Xylem Inc.
Form S-4
May 24, 2012
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As filed with the Securities and Exchange Commission on May 24, 2012

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

For the quarterly period ended March 31, 2012

XYLEM INC.

(Exact name of registrant as specified in its charter)

Indiana	3561	45-2080495
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1133 Westchester Avenue, Suite N200

White Plains, NY 10604

(914) 323-5700

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Frank R. Jimenez

Senior Vice President, General Counsel and Corporate Secretary

1133 Westchester Avenue, Suite N200

White Plains, NY 10604

(914) 323-5700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

Gary L. Sellers, Esq.

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, New York 10017

(212) 455-2000

Approximate date of commencement of proposed exchange offers:

As soon as practicable after this Registration Statement is declared effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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.

Large accelerated filer ¨ Accelerated filer ¨

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issue Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Note**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee**
3.550% Senior Notes due 2016	$600,000,000	100%	$600,000,000	$68,760
4.875% Senior Notes due 2021	$600,000,000	100%	$600,000,000	$68,760

(1) Estimated solely for the purpose of calculating the registration fee under Rule 457(f) of the Securities Act of 1933, as amended (the Securities Act).

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not offer these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 24, 2012

PRELIMINARY PROSPECTUS

XYLEM INC.

Offers to Exchange (the exchange offers)

$600,000,000 aggregate principal amount of its 3.550% Senior Notes due 2016 (the 2016 exchange notes) and $600,000,000 aggregate principal amount of its 4.875% Senior Notes due 2021 (the 2021 exchange notes and, together with the 2016 exchange notes, the exchange notes), each of which have been registered under the Securities Act of 1933, as amended (the Securities Act), for any and all of its outstanding unregistered 3.550% Senior Notes due 2016 (the outstanding 2016 notes) and for any and all of its outstanding unregistered 4.875% Senior Notes due 2021 (the outstanding 2021 notes and, together with the outstanding 2016 notes, the outstanding notes), respectively.

We are conducting the exchange offers in order to provide you with an opportunity to exchange your unregistered notes for freely tradable notes that have been registered under the Securities Act.

The exchange offers

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

You may withdraw tenders of outstanding notes at any time prior to the expiration date of the applicable exchange offer.

The exchange offers expire at 12:00 a.m. midnight, New York City time, on , 2012, unless extended. We do not currently intend to extend the expiration date.

The exchange of the relevant outstanding notes for the relevant exchange notes in the exchange offers will not be a taxable event for United States federal income tax purposes.

The terms of the relevant exchange notes to be issued in the exchange offers are substantially identical to the relevant outstanding notes, except that the exchange notes will be freely tradable.

Results of the exchange offers

The exchange notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. We do not plan to list the exchange notes on a national market.

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offers, we do not currently anticipate that we will register the outstanding notes under the Securities Act.

See Risk Factors beginning on page 9 for a discussion of certain risks that you should consider before participating in the applicable exchange offer.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of the exchange notes to be distributed in the exchange offers or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2012.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. The prospectus may be used only for the purposes for which it has been published and no person has been authorized to give any information not contained herein. If you receive any other information, you should not rely on it. We are not making an offer of these securities in any state where the offer is not permitted.

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MARKET, RANKING, INDUSTRY DATA AND FORECASTS

This prospectus includes market share, ranking, industry data and forecasts that we obtained from industry publications and surveys, public filings and internal company sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position and ranking are based on market data currently available to us, management s estimates and assumptions we have made regarding the size of our markets within our industry. While we are not aware of any misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus. We cannot guarantee the accuracy or completeness of such information contained in this prospectus.

TRADEMARKS, SERVICE MARKS AND COPYRIGHTS

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. In addition, our names, logos and website names and addresses are our service marks or trademarks. Other trademarks, service marks and trade names appearing in this prospectus are the property of their respective owners. We also own or have the rights to copyrights that protect the content of our products. Solely for convenience, the trademarks, service marks, tradenames and copyrights referred to in this prospectus are listed without the ©, ® and symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and tradenames.

FORWARD-LOOKING STATEMENTS

This prospectus 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 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. (the Company) from ITT Corporation, the terms and the effect of the separation, the nature and impact of the separation, 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. These risks and uncertainties include, but are not limited to, those set forth in this prospectus, and those described from time to time in subsequent reports filed with the SEC.

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The following discussion should be read in conjunction with the consolidated and combined financial statements, including the notes thereto, included elsewhere in this prospectus. 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 to the consolidated and combined financial statements to ITT or parent refers to ITT Corporation and its consolidated subsidiaries (other than Xylem Inc.).

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PROSPECTUS SUMMARY

This summary highlights selected information in this prospectus and may not contain all of the information that is important to you. You should carefully read this entire prospectus, including the information set forth under the heading Risk Factors and the financial statements included elsewhere in this prospectus, before making an investment decision.

Our Company

Xylem, with revenue of $3.8 billion and $925 million for the year ended December 31, 2011 and three months ended March 31, 2012, respectively, is a world leader in the design, manufacturing, and application of highly engineered technologies for the water industry. We are 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. We have leading market positions among equipment and service providers in the core application areas of the water equipment industry: transport, treatment, test, building services, industrial processing and irrigation. Our Company s brands, such as Bell & Gossett and Flygt, are well known throughout the industry and have served the water market for many years.

We operate 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. Key brands in this segment include Flygt, Wedeco, Godwin Pumps, WTW, Sanitaire, AADI and Leopold. The Applied Water segment encompasses the 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. Key brands in this segment include Goulds Water Technology (Goulds), Bell & Gossett, AC Fire, Standard, Flojet, Lowara, Jabsco and Flowtronex. In both our segments, we benefit from a large and growing installed base of products driving growth in aftermarket revenue for replacement parts and services.

We serve a global customer base across diverse end markets while offering localized expertise. We sell our products in more than 150 countries through a balanced distribution network consisting of our direct sales force and independent channel partners. In 2011, approximately 64% of our revenues were generated outside the United States.

Separation from ITT Corporation

On October 31, 2011, ITT Corporation (ITT) completed the previously announced spin-off (the Spin-off) of Xylem, formerly ITT s water equipment and services businesses. Effective as of 12:01 a.m., Eastern time on October 31, 2011 (the Distribution Date), the common stock of Xylem was distributed, on a pro rata basis, to ITT s shareholders of record as of the close of business on October 17, 2011 (the Record Date). On the Distribution Date, each of the shareholders of ITT received one share of Xylem common stock for every one share of common stock of ITT held on the Record Date. The Spin-off was completed pursuant to the Distribution Agreement, dated as of October 25, 2011, among ITT, Exelis Inc. (Exelis) and Xylem (the Distribution Agreement). After the Distribution Date, ITT did not beneficially own any shares of Xylem common stock and, following such date, financial results of Xylem will not be consolidated in ITT s financial reporting. Xylem s Registration Statement on Form 10 filed with the U.S. Securities and Exchange Commission (SEC) was declared effective on October 6, 2011. Xylem s common stock began regular-way trading on the New York Stock Exchange on November 1, 2011 under the symbol XYL .

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Business Strategy

Our strategy is focused on enhancing shareholder value by providing solutions for our customers and by growing revenues, both organically and through strategic acquisitions. Key elements of our strategy are summarized below:

Grow Our Product Offerings and Solutions through Portfolio Differentiation. We will continue to extend leading market positions where we have a strong competitive position, cost leadership and proven technology. In addition, we will invest in the differentiation of our core product lines to build on our strong product and application expertise. We also plan to expand into adjacent and complementary technologies as demonstrated by the recent acquisitions of analytical instrumentation and dewatering solutions businesses.

Focus on Organic Growth Initiatives. We have launched a global commercial excellence initiative, deploying people, processes and tools to make our sales and marketing teams more effective and efficient. We have trained over 500 front-line sales agents under this initiative and have 30 dedicated commercial excellence leaders to service our most profitable accounts. In addition, we have launched digital selling tools, which improve our value propositions, and have built a strategic accounts program to focus on our most important customers. These efforts have already improved the revenues generated per sales agent across our businesses. We will continue to make investments in customer relationship management, mobile technologies, customer applications and other technologies that improve our knowledge of customers and the critical activities that drive growth.

Investing in New Technology and Innovation. We will continue to make targeted investments in research and development activities to develop breakthrough products and solutions. We will pursue and execute a robust pipeline of opportunities in core and emerging markets. We have established a wastewater Center of Excellence in Stockholm, Sweden, with over 100 research, development and engineering employees. We have also launched engineering Centers of Excellence in India and China, where we are accelerating the customization of our application expertise to local needs. Our engineers will continue to work closely with our customers in an effort to identify new applications for our products and develop new technologies and solutions to expand our current portfolio further.

Build on Our Presence in Fast-Growing Emerging Markets. Urbanization trends and growth in the middle class in developing countries are generating significant demand for water applications. We intend to continue to capture this growth by further expanding into emerging markets, such as China, India and Brazil, increasing our existing presence of over 40 facilities. We plan to leverage our strong global reach, manufacturing footprint and extensive distribution network to capitalize on growth opportunities in these regions. We will continue to establish and reinforce local capabilities by growing our local presence in these markets with investments in sales, marketing and manufacturing capabilities globally.

Growth through Disciplined Acquisitions. Acquisitions are an important part of our growth strategy. Certain segments of the global water industry we serve are highly fragmented, providing numerous acquisition opportunities. We have completed and integrated 20 acquisitions over the past five years, including Godwin Pumps, Nova Analytics, YSI Incorporated and O.I. Corporation, and we will selectively pursue highly targeted acquisitions that will broaden our core product portfolio, expand our geographic footprint and enhance our position in strategic markets.

Corporate Information

Xylem Inc. was incorporated under the laws of the State of Indiana on May 4, 2011. The name of the Company was changed from ITT WCO, Inc. to Xylem Inc. on July 14, 2011. Our principal executive offices are located at 1133 Westchester Avenue, Suite N200, White Plains, NY 10604, and our telephone number is (914) 323-5700. Our website address is www.xyleminc.com. The information on our website is not part of this prospectus and is not being incorporated by reference herein.

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The Exchange Offers

$600 million aggregate principal amount of outstanding 2016 senior notes and $600 million aggregate principal amount of outstanding 2021 senior notes were issued in a private offering on September 20, 2011. The term notes refers collectively to the outstanding notes and the exchange notes.

General	In connection with the private offerings, Xylem entered into a registration rights agreement with the initial purchasers in which it agreed, among other things, to deliver this prospectus to you and to complete the applicable exchange offer within 365 days after the date of original issuance of the applicable outstanding notes. You are entitled to exchange in the applicable exchange offer your outstanding notes for the exchange notes which are identical in all material respects to the outstanding notes except: the exchange notes have been registered under the Securities Act; the exchange notes are not entitled to any registration rights which are applicable to the outstanding notes under the registration rights agreement; and the liquidated damages provisions of the registration rights agreement are no longer applicable.
The Exchange Offers	Xylem is offering to exchange: $600 million aggregate principal amount of its 2016 exchange notes which have been registered under the Securities Act for any and all of the outstanding 2016 notes; and $600 million aggregate principal amount of its 2021 exchange notes which have been registered under the Securities Act for any and all of the outstanding 2021 notes. You may only exchange outstanding notes in denominations of $2,000 and integral multiples of $1,000, in excess thereof.
Resale	Based on an interpretation by the staff of the SEC set forth in no-action letters issued to third parties, we believe that the exchange notes issued pursuant to the exchange offers in exchange for outstanding notes may be offered for resale, resold and otherwise transferred by you (unless you are our affiliate within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act; provided that: you are acquiring the exchange notes in the ordinary course of your business; and

you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes.

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	If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making activities or other trading activities, you must acknowledge that you will deliver this prospectus in connection with any resale of the exchange notes. See Plan of Distribution.
	Any holder of outstanding notes who:
	is our affiliate;
	does not acquire exchange notes in the ordinary course of its business; or
	tenders its outstanding notes in the exchange offers with the intention to participate, or for the purpose of participating, in a distribution of exchange notes cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co. Incorporated* (available June 5, 1991) and *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC s letter to *Shearman & Sterling*, dated available July 2, 1993, or similar no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.
Expiration Date	The exchange offers will expire at 12:00 a.m. midnight, New York City time, on , 2012, unless extended by Xylem. Xylem does not currently intend to extend the expiration date.
Withdrawal	You may withdraw the tender of your outstanding notes at any time prior to the expiration of the applicable exchange offer. Xylem will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the applicable exchange offer.
Conditions to the Exchange Offers	Each exchange offer is subject to customary conditions, which Xylem may waive. See The Exchange Offers Conditions to the Exchange Offers.
Procedures for Tendering Outstanding Notes	If you wish to participate in the exchange offers, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of such letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must then mail or otherwise deliver the letter of transmittal, or a facsimile of such letter of transmittal, together with the outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal.
	If you hold outstanding notes through The Depository Trust Company (DTC) and wish to participate in the exchange offers, you must comply with the Automated Tender Offer Program procedures of

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	DTC by which you will agree to be bound by the letter of transmittal. By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things: you are not our affiliate within the meaning of Rule 405 under the Securities Act; you do not have an arrangement or understanding with any person or entity to participate in the distribution of the exchange notes; you are acquiring the exchange notes in the ordinary course of your business; and if you are a broker-dealer that will receive exchange notes for your own account in exchange for outstanding notes that were acquired as a result of market-making activities, that you will deliver a prospectus, as required by law, in connection with any resale of such exchange notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender those outstanding notes in the applicable exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender those outstanding notes on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal or any other required documents, or you cannot comply with the procedures under DTC s Automated Tender Offer Program for transfer of book-entry interests, prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offers Guaranteed Delivery Procedures.
Effect on Holders of Outstanding Notes	As a result of the making of, and upon acceptance for exchange of, all validly tendered outstanding notes pursuant to the terms of the exchange offers, Xylem will have fulfilled a covenant under the registration rights agreement. Accordingly, there will be no increase in the interest rate on the outstanding notes under the circumstances described in the registration rights agreement. If you do not tender your outstanding notes in the applicable exchange offer, you will continue to be entitled to all the rights and limitations applicable to

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	the outstanding notes as set forth in the indenture; however, as a result of the making of, and upon acceptance for exchange of, all validly tendered outstanding notes pursuant to the terms of the exchange offers, Xylem will not have any further obligation to you to provide for the exchange and registration of the outstanding notes under the registration rights agreement. To the extent that the outstanding notes are tendered and accepted in the exchange offers, the trading market for the outstanding notes that are not so tendered and accepted could be adversely affected.
Consequences of Failure to Exchange	All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offers, Xylem does not currently anticipate that it will register the outstanding notes under the Securities Act.
United States Federal Income Tax Consequences	The exchange of outstanding notes for exchange notes in the exchange offers will not be a taxable event to holders for United States federal income tax purposes. See United States Federal Income Tax Consequences of the Exchange Offers.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offers. See Use of Proceeds.
Exchange Agent	Union Bank, N.A. is the exchange agent for the exchange offers. The addresses and telephone numbers of the exchange agent are set forth under The Exchange Offers Exchange Agent.

