such securities, the authority of these provisions of these Bylaws and of such officers, employees and agents is still in full force and effect.

7. DEPOSITARIES AND SIGNATORIES.

7.1. *Depositaries.* The Chairman, any Vice Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a Division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depositary and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depositary designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a Division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depositary, or from time to time the fact of any change in any depositary or in the signatories with respect thereto.

7.2. *Signatories.* Unless otherwise designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, each of whom is authorized to execute any of such items individually, all notes, drafts, checks, acceptances, orders for the payment of money and all other negotiable instruments obligating the Corporation for the payment of money, including any form of guaranty by the Corporation with respect to any such item entered into by any direct or indirect subsidiary of the Corporation, shall be (a) signed by any Assistant Treasurer and (b) countersigned by the Chief Accounting Officer, Controller or any Assistant Controller, or (c) either signed or countersigned by any Executive Vice President, any Senior Vice President or any Corporate Vice President in lieu of either the officers designated in Clause (a) or the officers designated in Clause (b) of this Section 7.2.

8. SEAL.

The seal of the Corporation shall be in such form and shall have such content as the Board shall from time to time determine.

9. FISCAL YEAR.

The fiscal year of the Corporation shall end on December 31 in each year, or on such other date as the Board shall determine.

10. WAIVER OF OR DISPENSING WITH NOTICE.

(a) Whenever any notice of the time, place or purpose of any meeting of the shareholders is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice, signed by a shareholder entitled to notice of a shareholders' meeting, whether by pdf, facsimile, telegraph, cable or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. The waiver must be included in the minutes or filed with the corporate records. Attendance of a shareholder in person or by proxy at a shareholders' meeting shall constitute a waiver of notice to such shareholder of such meeting, except when (i) the shareholder attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened, or

(ii) the shareholder objects to consideration of a particular matter at the meeting at the time such matter is presented because it is not within the purpose or purposes described in the meeting notice.

(b) Whenever any notice of the time or place of any meeting of the Board or Committee of the Board is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice signed by a Director, whether by pdf, facsimile, telegraph, cable or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. Unless the Director is deemed to have waived notice by attending the meeting, the waiver must be in writing, signed by the Director entitled to the notice and filed with the minutes or corporate records. Attendance of a Director at a meeting shall constitute a waiver of notice to such Director of such meeting, unless the Director at the beginning of the meeting (or promptly upon the Director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

(c) No notice need be given to any person with whom communication is made unlawful by any law of the United States or any rule, regulation, proclamation or executive order issued under any such law.

11. POLITICAL NONPARTISANSHIP OF THE CORPORATION.

The Corporation shall not make, directly or indirectly, any contributions or expenditures in connection with the election of any candidate for federal, state or local political office, or any committee campaigning for such a candidate, except to the extent necessary to permit in the United States the expenditure of corporate assets for the payment of expenses for establishing, registering and administering any political action committee and of soliciting contributions thereto, all as may be authorized by federal or state laws.

12. AMENDMENT OF BY-LAWS.

These By-laws, or any of them, may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the Board at any regular or special meeting of the Board, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board.

13. OFFICES AND AGENT.

(a) *Registered Office and Agent.* The registered office of the Corporation in the State of Indiana shall be 251 East Ohio Street, Suite 1100, Indianapolis, Indiana 46204. The name of the registered agent is The Corporation Trust Company.

(b) *Other Offices.* The Corporation may also have offices at other places, either within or outside the State of Indiana, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

September 8, 2013

Dear Mr. Loranger:

Xylem Inc. (the "Company") is pleased to confirm the terms of your employment as set forth below, effective as of September 9, 2013.