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The Exchange Notes

The following summary contains basic information about the exchange notes and is not intended to be complete. It does not contain all the information that is important to you. For a more detailed description of the exchange notes, please refer to the section entitled Description of Exchange Notes in this prospectus.

Issuer	Xylem Inc.
Securities Offered	$600 million aggregate principal amount of 2016 exchange notes and $600 million aggregate principal amount of 2021 exchange notes.
Maturity Date	The 2016 exchange notes will mature on September 20, 2016, unless earlier redeemed or repurchased, and the 2021 exchange notes will mature on October 1, 2021, unless earlier redeemed or repurchased.
Interest Payment Dates	Interest on the 2016 notes are payable semi-annually on March 20 and September 20 of each year, commencing March 20, 2012. Interest on the 2021 notes are payable semi-annually on April 1 and October 1 of each year, commencing April 1, 2012.
Ranking	The exchange notes will be our senior unsecured obligations. Accordingly, they will:
	be effectively subordinated in right of payment to all of our existing and future secured debt, to the extent of the value of the assets securing such debt;
	rank equally with all of our unsecured senior indebtedness (including our credit facility); and
	rank senior in right of payment to all of our subordinated indebtedness.
	As of March 31, 2012, we had no outstanding indebtedness under our credit facility.
Interest	The 2016 exchange notes will bear interest at a rate of 3.550% per annum and the 2021 exchange notes will bear interest at a rate of 4.875% per annum.
	Interest began to accrue from the applicable issue date of the exchange notes.
Covenants	The indenture governing the exchange notes contain covenants limiting our ability to:

incur debt secured by liens; and

engage in sale and lease-back transactions.

These covenants are subject to a number of important limitations and exceptions. See Description of Exchange Notes.

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Optional Redemption	We may redeem the exchange notes of any series in whole or in part at any time or from time to time at 100% of their principal amount plus a make-whole premium. See Description of Exchange Notes Optional Redemption.
Repurchase upon a Change of Control Offer	Upon the occurrence of a Change of Control Triggering Event, we will be required to make an offer to purchase the exchange notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase. See Description of Exchange Notes Repurchase Upon Change of Control Triggering Event.
Public Market	The exchange notes will be freely transferrable. Although the initial purchasers in the private offering of the outstanding unregistered notes have informed us that they intend to make a market in the exchange notes, they are not obligated to do so and they may discontinue market-making activities at any time without notice. Accordingly, we cannot assure you that a liquid market for the exchange notes will be maintained. See Risk Factors Risks Related to Our Indebtedness and the Exchange Notes An active trading market for the exchange notes may not develop.

You should carefully consider all the information in the prospectus prior to exchanging your outstanding notes. In particular, we urge you to carefully consider the factors set forth under the Risk Factors section.

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RISK FACTORS

Any investment in the exchange notes involves a high degree of risk. You should carefully consider the risks described below and all of the information contained in this prospectus before deciding whether to tender the outstanding notes in the exchange offers. We believe the risks and uncertainties described below to be the principal ones we face and of which we are currently aware. If any of those risks actually occurs, our business, financial condition and results of operations would suffer. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. See Forward-looking Statements in this prospectus.

Risks Related to the Exchange Offers

There may be adverse consequences if you do not exchange your outstanding notes.

If you do not exchange your outstanding notes for exchange notes in the exchange offers, you will continue to be subject to restrictions on transfer of your outstanding notes as set forth in the applicable offering memorandum distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to Prospectus Summary The Exchange Offers and The Exchange Offers for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offers will reduce the outstanding amount of the outstanding notes, which may have an adverse effect upon, and increase the volatility of, the market price of the outstanding notes not exchanged in the exchange offers due to a reduction in liquidity.

Certain persons who participate in the exchange offers must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the staff of the SEC contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (April 13, 1988), *Morgan Stanley & Co. Inc.*, SEC no-action letter (June 5, 1991) and *Shearman & Sterling*, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, certain holders of exchange notes will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer the exchange notes. If such a holder transfers any exchange notes without delivering a prospectus meeting the requirements of the Securities Act or without an applicable exemption from registration under the Securities Act, such a holder may incur liability under the Securities Act. We do not and will not assume, or indemnify such a holder against, this liability.

Risks Related to Our Indebtedness and the Exchange Notes

Our indebtedness may affect our business and may restrict our operational flexibility.

As of March 31, 2012, our total outstanding indebtedness was $1,206 million including the 2016 notes and the 2021 notes. We have an existing Four Year Competitive Advance and Revolving Credit Facility (the Credit Facility), which provides for an aggregate principal amount of up to $600 million.

Our indebtedness could:

- limit our ability to obtain additional financing or borrow additional funds;
- limit our ability to pay future dividends;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- require that a substantial portion of our cash flow from operations be used for the payment of interest on our indebtedness instead of funding working capital, capital expenditures, acquisitions or other general corporate purposes; and

- increase the amount of interest expense that we must pay because some of our borrowings are at variable interest rates, which, as interest rates increase, would result in a higher interest expense.

In addition, there can be no assurance that future borrowings or equity financing will be available to us on favorable terms or at all for the payment or refinancing of our indebtedness. If we incur additional debt or raise equity through the issuance of our preferred stock, the terms of the debt or our preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on our operations than we currently have. Also, regardless of the terms of our debt or equity financing, the amount of our stock that we can issue may be limited because the issuance of our stock may cause the distribution to be a taxable event for ITT under Section 355(e) of the Internal Revenue Code of 1986, as amended (the Code), and under the Tax Matters Agreement entered into by ITT in connection with the Spin-off (the Tax Matters Agreement), we could be required to indemnify ITT for that tax.

Our ability to make scheduled principal payments of, to pay interest on, or to refinance our indebtedness and to satisfy our other debt obligations will depend on our future operating performance, which may be affected by factors beyond our control. If we are unable to service our indebtedness, our business, financial condition and results of operations would be materially adversely affected.

The exchange notes are subject to prior claims of any secured creditors and the creditors of our subsidiaries, and if a default occurs we may not have sufficient funds to fulfill our obligations under the exchange notes.

The exchange notes are our unsecured general obligations, ranking equally with our other senior unsecured indebtedness but below any secured indebtedness and effectively below the debt and other liabilities of our subsidiaries. The indenture governing the exchange notes permits us and our subsidiaries to incur secured debt under specified circumstances. If we incur any secured debt, our assets and the assets of our subsidiaries will be subject to prior claims by our secured creditors. In the event of our bankruptcy, liquidation, reorganization or other winding up, assets that secure debt will be available to pay obligations on the exchange notes only after all debt secured by those assets has been repaid in full. Holders of the exchange notes will participate in our remaining assets ratably with all of our unsecured and unsubordinated creditors, including our trade creditors.

If we incur any additional obligations that rank equally with the exchange notes, including trade payables, the holders of those obligations will be entitled to share ratably with the holders of the notes in any proceeds distributed upon our insolvency, liquidation, reorganization, dissolution or other winding up. This may have the effect of reducing the amount of proceeds paid to you. If there are not sufficient assets remaining to pay all these creditors, all or a portion of the exchange notes then outstanding would remain unpaid.

An active trading market for the exchange notes may not develop.

There is no existing market for the exchange notes and we do not intend to apply for listing of the exchange notes on any securities exchange or any automated quotation system. Accordingly, there can be no assurance that a trading market for the exchange notes will ever develop or will be maintained. Further, there can be no assurance as to the liquidity of any market that may develop for the exchange notes, your ability to sell your exchange notes or the price at which you will be able to sell your exchange notes. Future trading prices of the exchange notes will depend on many factors, including prevailing interest rates, our financial condition and results of operations, the then-current ratings assigned to the exchange notes and the market for similar securities. Any trading market that develops would be affected by many factors independent of and in addition to the foregoing, including:

- time remaining to the maturity of the exchange notes;

- outstanding amount of the exchange notes;

- the terms related to optional redemption of the exchange notes; and

- level, direction and volatility of market interest rates generally.

We may not be able to repurchase the exchange notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, each holder of the exchange notes will have the right to require us to repurchase all or any part of such holder s exchange notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. If we experience a change of control triggering event, there can be no assurance that we would have sufficient financial resources available to satisfy our obligations to repurchase the exchange notes. Our failure to repurchase the exchange notes as required under the terms of the exchange notes could result in a default under the exchange notes, which could have material adverse consequences for us and the holders of the exchange notes. See Description of Exchange Notes.

Risks Related to Our Operations

Failure to compete successfully in our markets could adversely affect our business.

We provide products and services into competitive markets. We believe the principal points of competition in our markets are product performance, reliability and innovation, application expertise, brand reputation, energy efficiency, product life cycle cost, timeliness of delivery, proximity of service centers, effectiveness of our distribution channels and price. Maintaining and improving our competitive position will require continued investment by us in manufacturing, research and development, engineering, marketing, customer service and support, and our distribution networks. We may not be successful in maintaining our competitive position. Our competitors may develop products that are superior to our products, or may develop more efficient or effective methods of providing products and services or may adapt more quickly than we do to new technologies or evolving customer requirements. Pricing pressures also could cause us to adjust the prices of certain products to stay competitive. We may not be able to compete successfully with our existing or new competitors. Failure to continue competing successfully could adversely affect our business, financial condition, results of operations and cash flow.

Our business could be adversely affected by the inability of suppliers to meet delivery requirements.

Our business relies on third-party suppliers, contract manufacturing and commodity markets to secure raw materials, parts and components used in our products. Parts and raw materials commonly used in our products include motors, fabricated parts, castings, bearings, seals, nickel, copper, aluminum, and plastics. We are exposed to the availability of these materials, which may be subject to curtailment or change due to, among other things, interruptions in production by suppliers, labor disputes, the impaired financial condition of a particular supplier, suppliers allocations to other purchasers, changes in exchange rates and prevailing price levels, ability to meet regulatory requirements, weather emergencies or acts of war or terrorism. Any delay in our suppliers abilities to provide us with necessary materials could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Our strategy includes acquisitions, and we may not be able to make acquisitions of suitable candidates or integrate acquisitions successfully.

Our historical growth has included acquisitions. As part of our growth strategy, we plan to pursue the acquisition of other companies, assets and product lines that either complement or expand our existing business. We cannot assure you, however, that we will be able to identify suitable candidates successfully, negotiate appropriate acquisition terms, obtain financing that may be needed to consummate those acquisitions, complete proposed acquisitions, successfully integrate acquired businesses into our existing operations or expand into new markets. In addition, we cannot assure you that any acquisition, once successfully integrated, will perform as planned, be accretive to earnings, or prove to be beneficial to our operations or cash flow.

Acquisitions involve a number of risks and present financial, managerial and operational challenges, including: diversion of management attention from existing businesses and operations; integration of technology, operations personnel, and financial and other systems; potentially insufficient internal controls over financial activities or financial reporting at an acquired entity that could impact us on a combined basis; the failure to realize expected synergies; the possibility that we have acquired substantial undisclosed liabilities; and the loss of key employees of the acquired businesses.

Our business could be adversely affected by inflation and other manufacturing and operating cost increases.

Our operating costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, energy and related utilities, freight, and cost of labor. In order to remain competitive, we may not be able to recuperate all or a portion of these higher costs from our customers through product price increases. Further, our ability to realize financial benefits from Six Sigma and Lean projects may not be able to mitigate fully or in part these manufacturing and operating cost increases and, as a result, could negatively impact our profitability.

Changes in our effective tax rates may adversely affect our financial results.

We sell our products in more than 150 countries and approximately 64% of our revenue was generated outside the United States in 2011. Given the global nature of our business, a number of factors may increase our future effective tax rates, including:

- our decision to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes;
- the jurisdictions in which profits are determined to be earned and taxed;
- sustainability of historical income tax rates in the jurisdictions in which we conduct business;
- the resolution of issues arising from tax audits with various tax authorities; and
- changes in the valuation of our deferred tax assets and liabilities, and changes in deferred tax valuation allowances.

Any significant increase in our future effective tax rates could reduce net income for future periods.

Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation could result in fines, criminal penalties and an adverse effect on our business.

We operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take action determined to be in violation of such anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act of 2010 and others. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, and curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

We may be negatively impacted by litigation and regulatory proceedings.

We are subject to laws, regulations and potential liability relating to claims, complaints and proceedings, including those related to antitrust, environmental, product, and other matters.

We are subject to various laws, ordinances, regulations and other requirements of government authorities in foreign countries and in the United States, any violations of which could potentially create a substantial liability

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for us, and also could cause harm to our reputation. Changes in laws, ordinances, regulations or other government policies, the nature, timing, and effect of which are uncertain, may significantly increase our expenses and liabilities.

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, product liability and personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. We may become subject to significant claims of which we are currently unaware, or the claims of which we are aware may result in our incurring a significantly greater liability than we anticipate or can estimate. Additionally, we may receive fines or penalties or be required to change or cease operations at one or more facilities if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our business.

Our business could be adversely affected by interruptions in information technology, communications networks and operations.

Our business operations rely on information technology and communications networks, and operations that are vulnerable to damage or disturbance from a variety of sources. Regardless of protection measures, essentially all systems are susceptible to disruption due to failure, vandalism, computer viruses, security breaches, natural disasters, power outages and other events. In addition, cybersecurity threats are evolving and include, among others, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in our systems, unauthorized release of confidential or otherwise protected information and corruption of data. We also have a concentration of operations in certain sites, e.g. production, and shared services centers, where business interruptions could cause material damage and costs. Transport of goods from suppliers, and to customers, could also be hampered for the reasons stated above. Although we have assessed these risks, implemented controls, and performed business continuity planning, we cannot be sure that interruptions with material adverse effects will not occur.

Risks Related to External Factors

Our results of operations and financial condition may be adversely affected by global economic and financial market conditions.

We compete around the world in various geographic and product markets. In 2011, 37% and 36% of our total revenue was from customers located in Europe and the United States, respectively. We expect revenue from these markets to be significant for the foreseeable future. Important factors impacting our businesses include the overall strength of these economies and our customers confidence in both local and global macro-economic conditions; industrial and federal, state, local and municipal governmental spending; the strength of the residential and commercial real estate markets; interest rates; availability of commercial financing for our customers and end-users; and unemployment rates. A slowdown or downturn in these financial or macro-economic conditions could have a significant adverse effect on our business, financial condition, results of operations and cash flow.

We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles, particularly within the portion of our business that provides products and services used in residential and commercial buildings. We believe our level of business activity is influenced by residential and commercial building starts and renovations, which are heavily influenced by interest rates, consumer debt levels, changes in disposable income, employment growth and consumer confidence. Credit market conditions greatly affect the ability of residential and commercial builders to obtain the necessary capital to complete and begin new projects. We closely monitor the credit worthiness of our customers, and evaluate their financial ability to pay for those products and services we provide to them. As it relates to our customers ability to pay for products and services, we have not experienced any significant negative impact as a result of

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the recent economic downturn. If market conditions worsen, it may result in the delay or cancellation of orders from our customers or potential customers and adversely affect our revenues and our ability to manage inventory levels, collect customer receivables and maintain current levels of profitability.

Economic and other risks associated with international sales and operations could adversely affect our business.

In 2011, 64% of our total revenue was from customers outside the United States. We expect our international operations and export sales to continue to be a significant portion of our revenue. Both our sales from international operations and export sales are subject in varying degrees to risks inherent to doing business outside the United States. These risks include the following:

- possibility of unfavorable circumstances arising from host country laws or regulations;
- currency exchange rate fluctuations and restrictions on currency repatriation;
- potential negative consequences from changes to taxation policies;
- disruption of operations from labor and political disturbances;
- changes in tariff and trade barriers and import and export licensing requirements; and
- insurrection or war.

Any payment of distributions, loans or advances to us by our foreign subsidiaries could be subject to restrictions on, or taxation of, dividends on repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate. In addition to the general risks that we face outside the United States, we now conduct more of our operations in emerging markets than we have in the past, which could involve additional uncertainties for us, including risks that governments may impose limitations on our ability to repatriate funds; governments may impose withholding or other taxes on remittances and other payments to us, or the amount of any such taxes may increase; an outbreak or escalation of any insurrection or armed conflict may occur; governments may seek to nationalize our assets; or governments may impose or increase investment barriers or other restrictions affecting our business. In addition, emerging markets pose other uncertainties, including the protection of our intellectual property, pressure on the pricing of our products, and risks of political instability. We cannot predict the impact such future, largely unforeseeable events might have on our business, financial condition, results of operations and cash flow.

Our business could be adversely affected by significant movements in foreign currency exchange rates.

We are exposed to fluctuations in foreign currency exchange rates, particularly with respect to the Euro, Swedish Krona, British Pound, Australian Dollar, Canadian Dollar, Polish Zloty, and Hungarian Forint. Any significant change in the value of currencies of the countries in which we do business relative to the value of the U.S. Dollar could affect our ability to sell products competitively and control our cost structure, which could have a material adverse effect on our business, financial condition, results of operations and cash flow.

The level of returns on postretirement benefit plan assets, changes in interest rates and other factors could affect our earnings and cash flows in future periods.

Certain members of our current and retired employee population are covered by pension and other employee-related defined benefit plans (collectively, postretirement benefit plans). We may experience significant fluctuations in costs related to our postretirement benefit plans as a result of macro-economic factors, such as interest rates, that are beyond our control. The cost of our postretirement plans is incurred over long periods of time and involves factors and uncertainties during those periods which can be volatile and unpredictable, including rates of return on postretirement benefit plan assets, discount rates used to calculate liabilities and expenses and rates of future compensation increases.

Management develops each assumption using relevant plan and Company experience and expectations in conjunction with market-related data. Our liquidity, financial position (including shareholders equity) and results of operations could be materially affected by significant changes in key economic indicators, actuarial experience, financial market volatility, future legislation and other governmental regulatory actions.

We make contributions to fund our postretirement benefit plans when considered necessary or advantageous to do so. The macro-economic factors discussed above, including the return on postretirement benefit plan assets and the minimum funding requirements established by local government funding or taxing authorities, or established by other agreement, may influence future funding requirements. A significant decline in the fair value of our plan assets, or other adverse changes to our overall pension and other employee-related benefit plans, could require us to make significant funding contributions and affect cash flows in future periods.

Weather conditions may adversely affect our financial results.

Weather conditions, particularly heavy flooding and droughts, can benefit portions of our business which provide equipment with dewatering and irrigation applications. Pumps provided through our Godwin brand are used to remove excess or unwanted water. Heavy flooding due to weather conditions drives increased demand for these applications. Drought conditions drive higher demand for pumps used in agricultural and turf irrigation applications, such as those provided by our Goulds, Flowtronex and Lowara brands. We cannot assure you that weather conditions will not have a material adverse effect on our results of operations.

Unforeseen environmental issues could impact our financial position, results of operations, or cash flows.

Our operations are subject to and affected by many federal, state, local and foreign environmental laws and regulations. In addition, we could be affected by future environmental laws or regulations, including, for example, those imposed in response to climate change concerns. Compliance with current and future environmental laws and regulations currently requires and is expected to continue to require operating and capital expenditures.

Environmental laws and regulations may authorize substantial fines and criminal sanctions as well as facility shutdowns to address violations, and may require the installation of costly pollution control equipment or operational changes to limit emissions or discharges. We also incur, and expect to continue to incur, costs to comply with current environmental laws and regulations related to remediation of conditions in the environment.

Developments such as the adoption of new environmental laws and regulations, stricter enforcement of existing laws and regulations, violations by us of such laws and regulations, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our inability to recover costs associated with any such developments, or financial insolvency of other responsible parties could in the future have a material adverse effect on our financial position, results of operations, or cash flows.

Risks Related to our Recent Separation

If the Spin-off were to fail to qualify as a tax-free transaction under the Internal Revenue Code, then we and/or our former parent and our stockholders could be subject to significant tax liability.

In connection with the Spin-off, our former parent, ITT Corporation, received an IRS ruling (the IRS Ruling) stating that ITT and its shareholders will not recognize any taxable income, gain or loss for U.S. Federal income tax purposes as a result of the Spin-off. In addition, ITT received an opinion of tax counsel as to the satisfaction of certain requirements necessary for the Spin-off to receive tax-free treatment upon which the IRS did not rule. The IRS Ruling, while generally binding upon the IRS, was based on certain factual statements and representations. If any such factual statements or representations were incomplete or untrue in any material

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respect, or if the facts on which the IRS Ruling was based were materially different from the facts at the time of the Spin-off, the IRS could modify or revoke the IRS Ruling retroactively.

As discussed above, certain requirements for tax-free treatment that are not covered in the IRS Ruling were addressed in the opinion of counsel. The opinion of counsel is not binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the Spin-off that are different from the conclusions reached in the opinion. Like the IRS Ruling, the opinion was based on certain factual statements and representations, which, if incomplete or untrue in any material respect, could alter counsel s conclusions.

If all or a portion of the Spin-off does not qualify as a tax-free transaction because any of the factual statements or representations in the IRS Ruling or the legal opinion are incomplete or untrue, or because the facts upon which the IRS Ruling is based are materially different from the facts at the time of the Spin-off, ITT would recognize a substantial gain for U.S. Federal income tax purposes. In such case, under U.S. Treasury regulations each member of the ITT consolidated group at the time of the Spin-off (including us and our subsidiaries), would be jointly and severally liable for the entire amount of any resulting U.S. Federal income tax liability.

Notwithstanding the foregoing, the Spin-off will be taxable to ITT (but not to ITT shareholders) pursuant to Section 355(e) of the Internal Revenue Code if there are one or more acquisitions (including issuances) of the stock of either us or ITT, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the Spin-off. Any acquisition of our common stock within two years before or after the Spin-off (with exceptions, including public trading by less-than-5% shareholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless that presumption is rebutted. The tax liability resulting from the application of Section 355(e) would be substantial. In addition, under U.S. Treasury regulations, each member of the ITT consolidated group at the time of the Spin-off (including us and our subsidiaries) would be severally liable for the resulting U.S. Federal income tax liability.

We have agreed not to enter into any transaction that could cause any portion of the Spin-off to be taxable to ITT, including under Section 355(e). Pursuant to the Tax Matters Agreement, dated as of October 25, 2011 among ITT, Exelis and Xylem, we have also agreed to indemnify ITT and Exelis for any tax liabilities resulting from such transactions, and ITT and Exelis have agreed to indemnify us for any tax liabilities resulting from such transactions entered into by ITT or Exelis. These obligations may discourage, delay or prevent a change of control of our Company.

We may be unable to achieve some or all of the benefits that we expect to achieve from the Spin-off.

As an independent, publicly traded company, we believe that our business will benefit from, among other things, (i) greater strategic focus of financial resources and management s efforts, (ii) enhanced customer focus, (iii) direct and differentiated access to capital resources, (iv) enhanced investor choices by offering investment opportunities in a separate entity from ITT, (v) improved management incentive tools, and (vi) utilization of stock as an acquisition currency. However, as a result of separating from ITT, we may be more susceptible to market fluctuations and other adverse events than we would have been as a part of ITT. In addition, we may not be able to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all.

We may incur greater costs as an independent company than we did when we were part of ITT.

As a part of ITT, we had the advantage of ITT s size and purchasing power in procuring certain goods and services such as insurance and health care benefits, and technology such as computer software licenses. We also relied on ITT to provide various corporate functions. As a separate, independent entity, we may be unable to obtain these goods, services and technologies at prices or on terms as favorable to us as those we obtained prior

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to the Spin-off. We may also incur costs for functions previously performed by ITT that are higher than the amounts reflected in our historical financial statements, which may cause our profitability to decrease.

We do not have a recent operating history as an independent company and our historical financial information may not be a reliable indicator of our future results.

The historical financial information we have included in this prospectus has been prepared on a carve-out basis from ITT s consolidated financial statements and does not necessarily reflect what our financial position, results of operations and cash flows would have been as a separate, stand-alone entity during the periods presented. ITT did not account for us, and we were not operated, as a single stand-alone entity or segment for all the periods presented. In addition, the historical information is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future. While we were profitable as part of ITT, we cannot assume that as a stand-alone company our profits will continue at a similar level.

Our customers, prospective customers and suppliers will need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them.

Some of our customers, prospective customers, and suppliers will need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them. If our customers, prospective customers or suppliers are not satisfied with our financial stability, it could have a material adverse effect on our ability to bid for and obtain or retain projects, our business, financial condition or results of operations.

Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we are subject as a new independent, publicly traded company.

Our financial results previously were included within the consolidated results of ITT, and we believe that our financial reporting and internal controls were appropriate for those of subsidiaries of a public company. However, we were not directly subject to the reporting and other requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). As an independent, publicly traded company, we are subject to reporting and other obligations under the Exchange Act. Beginning with our Annual Report on Form 10-K for the year ending December 31, 2012, we will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), which will require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These reporting and other obligations may place significant demands on our management, administrative and operational resources, including accounting systems and resources.

The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. Under the Sarbanes-Oxley Act, we are required to maintain effective disclosure controls and procedures and internal controls over financial reporting. We expect to incur additional annual expenses for the purpose of addressing these requirements, and those expenses may be significant. If we are unable to upgrade our financial and management controls, reporting systems, information technology systems and procedures in a timely and effective fashion, our ability to comply with our financial reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our financial condition, results of operations or cash flows.

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The Spin-off may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal distribution requirements.

The Spin-off could be challenged under various state and federal fraudulent conveyance laws. An unpaid creditor or an entity vested with the power of such creditor (such as a trustee or debtor-in-possession in a bankruptcy) could claim that the Spin-off left us, ITT and/or Exelis insolvent or with unreasonably small capital or that we, ITT and/or Exelis intended or believed it would incur debts beyond its ability to pay such debts as they mature and that ITT did not receive fair consideration or reasonably equivalent value in the Spin-off. If a court were to agree with such a plaintiff, then such court could void the Spin-off as a fraudulent transfer and could impose a number of different remedies, which could adversely affect our financial condition and our results of operations. Among other things, the court could require the return of assets or our shares to ITT, voiding the liens of Xylem and claims against ITT, or providing ITT with a claim for money damages against us.

The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction s law is applied. Generally, however, an entity would be considered insolvent if either the fair saleable value of its assets is less than the amount of its liabilities (including the probable amount of contingent liabilities), or it is unlikely to be able to pay its liabilities as they become due. No assurance can be given as to what standard a court would apply to determine insolvency or that a court would determine that we, ITT or Exelis were solvent at the time of or after giving effect to the Spin-off.

The Spin-off could also be challenged under state corporate distribution statutes. Under the Indiana Business Corporation Law, a corporation may not make distributions to its shareholders if, after giving effect to the distribution, (i) the corporation would not be able to pay its debts as they become due in the usual course of business; or (ii) the corporation s total assets would be less than the sum of its total liabilities. No assurance can be given that a court will not later determine that the distribution of our shares in connection with the Spin-off was unlawful.

Under the Distribution Agreement, from and after the Spin-off, we will be responsible for the debts, liabilities and other obligations related to the business or businesses which we own and operate following the consummation of the Spin-off. Although we do not expect to be liable for any of these or other obligations not expressly assumed by us pursuant to the Distribution Agreement, it is possible that we could be required to assume responsibility for certain obligations retained by ITT or Exelis should ITT or Exelis fail to pay or perform its retained obligations (for example, tax, asbestos and/or environmental liabilities).