1. **Position.** You will serve in the position of Chief Executive Officer and President of the Company. As you know, the Board of Directors of the Company (the "Board") is commencing a search for a Chief Executive Officer and President to succeed you. You will report directly to the Board and the Company's executive officers will report to you. This is a full-time position. You will be based at the Company's headquarters located in Westchester County, New York, except for travel reasonably required in connection with the performance of your duties as Chief Executive Officer and President.
 2. **Cash Compensation.** During the period that you are employed as Chief Executive Officer and President, your base salary will be paid at the rate of \$1,000,000 per annum, payable in accordance with the Company's standard payroll schedule. In addition, you will be eligible for a quarterly bonus of up to \$250,000, based upon attainment of specific performance objectives to be established by the Board, in consultation with you, as soon as reasonably practicable after the date hereof and prior to the commencement of each calendar quarter thereafter. Earned amounts of the quarterly bonus will be paid within 45 days following the close of the applicable calendar quarter. You will be eligible for such a quarterly bonus for any full or partial quarter (pro-rated for any partial quarter to the extent the Board deems appropriate) during your employment and service as Chief Executive Officer and President based upon the level of attainment of the applicable performance objectives, as determined by the Board in its sole discretion.
 3. **Employee Benefits.** During your employment, you will be eligible to participate in all of the Company-sponsored benefits under the Company's standard employee benefits programs under which you may be eligible, as they may be in effect from time to time. You are aware that the Company does not maintain any defined benefit pension plan and you agree that you will not be entitled to (i) payments or benefits under any Company severance plan upon any termination of your employment and (ii) equity or equity-based awards in respect of your employment as Chief Executive Officer and President.
 4. **Other Benefits.** During your employment, the Company will reimburse you for the temporary lease of an apartment in Westchester County, New York for your use, up to a maximum cost of \$5,000 per month. In addition, upon the expiration of the Company's existing contract with NetJets, the Company will reimburse you for reasonable expenses incurred by you in respect of Company-related business trips taken by you in your personal aircraft based on guidelines to be determined by the Board.
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5. **Treatment of Director Equity.** You acknowledge and agree that during the term of your employment with the Company you will not be eligible to receive any cash or equity compensation in respect of your service on the Board; provided, however, that any restricted stock units previously granted to you will continue to vest and any corresponding dividend equivalent rights will continue to accrue during your employment.

6. **Employment Relationship.** Your employment with the Company is "at will." Either you or the Board may terminate your employment and service as Chief Executive Officer and President for any reason upon ten (10) days' prior written notice to the other party. Prior to the commencement of each calendar quarter, the Board shall consider and discuss with you its expectations with respect to your continued service as Chief Executive Officer and President for the upcoming calendar quarter.

7. **Tax Matters.** All forms of compensation referred to in this letter agreement are subject to reduction to reflect applicable withholding and payroll taxes and other deductions required by law. It is intended that the compensation described in this letter agreement or otherwise provided to you in respect of your service to the Company will comply with, or be exempt from, Section 409A of the Internal Revenue Code and any regulations issued thereunder (collectively "Code Section 409A"). To the extent required by Code Section 409A, if you are a "specified employee" at the time of your "separation from service" (as each term is defined under Code Section 409A) with the Company and all affiliates, any nonqualified deferred compensation that is payable to you on account of that separation from service will be delayed and paid promptly (without interest) after the earlier of the date that is six (6) months after the date of such separation from service or the date of your death after such separation from service.

8. **Conflicts of Interest; Company Policies; Proprietary Information .** While you are employed by the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company; provided, however, that the foregoing is not intended to restrict any time you may spend as a director on a board of directors on which you currently sit or that may be agreed upon in advance with the Board. By signing this letter agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company. You agree to execute the Company's standard form of confidentiality and proprietary information agreement and to be subject to and comply with applicable Company policies during your employment.

9. **Interpretation, Amendment and Enforcement .** This letter agreement constitutes the complete agreement between you and the Company regarding the terms of your employment and supersedes any prior agreements, representations or understandings (whether written, oral or implied) between you and the Company regarding the terms of your employment. This letter agreement may not be amended or modified, except by an express written agreement signed by both you and an authorized representative of the Board. The terms of this letter agreement and the resolution of any disputes as to the meaning, effect, performance or validity of this letter agreement or arising out of, related to, or in any way connected with, this letter agreement, your employment with the Company or any other relationship between you and the Company will be governed by New York law, excluding laws relating to conflicts or choice of law.

10. **Counterparts.** This letter agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute the same instrument.

You may indicate your agreement with these terms by signing and dating the enclosed duplicate original of this letter agreement and returning it to me. If you have any questions, please do not hesitate to let me know.

Very truly yours,

XYLEM INC.

By: /s/ Markos I. Tambakeras
Markos I. Tambakeras
Chairman of the Board of Directors

I have read and accept this agreement:

/s/ Steven R. Loranger
Steven R. Loranger

Dated: September 8, 2013

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

I, Steven R. Loranger, 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: October 29, 2013

/s/ Steven R. Loranger

Steven R. Loranger

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: October 29, 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 September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven R. Loranger, 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/ Steven R. Loranger

Steven R. Loranger

President and Chief Executive Officer

October 29, 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 September 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

October 29, 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.