In connection with our separation, ITT and Exelis will indemnify us for certain liabilities and we will indemnify ITT or Exelis for certain liabilities. If we are required to indemnify ITT or Exelis, we may need to divert cash to meet those obligations and our financial results could be negatively impacted. In the case of ITT s or Exelis s indemnity, there can be no assurance that those indemnities will be sufficient to insure us against the full amount of such liabilities, or as to ITT s or Exelis s ability to satisfy its indemnification obligations in the future.

Pursuant to the Distribution Agreement and certain other agreements with ITT and Exelis, ITT and Exelis agreed to indemnify us from certain liabilities, and we agreed to indemnify ITT and Exelis for certain liabilities. Indemnities that we may be required to provide ITT and Exelis may be significant and could negatively impact our business, particularly indemnities relating to our actions that could impact the tax-free nature of the Spin-off. Third parties could also seek to hold us responsible for any of the liabilities that ITT or Exelis has agreed to retain. Further, there can be no assurance that the indemnities from ITT and Exelis will be sufficient to protect us against the full amount of such liabilities, or that ITT and Exelis will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from ITT and Exelis any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Each of these risks could negatively affect our business, results of operations and financial condition.

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USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes pursuant to the exchange offers. In consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of outstanding notes, the terms of which are identical in all material respects to the exchange notes. The outstanding notes surrendered in exchange for the exchange notes will be retired and cancelled and cannot be reissued. Accordingly, the issuance of the exchange notes will not result in any change in our capitalization. The Company used the net proceeds from the issuance of the outstanding notes to pay a portion of a special cash distribution to ITT in connection with the Spin-off and for general corporate purposes.

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CAPITALIZATION

The following table sets forth Xylem s capitalization as of March 31, 2012 on a historical basis and has been derived from the unaudited condensed consolidated balance sheet as of March 31, 2012. The information in the following table should be read in conjunction with Selected Historical Consolidated and Combined Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and related notes included elsewhere in this prospectus.

	As of March 31, 2012 Historical (In millions)
Capitalization:	
Liabilities	
Long-term debt (including capital lease obligations)	$ 1,202
Equity	
Common stock ($0.01 par value)	2
Additional paid in capital	1,687
Retained earnings	84
Treasury stock at cost	(1)
Accumulated other comprehensive income	177
Total capitalization	$ 3,151

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SELECTED HISTORICAL CONSOLIDATED AND COMBINED FINANCIAL DATA

The financial information below (i) as of and for the three months ended March 31, 2012 and 2011 and as of December 31, 2008 and 2007 and for the year ended December 31, 2007, has been derived from Xylem s unaudited consolidated and combined financial statements as of and for such periods, and (ii) as of and for the years ended December 31, 2011, 2010 and 2009 and for the year ended December 31, 2008, has been derived from Xylem s audited consolidated financial statements for such periods and as of such dates. The unaudited combined financial statements have been prepared on the same basis as the audited combined financial statements and, in the opinion of our management, include all adjustments necessary for a fair presentation of the information set forth herein. This selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto.

	Three Months Ended March 31,		Year Ended December 31,				
	2012	2011	2011 (3)	2010 (2)	2009	2008	2007
			(Dollars in millions, except per share data)				
Results of Operations Data:							
Revenue	$ 925	$ 890	$ 3,803	$ 3,202	$ 2,849	$ 3,291	$ 3,068
Gross profit	363	337	1,461	1,214	1,037	1,141	1,057
Gross margin	*39.2%*	*37.9%*	*38.4%*	*37.9%*	*36.4%*	*34.7%*	*34.5%*
Operating income	99	100	395	388	276	315	288
Operating margin	*10.7%*	*11.2%*	*10.4%*	*12.1%*	*9.7%*	*9.6%*	*9.4%*
Net income	63	78	279	329	263	224	219
Per Share Data:							
Earnings per share:							
Basic	$ 0.34	$ 0.42	$ 1.51	$ 1.78	$ 1.42	$ 1.22	$ 1.19
Diluted	0.34	0.42	1.50	1.78	1.42	1.22	1.19
Basic shares outstanding (1)	185.4	184.6	185.1	184.6	184.6	184.6	184.6
Diluted shares outstanding (1)	185.9	184.6	185.3	184.6	184.6	184.6	184.6
Cash dividends per share	$ 0.1012		$ 0.1012				
Balance Sheet Data (at period end):							
Cash and cash equivalents	$ 347	$ 154	$ 318	$ 131	$ 81	$ 81	$ 104
Working capital	897	843	860	770	622	652	767
Total assets	4,513	3,849	4,393	3,735	2,535	2,530	2,832
Total debt	1,206		1,206	4	4	5	6

(1) On October 31, 2011, the Spin-off was completed through a tax-free stock dividend to ITT s shareholders. ITT shareholders received one share of Xylem common stock for each share of ITT common stock. As a result on October 31, 2011, we had 184.6 million shares of common stock outstanding and this share amount is being utilized to calculate earnings per share and diluted earnings per share for all prior periods presented.

(2) In 2010, we acquired Godwin Pumps of America, Inc. and Nova Analytics Corporation. These businesses in the aggregate contributed 2010 revenue of $247 million and $1,070 million of total assets, respectively, on date of acquisition.

(3) In 2011, we acquired YSI Incorporated, which contributed $371 million of total assets.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges for the periods presented:

	Three Months Ended March 31,		Year Ended December 31,				
	2012	2011 (a)	2011	2010 (a)	2009 (a)	2008 (a)	2007 (a)
Ratio of earnings to fixed charges	**5.6x**	21.0x	10.9x	22.7x	18.9x	18.9x	20.9x

(a) Represents periods prior to Spin-off from ITT and issuance of $1.2 billion aggregate principal amount of senior notes issued in September 2011. Interest on the Senior Notes accrues from September 20, 2011.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements, including the notes thereto. 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 financial statements to ITT or parent refer to ITT Corporation and its consolidated subsidiaries (other than Xylem Inc.).

On October 31, 2011, ITT Corporation (ITT) completed the Spin-off of Xylem, formerly ITT s water equipment and services businesses (the Spin-off). Effective as of 12:01 a.m., Eastern time on October 31, 2011 (the Distribution Date), the common stock of Xylem was distributed, on a pro rata basis, to ITT s shareholders of record as of the close of business on October 17, 2011 (the Record Date). On and prior to October 31, 2011, our financial position, results of operations and cash flows consisted of the water equipment and services businesses of ITT Corporation (WaterCo) and have been derived from ITT s historical accounting records and are presented on a carve-out basis through the Distribution Date, while the financial results for Xylem following the Spin-off are prepared on a stand-alone basis. As such, our Condensed Consolidated and Combined Statements of Income and Cash Flows for the three months ended March 31, 2012 consist of the consolidated results of Xylem on a stand-alone basis and for the three months ended March 31, 2011 consist entirely of the combined results of WaterCo on a carve-out basis. In addition, financial information for the twelve months ended December 31, 2011 consists of the consolidated results of Xylem on a stand-alone basis for the two months of November and December and the combined results of operations of WaterCo for ten months on a carve-out basis. The twelve months ended December 31, 2010 and 2009 consist entirely of the combined results of WaterCo on a carve-out basis.

Overview

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 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 encompasses all the 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. Xylem Inc. (f/k/a ITT WCO, Inc.) was incorporated in Indiana on May 4, 2011. The name of the Company was changed from ITT WCO, Inc. to Xylem Inc. on July 14, 2011.

Our business focuses on providing technology-intensive equipment and services. We sell our equipment and services via direct and indirect channels that serve the needs of each customer type. On the utility side, we provide over 70% direct sales with strong application expertise, with the remaining amount going through distribution partners. To end users of water, we provide over 85% of our sales through long-standing relationships with the world s leading distributors, with the remainder going direct to customers. The total market opportunity for this Equipment and Services portion of the water industry supply chain is estimated at $280 billion.

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.

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 providing pump lift stations that move the wastewater to treatment facilities where our mixers, biological treatment, monitoring, and control systems provide the primary functions in the treatment process.

Applied Water serves the usage applications sector with boosting systems for farming irrigation, pumps for dairy operations, and rainwater reuse systems for small scale crop and turf irrigation. We also provide water boosting systems for drinking, 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.

Separation from ITT Corporation

On October 31, 2011, ITT Corporation (ITT) completed the previously announced spin-off (the Spin-off) of Xylem, formerly ITT s water equipment and services businesses. Effective as of 12:01 a.m., Eastern time on October 31, 2011 (the Distribution Date), the common stock of Xylem was distributed, on a pro rata basis, to ITT s shareholders of record as of the close of business on October 17, 2011 (the Record Date). On the Distribution Date, each of the shareholders of ITT received one share of Xylem common stock for every one share of common stock of ITT held on the Record Date. The Spin-off was completed pursuant to the Distribution Agreement, dated as of October 25, 2011, among ITT, Exelis Inc. and Xylem. After the Distribution Date, ITT does not beneficially own any shares of Xylem common stock and, following such date, financial results of Xylem will not be consolidated in ITT s financial reporting. Xylem s Registration Statement on Form 10 filed with the U.S. Securities and Exchange Commission was declared effective on October 6, 2011. Xylem s common stock began regular-way trading on the New York Stock Exchange on November 1, 2011 under the symbol XYL .

Executive Summary

Xylem reported revenue for the first quarter of 2012 of $925 million, an increase of 3.9% compared to $890 million during the comparable quarter in 2011, primarily due to the recently acquired YSI business combined with strong industrial and commercial performance partially offset by residential market weakness. Operating income for the first quarter of 2012, excluding separation costs of $5 million incurred, was $104 million reflecting an increase of $1 million or 1.0% compared to $103 million, excluding separation costs of $3 million, incurred in the first quarter of 2011.

Xylem reported revenue for 2011 of $3,803 million, an increase of 18.8% from $3,202 million reported in 2010, due to broad-based growth across both segments. Operating income for the year ended 2011, excluding costs of $87 million incurred to execute the separation from ITT, was $482 million, reflecting an increase of $94 million or 24.2% compared to $388 million in 2010.

Financial highlights for the three months ended March 31, 2012 include the following:

- Revenue growth of 3.9%, or 5.5% excluding negative currency translation impact
- Order growth of 2.7% over the prior year period; organic orders were up 0.7%
- Net income of $63 million, or $0.34 per diluted share
- Free cash flow generation of $41 million, down $13 million from 2011

Financial highlights for 2011 include the following:

- Net income of $279 million, or $1.50 per diluted share

Order growth of 18.8% over the prior year; organic orders were up 6.7%

Revenue increase of 18.8% from 2010; organic revenue was up 7.1%

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Completion of the YSI Incorporated (YSI) acquisition, which contributed approximately $35 million of revenue to the Water Infrastructure segment results

Adjusted net income of $358 million, an increase of $72 million from 2010 s adjusted net income

Free cash flow generation of $388 million, up $87 million from 2010

Key Performance Indicators and Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margin, segment operating income and margins, earnings per share, orders growth, 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 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, 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 continuing 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.

adjusted net income and adjusted earnings per share defined as net income and earnings per share, respectively, adjusted to exclude non-recurring separation costs associated with the Spin-off and tax-related special items. A reconciliation of adjusted net income is provided below.

	Three Months Ended March 31,		**Years Ended December 31,**	
(in millions, except per share data)	2012	2011	2011	2010
Net income	$ 63	$ 78	$ 279	$ 329
Separation costs, net of tax	4	2	72	
Tax-related special items			7	(43)
Adjusted net income	$ 67	$ 80	$ 358	$ 286
Weighted average number of shares Diluted	185.9	184.6	185.3	184.6
Adjusted earnings per diluted share (a)	$ 0.36	$ 0.43	$ 1.93	$ 1.55

(a) Subsequent to the Spin-off, on October 31, 2011, we had 184.6 million shares of common stock outstanding and this share amount is being utilized to calculate diluted earnings per share for all periods prior to October 31, 2011 presented.

operating expenses excluding separation costs defined as operating expenses, adjusted to exclude non-recurring costs incurred in connection with the separation.

adjusted segment operating income defined as segment operating income, adjusted to exclude non-recurring costs incurred in connection with the separation and adjusted segment operating margin defined as adjusted segment operating income divided by total segment revenue.

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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 which 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)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Years Ended December 31, 2011	Years Ended December 31, 2010
Net cash provided by operating activities	$ 61	$ 71	$ 449	$ 395
Capital expenditures	(31)	(19)	(126)	(94)
Separation cash payments (a)	11	2	65	
Free cash flow	$ 41	$ 54	$ 388	$ 301

(a) Includes separation costs allocated by ITT prior to Spin-off that have been treated as though they were settled in cash, and capital expenditures associated with the Spin-off of $1 million and $0 for the three months ended March 31, 2012 and 2011, respectively, and $11 million for the year ended December 31, 2011.

Results of Operations:

(in millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Years Ended December 31, 2011	Years Ended December 31, 2010	Years Ended December 31, 2009
Revenue	$ 925	$ 890	$ 3,803	$ 3,202	$ 2,849
Gross profit	363	337	1,461	1,214	1,037
Gross margin	39.2%	37.9%	38.4%	37.9%	36.4%
Operating expenses excluding separation costs	259	234	979	826	761
Expense to revenue ratio	28.0%	26.3%	25.7%	25.8%	26.7%
Separation costs	5	3	87		
Total operating expenses	264	237	1,066	826	761
Operating income	99	100	395	388	276
Operating margin	10.7%	11.2%	10.4%	12.1%	9.7%
Interest and other non-operating expense (income), net	15	(1)	12		1
Income tax expense	21	23	104	59	14
Tax rate	24.8%	22.7%	27.4%	15.2%	5.0%
Net income	$ 63	$ 78	$ 279	$ 329	$ 263

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Revenue

Revenue generated during the three months ended March 31, 2012 was $925 million, reflecting an increase of $35 million or 3.9% as compared to the same prior year period. The following table illustrates the impact from organic growth, recent acquisitions, and fluctuations in foreign currency, in relation to revenue during the comparable 2011 period.

(in millions)	$ Change	% Change
2011 Revenue	$ 890	
Organic Growth	15	1.7%
Acquisitions/(Divestitures), net	34	3.8%
Foreign currency translation	(14)	(1.6)%
Total change in revenue	35	3.9%

2012 Revenue	**$**	**925**

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The following table summarizes revenue by segment:

(in millions)	Three Months Ended March 31, 2012	2011	% Change
Water Infrastructure	**$ 584**	$ 551	6.0%
Applied Water	**355**	355	%
Eliminations	**(14)**	(16)	
Total	**$ 925**	$ 890	3.9%

Water Infrastructure

Water Infrastructure s revenue increased $33 million, or 6.0% for the first quarter of 2012, including an unfavorable foreign currency translation of $10 million and incremental revenue of $34 million from the acquisition of YSI which closed in September 2011.

Organic revenue growth of $10 million or 1.8% during the quarter was primarily attributable to industrial performance, particularly dewatering applications serving the gas and mining markets. Treatment applications declined on slower public utility funding in developed markets offset, in part, by strong sales in emerging markets.

Applied Water

Applied Water s revenue in the first quarter of 2012 was flat as compared to the first quarter of 2011 at $355 million. Organic revenue growth of $5 million or 1.4% reflects strength in general industry and beverage applications and commercial market share gains. This increase was offset by residential weakness driven by unfavorable weather conditions for the heating season in North America and the unfavorable impacts from continued economic uncertainty in Europe and political instability in the Middle East. Foreign currency translation was unfavorable by $5 million for the three months ended March 31, 2012 as compared to 2011.

Orders / Backlog

Orders received during the first quarter of 2012 increased by $26 million, or 2.7% over the first quarter of the prior year to $1,004 million, including a benefit of $37 million from acquisitions and an unfavorable impact of $18 million from foreign currency translation adjustments. Organic order growth was 0.7% for the quarter.

The Water Infrastructure segment generated order growth of $26 million, or 4.2% to $638 million, including $37 million from acquisitions and $13 million of unfavorable foreign currency impact. Additionally, increased order volumes in transport applications primarily due to industrial dewatering in North America, continued flood mitigation efforts in Australia and strength in test markets were largely offset by a decline in treatment application orders primarily due to timing and lapping a very strong first quarter in 2011.

Applied Water generated order growth of $1 million or 0.3% over the same period in the prior year to $382 million primarily due to increased activity in Europe, the Middle East and Asia, offset by $5 million from unfavorable foreign currency translation.

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 $739 million at March 31, 2012, an increase of $88 million or 13.5% as compared to $651 million at December 31, 2011 and an increase of $17 million or 2.4% as compared to $722 million at March 31, 2011. We anticipate that in excess of 85% of the backlog at March 31, 2012 will be recognized as revenue in the remainder of 2012.

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Gross Margin

Gross margin as a percentage of revenue, increased to 39.2% for the quarter ended March 31, 2012 compared to 37.9% for the comparable period of 2011. The increase is attributable to benefits from incremental revenue from the acquisition of YSI, factory productivity and price realization initiatives offset, in part, by rising commodity and labor costs.

Operating Expenses excluding Separation Costs

(in millions)	Three Months Ended March 31, 2012	2011	% Change
Selling, General and Administrative (SG&A)	**$ 231**	$ 210	10.0%
SG&A as a % of revenue	**25.0%**	23.6%	140bp
Research and Development (R&D)	**28**	24	16.7%
R&D as a % of revenue	**3.0%**	2.7%	30bp
Operating expenses excluding separation costs	**259**	234	10.7%
Expense to revenue ratio	**28.0%**	26.3%	170bp

Selling, General and Administrative Expenses

SG&A increased by $21 million to $231 million or 25.0% of revenue in the first quarter of 2012, as compared to $210 million or 23.6% of revenue in first quarter of 2011. The increase in SG&A expenses as a percentage of revenue is primarily due to additional expenses incurred as a standalone company related to investments in information technology and the establishment of appropriate regulatory compliance and corporate governance functions.

Research and Development Expenses

R&D spending increased $4 million to $28 million or 3.0% of revenue in the first quarter of 2012 as compared to $24 million or 2.7% of revenue in the comparable period of 2011 reflecting $3 million of incremental expense from our YSI acquisition.

Separation Costs

The components of separation costs incurred are presented below.

(in millions)	Three Months Ended March 31, 2012	2011
Rebranding and marketing costs	**$ 2**	$
Employee retention and hiring costs		1
Advisory fees and other	**3**	2
Total separation costs in operating income	**5**	3
Income tax benefit	**(1)**	(1)
Total separation costs, net of tax	**$ 4**	$ 2

As of March 31, 2012, our estimate of the pre-tax cash impact of the remaining activities associated with the Spin-off ranges from approximately $10 million to $15 million.

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Operating Income

We generated operating income of $99 million during the first quarter of 2012, a 1.0% decrease from the prior year, primarily due to additional standalone company costs and non-recurring separation costs. The following table illustrates operating income results by business segments.

(in millions)	Three Months Ended March 31, 2012	2011	% Change
Water Infrastructure	**$ 75**	$ 64	17.2%
Applied Water	**40**	46	(13.0)%
Segment operating income	**115**	110	4.5%
Corporate and other	**(16)**	(10)	
Total operating income	**$ 99**	$ 100	(1.0)%
Operating margin	***10.7%***	*11.2%*	*(50)bp*

The table below provides a reconciliation from segment operating income to adjusted operating income, and a calculation of the corresponding adjusted operating margin.

(in millions)	Three Months Ended March 31, 2012	2011	% Change
Water Infrastructure			
Operating income	**$ 75**	$ 64	17.2%
Separation costs	**2**		
Adjusted operating income	**$ 77**	$ 64	20.3%
Adjusted operating margin	***13.2%***	*11.6%*	*160bp*
Applied Water			
Operating income	**$ 40**	$ 46	(13.0)%
Separation costs	**1**		
Adjusted operating income	**$ 41**	$ 46	(10.9)%
Adjusted operating margin	***11.5%***	*13.0%*	*(150)bp*
Total Xylem			
Operating income	**$ 99**	$ 100	(1.0)%
Separation costs (a)	**5**	3	
Adjusted operating income	**$ 104**	$ 103	1.0%
Adjusted operating margin	***11.2%***	*11.6%*	*(40)bp*

(a) Comprised of non-recurring separation costs of $3 million in our business segments and $2 million within Corporate for 2012 and $3 million within Corporate in 2011.

Water Infrastructure

Operating income for our Water Infrastructure segment increased $11 million or 17.2% ($13 million or 20.3% excluding separation costs) compared with the prior year as incremental operating income of $8 million from acquisitions over the same period and price realization was partially offset by increased spend on research and development and the unfavorable impacts of inflation on labor and material. Operating margin expanded by 120 bps (160 bps excluding separation costs) on strong operating leverage, price realization and contributions from the YSI acquisition.

Applied Water

Operating income for our Applied Water segment decreased $6 million or 13.0% ($5 million or 10.9% excluding separation costs) compared to the prior year as strong price performance was offset by warm winter related volume declines, product mix and net cost inflation. Operating margin declined by 170 bps (150 bps excluding separation costs) driven by net cost inflation and increased standard costs partially offset by price realization.

Interest Expense

Interest expense was $14 million in the first quarter of 2012, primarily reflecting interest related to the issuance of $1.2 billion aggregate principal amount of senior notes issued in September 2011. Refer to Note 11, Credit Facilities and Long-Term Debt, for further details.

Income Tax Expense

The income tax provision for the three months ended March 31, 2012 was $21 million at an effective tax rate of 24.8% compared to $23 million at an effective tax rate of 22.7% for the same period in 2011. The increase in the effective tax rate for the first quarter of 2012 as compared to the same period in 2011 was primarily due to our geographic mix of earnings and a change in the U.S. earnings in states with higher income tax rates.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

Revenue generated for 2011 was $3,803 million, an increase of $601 million, or 18.8%, compared to $3,202 million in the same period of 2010. The following table illustrates the impact from organic growth, recent acquisitions, and fluctuations in foreign currency, in relation to revenue during the annual 2011 period.

(in millions)	$ Change	% Change
2010 Revenue	$ 3,202	
Organic Growth	226	7.1%
Acquisitions/(Divestitures), net	264	8.2%
Foreign currency translation	111	3.5%
Total change in revenue	601	18.8%
2011 Revenue	**$ 3,803**	

The following table summarizes revenue by segment for 2011 and 2010:

(in millions)	**2011**	2010	Change
Water Infrastructure	**$ 2,416**	$ 1,930	25.2%
Applied Water	**1,444**	1,327	8.8%
Eliminations	**(57)**	(55)	
Total	**$ 3,803**	$ 3,202	18.8%

Water Infrastructure

Water Infrastructure s revenue increased $486 million, or 25.2% in 2011, including incremental revenue of $264 million from acquisitions, including Godwin and Nova in 2010 and YSI in September 2011. Our 2011 acquisition of YSI contributed $35 million and continued our expansion in the analytical instrumentation market.

Organic revenue growth of $137 million or 7.1% during the year was primarily attributable to transport and treatment applications. Transport increased due to dewatering equipment volume from both the public utility and industrial sectors. The results also reflect increased public utility investment in treatment projects in Latin America and the Middle East. Overall growth was partially offset by decreased volume in Southern Europe, which continues to present challenging economic conditions.

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Foreign currency translation was favorable by $87 million for the annual period ended December 31, 2011, as compared to 2010.

Applied Water

Applied Water s revenue increased $117 million, or 8.8% in 2011, driven by organic revenue growth of $88 million or 6.6%. The organic revenue growth reflects gains across all regions lead by double-digit growth rates in Eastern Europe, Latin America, China and the Middle East, primarily due to increased volume in light industrial and building service applications as a result of new products such as e-SV, a high-efficiency vertical multi-stage pump, and increased volume in the irrigation applications as a result of favorable weather conditions in the United States. Pricing initiatives executed throughout the period also contributed to the revenue growth.

Foreign currency translation was favorable by $28 million for 2011, as compared to 2010.

Orders/Backlog

Orders received during 2011 increased by $610 million, or 18.8% to $3,847 million, including benefits of $272 million from acquisitions and $120 million from foreign currency translation adjustments. Organic order growth was 6.7% for the year. The Water Infrastructure segment generated order growth of $513 million, or 26.4% to $2,454 million, including $272 million and $96 million from acquisitions and favorable foreign currency, respectively. Order growth in our Applied Water segment was $100 million or 7.4% to $1,452 million, driven by 5.3% organic order growth and $27 million of favorable foreign currency translation due to increased activity in the light industrial, agriculture and heat transfer 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 $651 million at December 31, 2011 and $620 million at December 31, 2010. We anticipate that in excess of 80% of the backlog at December 31, 2011 will be recognized as revenue during 2012.

Gross Margin

Gross margins, as a percentage of consolidated revenue, increased to 38.4% in 2011 from 37.9% in 2010. The increase is attributable to benefits from productivity and price realization initiatives offset, in part, by rising commodity costs and higher labor and overhead costs due to increased spending related to additional volume.

Operating Expenses excluding Separation Costs

(in millions)	**2011**	2010	Change
Selling, General and Administrative (SG&A)	**$ 877**	$ 737	19.0%
SG&A as a % of revenue	**23.1%**	23.0%	10bp
Research and Development (R&D)	**100**	74	35.1%
R&D as a % of revenue	**2.6%**	2.3%	30bp
Restructuring and asset impairment charges, net	**2**	15	(86.7)%
Operating expenses excluding separation costs	**979**	826	18.5%
Expense to revenue ratio	**25.7%**	25.8%	(10)bp

Selling, General and Administrative Expenses

SG&A increased by $140 million to $877 million or 23.1% of revenue in 2011, as compared to $737 million or 23.0% of revenue in 2010. The increase in SG&A expenses is principally due to sales volume related increases in selling, marketing and distribution expenses, including the impact of recent acquisitions.

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Research and Development Expenses

R&D spending increased $26 million to $100 million or 2.6% of revenue for 2011 as compared to $74 million or 2.3% of revenue in 2010. These increases were primarily due to $11 million incremental expense from recent acquisitions and programs as we continued to invest in new product developments.

Restructuring and Asset Impairment Charges, Net

During 2011, we incurred a $2 million charge related to the impairment of a facility in our Applied Water segment. During 2010, we recognized restructuring charges totaling $15 million as part of an initiative to improve effectiveness and efficiency of operations. As of December 31, 2011, we consider these restructuring initiatives to be substantially completed, with a remaining liability of $1 million.

Separation Costs

We had non-recurring pre-tax separation costs of $87 million, or $72 million after tax, during 2011. The components of separation costs incurred during these periods is presented below (in millions).

IT costs	$ 19
Advisory fees	18
Employee retention and hiring costs	14
Rebranding and marketing costs	13
Lease termination and other real estate costs	10
Non-cash asset impairments (a)	8
Other	5
Total separation costs in operating income	87
Tax-related separation costs	6
Income tax benefit	(21)
Total separation costs, net of tax	$ 72

(a) During the third quarter, we recorded an impairment charge of $8 million on one of our facilities in China within our Applied Water segment. Prior to the separation this was a shared facility among certain Xylem and ITT businesses and in connection with the separation, the removal of certain ITT operations triggered an impairment evaluation. The fair value of the applicable assets was calculated using the cost approach.

As of December 31, 2011, our estimate of the pre-tax cash impact of the remaining activities associated with the separation ranges from approximately $15 million to $20 million.

Operating Income

We generated operating income of $395 million during 2011, a 1.8% increase from the prior year, primarily reflecting increased revenues offset, in part, by non-recurring separation costs of $87 million. The following table illustrates operating income results by business segments for 2011 and 2010.

(in millions)	**2011**	2010	Change
Water Infrastructure	**$ 343**	$ 276	24.3%
Applied Water	**160**	158	1.3%

Segment operating income	**503**	434	
Corporate and Other	**(108)**	(46)	
Total operating income	**$ 395**	$ 388	1.8%

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The table included below provides a reconciliation from segment operating income to adjusted operating income, and a calculation of the corresponding adjusted operating margin.

(in millions)	2011	2010	Change
Water Infrastructure			
Operating income	**$ 343**	$ 276	24.3%
Separation costs	**16**		
Adjusted operating income	**$ 359**	$ 276	30.1%
Adjusted operating margin	***14.9%***	*14.3%*	*60bp*
Applied Water			
Operating income	**$ 160**	$ 158	1.3%
Separation costs	**13**		
Adjusted operating income	**$ 173**	$ 158	9.5%
Adjusted operating margin	***12.0%***	*11.9%*	*10bp*
Total Xylem			
Operating income	**$ 395**	$ 388	1.8%
Separation costs	**87(a)**		
Adjusted operating income	**$ 482**	$ 388	24.2%
Adjusted operating margin	***12.7%***	*12.1%*	*60bp*

(a) Comprised of non-recurring separation costs of $29 million in our business segments and $58 million within Corporate.

Water Infrastructure

Operating income for our Water Infrastructure segment increased $67 million or 24.3% ($83 million or 30.1% excluding separation costs) compared with the prior year. This increase is led by incremental operating income of $42 million from acquisitions over the same period. Also contributing to the increase were higher sales volumes, lower restructuring expense and benefits from productivity and material costs savings initiatives, partially offset by higher labor and overhead costs, material inflation and unfavorable mix.

Applied Water

Operating income for our Applied Water segment increased $2 million or 1.3% ($15 million or 9.5% excluding separation costs) compared to the prior year as higher sales volume and price realization was partially offset by increased spend on research and development and the unfavorable impacts of inflation, and customer and product mix.

Interest Expense

Interest expense increased to $17 million in 2011, primarily reflecting interest related to the issuance of the 2016 notes and the 2021 notes in an aggregate principal amount of $1.2 billion in September 2011. Refer to Note 8, Credit Facilities and Long-Term Debt, for further details.

Income Tax Expense

The income tax provision for 2011 was $104 million at an effective tax rate of 27.4% compared to $59 million at an effective tax rate of 15.2% in 2010. The 2011 effective tax rate is higher than 2010 as a result of the unfavorable impact of recording a deferred tax liability on the excess of financial reporting over the tax basis of investments in certain foreign subsidiaries that has not been permanently reinvested, non deductible separation costs, increase in valuation allowances on certain foreign losses offset in part by tax examination settlements and increased tax exempt interest.

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Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

Revenue generated during the year ended December 31, 2010 was $3,202 million reflecting an increase of $353 million or 12.4% as compared to prior year. Our 2010 revenue was marked by growth from strategic acquisitions, a level of economic recovery within the majority of our served markets and foreign currency translation.

The following table illustrates the impact from organic growth, recent acquisitions, and fluctuations in foreign currency, in relation to revenue during 2010.

(in millions)	$ Change	% Change
2009 Revenue	$ 2,849	
Organic Growth	96	3.4%
Acquisitions/(Divestitures), net	263	9.2%
Foreign currency translation	(6)	(0.2)%
Total change in revenue	353	12.4%
2010 Revenue	$ 3,202	

The following table summarizes revenue by segment for 2010 and 2009:

(in millions)	2010	2009	Change
Water Infrastructure	$ 1,930	$ 1,651	16.9%
Applied Water	1,327	1,254	5.8%
Eliminations	(55)	(56)	
Total	$ 3,202	$ 2,849	12.4%

Water Infrastructure

Revenue generated by our Water Infrastructure segment for the year ended December 31, 2010 was $1,930 million reflecting an increase of $279 million, or 16.9% as compared to the prior year. This increase was primarily driven by incremental revenue from acquisitions, including Godwin and Nova, which in the aggregate contributed $247 million.

Organic revenue increased 1.5% in 2010 reflecting mixed regional results. Market share gains and favorable economic conditions drove improved performance for treatment applications in Northern Europe and in emerging markets such as Asia Pacific, Eastern Europe and Latin America. However, unfavorable economic conditions and uncertainty within the region continued to negatively impact performance across our Southern European markets.

Foreign exchange translation was favorable by $8 million for 2010, as compared to 2009.

Applied Water

Applied Water s revenue increased $73 million, or 5.8%, for 2010 compared to 2009, as contributions from the 2009 Laing acquisition of $19 million were partially offset by a decline in revenues from businesses divested of $3 million.

Despite relatively weak market conditions throughout the year, we recorded organic revenue growth of $72 million or 5.8% over 2009. This growth was primarily attributable to European and emerging market share gains as well as the impact from new product launches, including energy efficient pumps and new beverage applications. We also benefited from price realization initiatives. Organic revenue growth was partially offset by unfavorable weather conditions in North America, which negatively impacted our sales of irrigation applications.

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Foreign exchange translation was unfavorable by $16 million for 2010, as compared to 2009.

Gross Margin

Gross margins as a percentage of revenue increased 150 basis points to 37.9% in 2010 compared to 36.4% in 2009. The increase includes gross profits driven by increased organic sales volume, and benefits from productivity and price realization initiatives.

Operating Expenses

(in millions)	2010	2009	Change
Selling, General and Administrative (SG&A)	$ 737	$ 667	10.5%
SG&A as a % of revenue	23.0%	23.4%	(40)bp
Research and Development (R&D)	74	63	17.5%
R&D as a % of revenue	2.3%	2.2%	10bp
Restructuring and asset impairment charges, net	15	31	(51.6)%
Operating expenses	826	761	8.5%
Expense to revenue ratio	25.8%	26.7%	(90)bp

Selling, General and Administrative Expenses

SG&A increased by $70 million to $737 million or 23% of revenue in 2010 as compared to $667 million or 23.4% of revenue in 2009. The increase in SG&A expenses is principally due to additional costs of $55 million in each period related primarily to our newly acquired Godwin and Nova businesses, as well as costs attributable to an increase in sales volumes, and additional spending on various strategic investments.

Research and Development Expenses

R&D spending increased $11 million to $74 million or 2.3% of revenue in 2010 as compared to $63 million or 2.2% in 2009 primarily due to our newly acquired Nova business.

Restructuring and Asset Impairment Charges, Net

During 2010, we recognized net restructuring charges of $15 million, representing a $16 million or 51.6% decrease as compared to the prior year. During 2009, we initiated several actions, primarily within our Applied Water segment in response to declining market conditions. The frequency and overall impact of such actions subsided and as a result we incurred less cost during 2010.

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Operating Income

We generated operating income of $388 million in 2010, which reflects an increase from the prior year of 40.6%. Operating margin increased to 12.1%, a year-over-year increase of 240 basis points. The following table illustrates operating income results of our business segments, including operating margin results for 2010 and 2009.

(in millions)	2010	2009	Change
Water Infrastructure	$ 276	$ 227	21.6%
Applied Water	158	109	45.0%
Segment operating income	434	336	29.2%
Corporate and Other	(46)	(60)	
Total operating income	$ 388	$ 276	40.6%
Operating margin:			
Water Infrastructure	*14.3%*	*13.7%*	*60bp*
Applied Water	*11.9%*	*8.7%*	*320bp*
Total Xylem	*12.1%*	*9.7%*	*240bp*

Water Infrastructure

Operating income for our Water Infrastructure segment increased $49 million or 21.6% for 2010 compared with 2009. This increase is primarily attributable to contributions from the Nova and Godwin acquisitions, which provided combined incremental operating income of $28 million during 2010. Operating productivity and lower restructuring expense more than offset incremental strategic investments, higher pension costs, and unfavorable foreign currency impacts. As a result, we saw operating margin expansion of 60 basis points over 2009.

Applied Water

Operating income for our Applied Water segment increased $49 million or 45.0% for the year ended December 31, 2010 compared with the prior year. Operating productivity, including increased volume, increased price, benefits from our cost savings initiatives, and lower restructuring charges of $12 million more than offset incremental costs associated with strategic initiatives. Operating margin expansion of 320 basis points over 2009 was largely attributable to these same factors.

Income Tax Expense

In 2010 and 2009, we recorded an income tax provision of $59 million and $14 million, respectively, which represents effective tax rates of 15.2% and 5.0%, respectively. For 2010, the effective tax rate is lower than the federal statutory rate of 35% due principally to a lower rate incurred on foreign earnings and the favorable impact of the repatriation of foreign earnings net of foreign tax credits. For 2009, the effective tax rate is lower than the federal statutory rate of 35% due principally to a lower rate incurred on foreign earnings and the favorable impact of the restructuring of certain legal entities.

During 2009, the Company implemented an international restructuring in which it transferred the ownership of its Canadian operations to its Luxembourg holding company. The transfer will allow the Company to recover, in a more tax efficient manner, the earnings and book-to-tax basis differences attributable to our Canadian investment. As a result, the Company reduced the deferred tax liability related to our investment in Canada.

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Liquidity and Capital Resources

The following table summarizes our sources and uses of cash for the three months ended March 31, 2012 and 2011 and for the three years ended December 31, 2011, 2010 and 2009.

(in millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Years Ended December 31, 2011	Years Ended December 31, 2010	Years Ended December 31, 2009
Operating activities	**$ 61**	$ 71	$ 449	$ 395	$ 370
Investing activities	**(29)**	(18)	(423)	(1,093)	(84)
Financing activities	**(10)**	(33)	172	745	(292)
Foreign exchange	**7**	3	(11)	3	6
Total	**$ 29**	$ 23	$ 187	$ 50	$

Sources and Uses of Liquidity

Operating Activities

During the first three months of 2012, net cash provided by operating activities decreased by $10 million as compared to the first three months of 2011. The year-over-year decrease is primarily driven primarily the payment of interest on debt in 2012 as well as higher tax payments, partially offset by a positive impact from payables. The increase in cash from payables is primarily due to timing of payments.

During 2011, net cash provided by operating activities was $449 million, compared to $395 million in 2010. The $54 million year-over-year increase is primarily the result of lower tax and restructuring payments. This increase was partially offset by net increased uses of cash in working capital driven by spending to support increased sales volumes.

During 2010, net cash provided by operating activities increased by $25 million as compared to 2009, primarily attributable to a $88 million increase in net income, excluding non-cash increases in depreciation and amortization, partially offset by a reduced source of cash from working capital.

Investing Activities

Cash used in investing activities was $29 million for the three months ended March 31, 2012, compared to $18 million in the comparable period of 2011 due to capital expenditures. Capital expenditures in the first three months of 2012 were $31 million, including separation related capital expenditures of $1 million, compared to $19 million in the first three months of 2011. The increase in capital expenditures was driven by increased investment in our dewatering rental fleet and other strategic initiatives.

Cash used in investing activities was $423 million for 2011, compared to $1,093 million in 2010 and $84 million in 2009. We invested $309 million related to the acquisition of YSI in 2011 and $385 million and $580 million related to the acquisitions of Nova and Godwin Pumps, respectively, in 2010. Capital expenditures in 2011 were $126 million compared to $94 million in 2010 and $62 million in 2009. The $32 million year-over-year increase in capital expenditures in 2011 is primarily due to investments to increase productivity and the expansion of the Godwin business.

Financing Activities

Cash used in financing activities was $10 million for the three months ended March 31, 2012, compared to $33 million in the first three months of 2011. During the first three months of 2012, we received $16 million of proceeds from the exercise of stock options more than offset by dividends paid of $19 million. No dividends were paid in the first quarter of 2011. For 2011, cash used for or provided by financing activities is due to net

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transfers to our former parent, ITT. In general, the components of net transfers include: (i) cash transfers from the Company to parent, (ii) cash investments from our parent used to fund operations, capital expenditures and acquisitions, (iii) charges (benefits) for income taxes, and (iv) allocations of the parent company s corporate expenses described in this prospectus.

During 2011, cash provided by financing activities was $172 million, compared to cash provided by financing activities of $745 million in 2010 and cash used in financing activities of $292 million in 2009. The decline in 2011 is due to net transfers to our former parent, ITT, as the net proceeds from the issuance of $1.2 billion aggregate amount of the 2016 notes and the 2021 notes (described below) funded a net cash transfer to ITT that included the repayment of funds used in the acquisition of YSI. In general, the components of net transfers include: (i) cash transfers from the Company to parent, (ii) cash investments from our parent used to fund operations, capital expenditures and acquisitions, (iii) charges (benefits) for income taxes, and (iv) allocations of the parent company s corporate expenses described in this prospectus. Dividends of $19 million were paid in 2011. No dividends were paid in 2010 and 2009.

Funding and Liquidity Strategy

Prior to the Spin-off, the majority of our operations participated in U.S. and international cash management and funding arrangements managed by ITT where cash was swept from our balance sheet daily, and cash to meet our operating and investing needs was provided as needed from ITT. Transfers of cash both to and from these arrangements are reflected as a component of Parent company investment in the Consolidated and Combined Balance Sheets. The cash presented on our balance sheet prior to the Spin-off consists primarily of U.S. and international cash from subsidiaries that do not participate in these arrangements.

As a result of the separation, our capital structure and sources of liquidity changed significantly. We no longer participate in cash management and funding arrangements with ITT. Instead, our ability to fund our capital needs depends on our ongoing ability to generate cash from operations, and access to the bank and 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. Subsequent to the separation, while our ability to forecast future cash flows is more limited, we expect to fund our ongoing working capital, capital expenditures and financing requirements through cash flows from operations via access to cash on hand and capital markets. 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.

On September 20, 2011, we issued 3.55% Senior Notes of $600 million aggregate principal amount due September 2016 (the 2016 Notes) and 4.875% Senior Notes of $600 million aggregate principal amount due October 2021 (the 2021 Notes and together with the 2016 Notes, the Senior Notes), the net proceeds of which funded a net cash transfer to ITT in connection with the Spin-off with the balance used for general corporate purposes. The issuance resulted in gross proceeds of $1.2 billion, offset by $9 million in debt issuance costs which were capitalized and are included within other assets. The Senior Notes are our senior unsecured obligations and rank equally with all our existing and future senior unsecured indebtedness. The Senior Notes were initially guaranteed on a senior unsecured basis by ITT. The guarantee terminated and was automatically and unconditionally released upon the distribution of the common stock of Xylem to the holders of ITT s common stock in connection with the separation. 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 March 31, 2012, we were in compliance with all covenants. If a change of control of Xylem triggering event 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 accrues from September 20, 2011. Interest on the 2016 Notes is payable on March 20 and September 20 of each year, commencing on March 20, 2012. Interest on the 2021 Notes is payable on April 1 and October 1 of each year, commencing on April 1, 2012.

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 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 credits in a face amount not in excess of $100 million outstanding at any time. As of December 31, 2011 and March 31, 2012, there were no borrowings under the Credit Facility.

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

In accordance with the terms, we may not exceed a maximum leverage ratio of 3.50 (based on a ratio of total debt to earnings before interest, taxes, depreciation and amortization) throughout the term. 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.

For the three months ended March 31, 2012 and 2011, we generated approximately 62% and 64%, respectively, of our revenue from non- U.S. operations. For the years ended 2011 and 2010, we generated approximately 64% and 65%, respectively, of our revenue from non-U.S. operations. 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. Our intent is to indefinitely reinvest all but $100 million of these funds outside of the United States. However, we continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities which support our current designation 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

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for our operations in the United States, we would be required to accrue U.S. taxes related to future tax payments associated with the repatriation of these funds. As of March 31, 2012 and December 31, 2011, our foreign subsidiaries were holding $238 million and $279 million, respectively, in cash or marketable securities.

As of December 31, 2011, our excess of financial reporting over the tax basis of investments in certain foreign subsidiaries totaled $1.6 billion. We have not asserted that $100 million of our excess basis difference will be permanently reinvested and have therefore provided for United States or additional foreign withholding taxes for that portion. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances.

Contractual Obligations

The following table summarizes our contractual commitments as of December 31, 2011:

(in millions)	2012	1-3 Years	3-5 Years	5+ Years	Total
Debt and capital lease obligations (1)	$ 5	$ 1	$	$ 1,200	$ 1,206
Interest payments (2)	51	101	101	168	421
Operating lease obligations (3)	54	71	39	36	200
Purchase obligations (4)	83	5	1		89
Postretirement benefits	31	61	70	194	356
Other long-term obligations reflected on the balance sheet (5)	4	8	6	8	26
Total commitments	$ 228	$ 247	$ 217	$ 1,606	$ 2,298

In addition to the amounts presented in the table above, we have recorded liabilities for uncertain tax positions of $5 million. These amounts have been excluded from the contractual obligations table due to an inability to reasonably estimate the timing of such payments in individual years.

(1) Refer to Note 8, Credit Facilities and Long-Term Debt, in the notes to the consolidated and combined financial statements for discussion of the use and availability of debt and revolving credit agreements. Amounts represent principal payments of long-term debt including current maturities and exclude unamortized discounts.

(2) Amounts represent estimate of future interest payments on long-term debt outstanding as of December 31, 2011.

(3) Subsequent to the issuance of our 2011 Annual Report, we identified that we had incorrectly aggregated data from certain of our foreign subsidiaries related to our annual disclosure of our future minimum rental payments. As a result, we have adjusted and disclosed the corrected amounts. These adjustments did not impact the Consolidated and Combined Statements of Income and Comprehensive Income, Balance Sheet, Statements of Cash Flows or Statements of Stockholders Equity.

(4) Represents unconditional purchase agreements that are enforceable and legally binding and that specify all significant terms to purchase goods or services, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase agreements that are cancellable without penalty have been excluded.

(5) Other long-term obligations include estimated environmental payments. We estimate, based on historical experience, that we will spend between $2 million and $4 million per year on environmental investigation and remediation. At December 31, 2011, we had estimated and accrued $15 million related to environmental matters.

Off-Balance Sheet Arrangements

As of December 31, 2011, we have issued guarantees for the debt and other obligations of consolidated subsidiaries. We do not consider the maximum exposure to be material either individually or in the aggregate.

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Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Significant accounting policies used in the preparation of the Consolidated Financial Statements are discussed in Note 1, Summary of Significant Accounting Policies, in the notes to the consolidated and combined financial statements. Accounting estimates and assumptions discussed in this section are those that we consider most critical to an understanding of our financial statements because they are inherently uncertain, involve significant judgments, include areas where different estimates reasonably could have been used, and changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results in these areas could differ from management s estimates under different assumptions or conditions.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability of the sales price is reasonably assured. For product sales, delivery does not occur until the products have been shipped, risk of loss has been transferred to the customer and the contractual terms have been fulfilled. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) we have previously demonstrated that the product meets the specified criteria based on either seller- or customer-specified objective criteria or (ii) upon formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria. Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered.

We enter into contracts to sell our products and services, and while the majority of our sales agreements contain standard terms and conditions, certain agreements contain multiple elements or non-standard terms and conditions. Where sales agreements contain multiple elements or non-standard terms and conditions, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the transaction price should be allocated among the elements and when to recognize revenue for each element. When a sale involves multiple deliverables, the total revenue from the arrangement is allocated to each unit of accounting based on the relative selling price of the deliverable to all other deliverables in the contract. Revenue for multiple element arrangements is recognized when the appropriate revenue recognition criteria for the individual deliverable have been satisfied. The allocation of sales price between elements may impact the timing of revenue recognition, but will not change the total revenue recognized on the arrangement. For delivered elements accounted for as separate units of accounting in a multiple element arrangement, revenue is recognized only when the delivered elements have standalone value, there are no uncertainties regarding customer acceptance and there are no customer-negotiated refund or return rights affecting the sales recognized.

Certain businesses enter into long-term construction-type sales contracts for which revenue is recognized under the percentage-of-completion method based upon percentage of costs incurred to total costs.

We record a reduction in revenue at the time of sale for estimated product returns, rebates and other allowances, based on historical experience and known trends.

Warranty Accrual. Accruals for estimated expenses related to warranties are made at the time products are sold or services are rendered and are recorded as a component of cost of revenue. These accruals are established using historical information on the nature, frequency and average cost of warranty claims and consider any factors that may cause differences in expected future warranty costs as compared to historical claim experience. While we

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engage in extensive product quality programs and processes, we base our estimated warranty obligation on product warranty terms offered to customers, ongoing product failure rates, material usage and service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of our baseline experience. We assess the adequacy of our recorded warranty liabilities quarterly and adjust amounts as necessary.

Income Taxes. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates in effect for the year in which we expect the differences will reverse. Based on the evaluation of available evidence, we recognize future tax benefits, such as net operating loss carryforwards, to the extent that we believe it is more likely than not we will realize these benefits. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes to our estimate of the amount we are more likely than not to realize in the valuation allowance, with a corresponding adjustment to earnings or other comprehensive income, as appropriate.

In assessing the need for a valuation allowance, we look to the future reversal of existing taxable temporary differences, taxable income in carryback years and the feasibility of tax planning strategies and estimated future taxable income. The valuation allowance can be affected by changes to tax laws, changes to statutory tax rates and changes to future taxable income estimates.

Our effective tax rate reflects the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. We plan foreign earnings remittance amounts based on projected cash flow needs, as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we will distribute to the United States and provide the U.S. federal taxes due on these amounts. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and to the extent to which, additional taxes will be due. Furthermore, we recognize the tax benefit from an uncertain tax position 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 in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

We adjust our liability for uncertain tax positions in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional tax expense would result. If a payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary.

Goodwill and Intangible Assets. We review goodwill and indefinite-lived intangible assets for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We also review the carrying value of our finite-lived intangible assets for potential impairment when impairment indicators arise. We conduct our annual impairment test as of the first day of the fourth quarter. We perform a two-step impairment test for goodwill. In the first step, we compare the estimated fair value of each reporting unit to its carrying value. If the estimated fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds its fair value, then we must perform the second step of the impairment test in order to measure the impairment loss to be recorded. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. In our annual impairment test for indefinite-lived intangible assets, we compare the fair value of those assets to their carrying value. We recognize an impairment loss when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value. We estimate the fair value of our reporting units and intangible assets with indefinite lives using an income approach. Under the income approach, we calculate fair value based on the present value of estimated future cash flows.

Determining the fair value of a reporting unit or an indefinite-lived intangible asset is judgmental in nature and involves the use of significant estimates and assumptions, particularly related to future operating results and cash flows. These estimates and assumptions include, but are not limited to, revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions and identification of appropriate market comparable data. In addition, the identification of reporting units and the allocation of assets and liabilities to the reporting units when determining the carrying value of each reporting unit also require judgment. Goodwill is tested for impairment at either the operating segment identified in Note 15, Industry Segment and Geographic Data, to our notes to the consolidated and combined financial statements, or one level below. The fair value of our reporting units and indefinite-lived intangible assets are based on estimates and assumptions that are believed to be reasonable. Significant changes to these estimates and assumptions could adversely impact our conclusions. Actual future results may differ from those estimates.

Our 2011 annual goodwill impairment analysis indicated the estimated fair value of our reporting units significantly exceeded their carrying value, and accordingly, no impairment charges were recorded. In order to evaluate the sensitivity of the fair value estimates on the goodwill impairment test, we applied a hypothetical 100 basis point increase to the discount rates utilized, a ten percent reduction in expected future cash flows, and reduced the assumed future growth rates of each reporting unit by 100 basis points. These hypothetical changes did not result in any reporting unit failing step one of the impairment test. Further, our 2011 annual indefinite-lived intangible asset impairment test did not result in an impairment charge as the estimated fair value of the assets exceeded their carrying value.

Postretirement Plans. Prior to the Spin-off, employees who met certain eligibility requirements participated in various retirement plans administered by ITT. In connection with the Spin-off, we entered into a Benefit and Compensation Matters Agreement with ITT whereby Xylem agreed to adopt or assume sponsorship of certain defined benefit plans and replicate certain ITT defined contribution plans to allow for continuation of those benefits. Under this agreement, assets and liabilities attributable to Xylem employees were transferred from ITT to our qualified defined benefit and defined contribution plans.

Company employees around the world participate in numerous defined benefit pension plans. The determination of projected benefit obligations and the recognition of expenses related to these pension plans are dependent on various assumptions. These major assumptions primarily relate to discount rates, expected long-term rates of return on plan assets, rate of future compensation increases, mortality, health care inflation and termination (some of which are disclosed in Note 12, Postretirement Benefit Plans, in the notes to the consolidated and combined financial statements) and other factors. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants, or for plans with all or substantially all inactive participants, over the average remaining life expectancy.

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Significant Assumptions

Management develops each assumption using relevant Company experience, in conjunction with market-related data for each individual country in which such plans exist. All assumptions are reviewed annually with third-party consultants and adjusted as necessary. The table included below provides the weighted average assumptions used to estimate our defined benefit pension obligations and costs as of and for the years ended 2011 and 2010.

	2011		2010 (a)	
	U.S.	**Int l**	**U.S.**	**Int l**
Obligation Assumptions:				
Discount rate	**4.87%**	**4.76%**	5.83%	5.18%
Rate of future compensation increase	**4.50%**	**3.58%**	4.00%	3.40%
Cost Assumptions:				
Discount rate	**5.83%**	**5.53%**	6.00%	5.55%
Expected long-term rate of return on plan assets	**9.00%**	**7.34%**	9.00%	7.20%
Rate of future compensation increase	**4.50%**	**3.37%**	4.00%	3.41%

(a) Represents pre Spin-off from ITT and does not include plans transferred from ITT upon Spin-off.

We determine the expected long-term rate of return on plan assets by evaluating both historical returns and estimates of future returns. Specifically, the Company analyzes the estimated future returns based on independent estimates of asset class returns and evaluates historical broad market returns over long-term timeframes based on the strategic asset allocation, which is detailed in Note 12, Postretirement Benefit Plans, in the notes to the consolidated and combined financial statements.

Based on the approach described above, the chart below shows weighted average actual returns versus the weighted average expected long-term rates of return for our pension plans that were utilized in the calculation of the net periodic pension cost for each respective year.

	2011	**2010 (a)**	**2009 (a)**
Expected long-term rate of return on plan assets	**7.52%**	8.20%	8.63%
Actual rate of return on plan assets	**(1.40)%**	15.34%	33.96%

(a) Represents pre Spin-off from ITT and does not include returns on plans transferred from ITT upon Spin-off.

For the recognition of net periodic pension cost, the calculation of the expected long-term rate of return on plan assets is generally derived using a market-related value of plan assets based on average asset values at the measurement date over the last five years. The use of fair value, rather than a calculated value, could materially affect net periodic pension cost. Our weighted average expected long-term rate of return on plan assets for all pension plans, effective January 1, 2012 is 7.42%. We estimate that every 25 basis point change in the expected return on plan assets impacts the expense by $1 million.

The discount rate reflects our expectation of the present value of expected future cash payments for benefits at the measurement date. A decrease in the discount rate increases the present value of benefit obligations and increases pension expense. We base the discount rate assumption on current investment yields of high-quality fixed income investments during the retirement benefits maturity period. The pension discount rate was determined by considering an interest rate yield curve comprising AAA/AA bonds, with maturities between zero and thirty years, developed by the plan s actuaries. Annual benefit payments are then discounted to present value using this yield curve to develop a single-point discount rate matching the plan s characteristics. Our weighted average discount rate for all pension plans effective January 1, 2012, is 4.77%. We estimate that every 25 basis point change in the discount rate impacts the expense by $1 million.

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The rate of future compensation increase assumption reflects our long-term actual experience and future and near-term outlook. Effective January 1, 2012, our expected rate of future compensation is 3.65% for all pension plans. The estimated impact of a 25 basis point change in the expected rate of future compensation is less than $1 million.

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) is 7.4% for 2012, decreasing ratably to 5% in 2019. An increase or decrease in the health care trend rates by one percent per year would not have a material effect on the benefit obligation or the aggregate annual service and interest components. To the extent that actual experience differs from these assumptions, the effect will be amortized over the average future service of the covered active employees.

Funded Status

Funded status is derived by subtracting the respective year-end values of the projected benefit obligations from the fair value of plan assets. We estimate that every 25 basis point change in the discount rate impacts the funded status by approximately $20 million.

Fair Value of Plan Assets

The plan assets of our pension plans comprise a broad range of investments, including domestic and foreign equity securities, interests in private equity and hedge funds, fixed income investments, insurance contracts, real estate, and cash and cash equivalents.

A portion of our pension benefit plan assets portfolio comprises investments in private equity and hedge funds. The private equity and hedge fund investments are generally measured at net asset value. However, in certain instances, the values reported by the asset managers were not current at the measurement date. Accordingly, we made estimate adjustments to the last reported value where necessary to measure the assets at fair value at the measurement date. These adjustments consider information received from the asset managers, as well as general market information. There were no adjustments recorded for these assets at December 31, 2011. Asset values for other positions were generally measured using market observable prices. We estimate that a 5% change in asset values will impact funded status by approximately $19 million.

As of March 31, 2012, there were no significant changes in the information concerning our critical accounting estimates.

New Accounting Pronouncements

See Note 2, Recently Issued Accounting Pronouncements, in the Notes to the Consolidated and Combined Financial Statements and unaudited Condensed Consolidated and Combined Financial Statements for a complete discussion of recent accounting pronouncements. There were no new pronouncements which we expect to have a material impact on our financial condition and results of operations in future periods.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, primarily related to foreign currency exchange and interest rates. These exposures are actively monitored by management. Our exposure to foreign exchange rate risk is due to certain costs, revenues and borrowings being denominated in currencies other than one of our subsidiary s functional currency. Similarly, we are exposed to market risk as the result of changes in interest rates which may affect the cost of our financing. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures.

Foreign Currency Exchange Rate Risk

Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and intercompany transactions denominated in foreign currencies. We may use derivative financial instruments to offset risk related to receipts from customers and payments to suppliers, when it is believed that the exposure will not be limited by our normal operating and financing activities. In January 2012, we began to periodically enter into currency forward contracts in order to manage the exchange rate fluctuation risk on certain intercompany transactions. Our principal currency exposures relate to the Euro, Swedish Krona, British Pound, Australian Dollar, Canadian Dollar, Polish Zloty, and Hungarian Forint. We estimate that a hypothetical 10% adverse movement in foreign currency exchange rates would not be material to Xylem s financial position, results of operations or cash flows.

Interest Rate Risk

As of March 31, 2012, we do not have a material exposure to interest rate risk as our debt portfolio entirely comprises long-term, fixed-rate instruments. We do not account for our long-term debt using the fair value option.

Commodity Price Exposures

Portions of our business are exposed to volatility in the prices of certain commodities, such as copper, nickel and aluminum, among others. Our primary exposure to this volatility resides with the use of these materials in purchased component parts. We generally maintain long-term fixed price contracts on raw materials and component parts; however, we are prone to exposure as these contracts expire. We estimate that a hypothetical 10% adverse movement in prices for raw metal commodities would not be material to our financial position, results of operations or cash flows.

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BUSINESS

Separation from ITT Corporation

On October 31, 2011, ITT Corporation (ITT) completed the previously announced spin-off (the Spin-off) of Xylem, formerly ITT s water equipment and services businesses. Effective as of 12:01 a.m., Eastern time on October 31, 2011 (the Distribution Date), the common stock of Xylem was distributed, on a pro rata basis, to ITT s shareholders of record as of the close of business on October 17, 2011 (the Record Date). On the Distribution Date, each of the shareholders of ITT received one share of Xylem common stock for every one share of common stock of ITT held on the Record Date. The Spin-off was completed pursuant to the Distribution Agreement, dated as of October 25, 2011, among ITT, Exelis Inc. (Exelis) and Xylem. After the Distribution Date, ITT did not beneficially own any shares of Xylem common stock and, following such date, financial results of Xylem will not be consolidated in ITT s financial reporting. Xylem s Registration Statement on Form 10 filed with the U.S. Securities and Exchange Commission (SEC) was declared effective on October 6, 2011. Xylem s common stock began regular-way trading on the New York Stock Exchange on November 1, 2011 under the symbol XYL .

Business Overview

Xylem, with revenue of $3.8 billion and $925 million for the year ended December 31, 2011 and three months ended March 31, 2011, respectively, is a world leader in the design, manufacturing, and application of highly engineered technologies for the water industry. We are 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. We have leading market positions among equipment and service providers in the core application areas of the water equipment industry: transport, treatment, test, building services, industrial processing and irrigation. Our Company s brands, such as Bell & Gossett and Flygt, are well known throughout the industry and have served the water market for many years.

We operate 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. Key brands in this segment include Flygt, Wedeco, Godwin Pumps, WTW, Sanitaire, AADI and Leopold. The Applied Water segment encompasses the 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. Key brands in this segment include Goulds Water Technology (Goulds), Bell & Gossett, AC Fire, Standard, Flojet, Lowara, Jabsco and Flowtronex. In both our segments, we benefit from a large and growing installed base of products driving growth in aftermarket revenue for replacement parts and services.

We serve a global customer base across diverse end markets while offering localized expertise. We sell our products in more than 150 countries through a balanced distribution network consisting of our direct sales force and independent channel partners. In 2011, approximately 64% of our revenues were generated outside the United States.

Our Industry

Our planet faces a serious water challenge. Less than 1% of the total water available on earth is fresh water, which is declining due to factors such as the draining of aquifers, increased pollution and climate change. In addition to this declining supply, demand is rising rapidly due to population growth, industrial expansion, and increased agricultural development, with consumption estimated to double every 20 years. By 2025, over 30% of the world s population is expected to live in areas without adequate water supply. Even in developed countries with sufficient supply, existing infrastructure for water supply is relatively underfunded and aging. In the United States, degrading pipe systems leak one out of every six gallons of water, on average, on its way from a treatment plant to the customer. These challenges are driving opportunities for growth in the global water industry, which we estimate to have a total market size of $500 billion.

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The water industry supply chain is comprised of Equipment and Services companies, Design and Build service providers, and water utilities. Equipment and Service providers serve two distinct customer types. The first, utilities, supplies water through an infrastructure network. Companies that operate on this side of the supply chain provide single, or sometimes combined, functions from equipment manufacturing and services to facility design (engineering, procurement and construction, or EPC firms) to plant operations (utilities), as depicted below in Figure 1. The utility and EPC customers are looking for technology and application expertise from their Equipment and Services providers, due to trends such as rising pollution, stricter regulations, and the increased outsourcing of process knowledge by utilities. The second customer type, the end users of water, comprises a wide array of entities, ranging from farms to power plants to residential homes. These customers are predominately served through specialized distributors and original equipment manufacturers (OEMs).

Figure 1: Water Industry Supply Chain, based upon Global Water Intelligence s Global Water Market 2011 and Management Estimates

Our business focuses on the beginning of the supply chain, by providing technology-intensive equipment and services. We sell our equipment and services via direct and indirect channels that serve the needs of each customer type. On the utility side, we provide over 70% direct sales with strong application expertise, with the remaining amount going through distribution partners. To end users of water, we provide over 85% of our sales through long-standing relationships with the world s leading distributors, with the remainder going direct to customers. The total market opportunity for this Equipment and Services portion of the water industry supply chain is estimated at $280 billion.

The Equipment and Services market addresses the key processes of the water industry, which is best illustrated through the cycle of water, as depicted in Figure 2, below. We believe this industry has two distinct sectors within the cycle of water: Supply Infrastructure and Usage Applications. The key processes of this cycle begin when raw water is extracted by pumps, which provide the necessary pressure and flow, to move, or Transport, this water from natural sources, such as lakes, oceans or aquifers, through pipes to a treatment facility. Treatment facilities can provide many forms of treatment, such as filtration, disinfection and desalination, to remove solids, bacteria, and salt, respectively. A network of pipes and pumps again Transports this clean water to where it is needed, such as to crops for Irrigation, to power plants to provide cooling in Industrial Water, or to an apartment building as drinking water in Residential and Commercial Building Services. After usage, the wastewater is collected by a separate network of pipes and pumps and transported to a wastewater treatment facility, where

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processes such as digestion deactivate and reduce the volume of solids, and disinfection purifies effluent water. Once treated, analytical instruments Test the treated water to ensure regulatory requirements are met so that it can be discharged back to the environment, thereby completing the cycle.

Figure 2: Cycle of Water

Our two operating segments are aligned with each of the sectors in the cycle of water: Water Infrastructure serves the Supply Infrastructure sector, and Applied Water serves Usage Applications. Within the Supply Infrastructure sector, our pump systems Transport water from aquifers, lakes, rivers and seas. From there, our filtration, UV and ozone systems provide Treatment, making the water fit for use. After consumption, our pump lift stations move the wastewater to treatment facilities where our mixers, biological treatment, monitoring, and control systems provide the primary functions in the treatment process. Throughout each of these stages, our analytical systems Test and ensure water quality, allowing the water to be consumed and returned to nature. Our served market size in this sector is approximately $16 billion.

In the Usage Applications sector, we participate in all major areas of water demand. Irrigation is approximately 70% of all water usage globally. Examples of what we provide include: boosting systems for farming irrigation, pumps for dairy operations, and rainwater reuse systems for small scale crop and turf irrigation. Industrial Water applications account for 20% of global consumption. Our pumps, heat exchangers, valves and controls provide cooling to power plants and manufacturing facilities, as well as circulation for food and beverage processing. The remaining 10% of global water use resides in human and building consumption, where we deliver water boosting systems for drinking, heating, ventilation and air conditioning (HVAC) and fire protection systems to Residential and Commercial Building Services. Our served market size in this sector is estimated at $14 billion.

Customers in the water industry vary by end market. Two end markets exist within the Supply Infrastructure sector: public utility and industrial, representing 85% and 15% of the total equipment and services market, respectively. The public utility market comprises public, private and public-private institutions that handle water and wastewater for mostly residential and commercial purposes. The industrial market involves the supply of water and removal of wastewater for industrial facilities. We view the main macro drivers of this sector to be water quality, the desire for energy-efficient products, water scarcity and infrastructure needs, for both the repair of aging systems in developed countries and new installations in developing countries. These markets tend to be less cyclical and are estimated to grow annually in the mid-single digits through 2015, according to management estimates.

In the Usage Applications sector, end-use customers fall into four main markets: residential, commercial, industrial and agricultural. Homeowners represent the end users in the residential market. Owners and managers of properties such as apartment buildings, retail stores, restaurants, hospitals, and hotels are examples of end users in the commercial market. The industrial market is wide ranging, involving developers and managers of facilities operated by electrical power generators, chemical manufacturers, machine shops, clothing manufacturers, beverage production and dispensing firms and car washes. The agricultural market end users are owners and operators of businesses such as crop and livestock farms, aquaculture, golf courses, and other turf applications. We believe population growth and urbanization are the two primary macro drivers of these markets, as these trends drive the need for housing, food, community services and retail goods within growing city centers. Water reuse and conservation are driving the need for new technologies. Annual total market growth in these industrial, commercial, residential, and agricultural markets is estimated to be in the low- to mid-single digits through 2015, according to management estimates.

Business Strategy

Our strategy is focused on enhancing shareholder value by providing solutions for our customers and by growing revenues, both organically and through strategic acquisitions. Key elements of our strategy are summarized below:

Grow Our Product Offerings and Solutions through Portfolio Differentiation. We will continue to extend leading market positions where we have a strong competitive position, cost leadership and proven technology. In addition, we will invest in the differentiation of our core product lines to build on our strong product and application expertise. We also plan to expand into adjacent and complementary technologies as demonstrated by the recent acquisitions of analytical instrumentation and dewatering solutions businesses.

Focus on Organic Growth Initiatives. We have launched a global commercial excellence initiative, deploying people, processes and tools to make our sales and marketing teams more effective and efficient. We have trained over 500 front-line sales agents under this initiative and have 30 dedicated commercial excellence leaders to service our most profitable accounts. In addition, we have launched digital selling tools, which improve our value propositions, and have built a strategic accounts program to focus on our most important customers. These efforts have already improved the revenues generated per sales agent across our businesses. We will continue to make investments in customer relationship management, mobile technologies, customer applications and other technologies that improve our knowledge of customers and the critical activities that drive growth.

Investing in New Technology and Innovation. We will continue to make targeted investments in research and development activities to develop breakthrough products and solutions. We will pursue and execute a robust pipeline of opportunities in core and emerging markets. We have established a wastewater Center of Excellence in Stockholm, Sweden, with over 100 research, development and engineering employees. We have also launched engineering Centers of Excellence in India and China, where we are accelerating the customization of our application expertise to local needs. Our engineers will continue to work closely with our customers in an effort to identify new applications for our products and develop new technologies and solutions to expand our current portfolio further.

Build on Our Presence in Fast-Growing Emerging Markets. Urbanization trends and growth in the middle class in developing countries are generating significant demand for water applications. We intend to

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continue to capture this growth by further expanding into emerging markets, such as China, India and Brazil, increasing our existing presence of over 40 facilities. We plan to leverage our strong global reach, manufacturing footprint and extensive distribution network to capitalize on growth opportunities in these regions. We will continue to establish and reinforce local capabilities by growing our local presence in these markets with investments in sales, marketing and manufacturing capabilities globally.

Growth through Disciplined Acquisitions. Acquisitions are an important part of our growth strategy. Certain segments of the global water industry we serve are highly fragmented, providing numerous acquisition opportunities. We have completed and integrated 20 acquisitions over the past five years, including Godwin Pumps, Nova Analytics, YSI Incorporated and O.I. Corporation, and we will selectively pursue highly targeted acquisitions that will broaden our core product portfolio, expand our geographic footprint and enhance our position in strategic markets.

Business Segments

We operate in two business segments that are aligned with the cycle of water and the key strategic market applications they provide: Water Infrastructure (collection, distribution, return) and Applied Water (usage). See Note 15, Industry Segment and Geographic Data, in the notes to the consolidated and combined financial statements for financial information about segments and geographic areas.

The table and descriptions below provide an overview of our business segments.

Segment	Market Applications	2011 Revenue	% Revenue	Major Products	Primary Brands
Water Infrastructure	Transport	$ 1,771	73%	Water and wastewater pumps	Flygt
	Treatment	425	18%		
	Test	220	9%	Filtration, disinfection and biological treatment equipment	Wedeco
		$ 2,416	100%		Godwin Pumps
				Test equipment	WTW
				Controls	Sanitaire
					AADI
					Leopold
Applied Water	Building Services	$ 743	51%	Pumps	Goulds Water Technology
	Industrial Water	603	42%		
	Irrigation	98	7%	Valves	Bell & Gossett
		$ 1,444	100%	Heat exchangers	AC Fire
				Controls	Standard
				Dispensing equipment systems	Lowara
					Jabsco
					Flojet
					Flowtronex

In recent years, we have expanded our capabilities in Treatment, the cleaning of water and wastewater, and Test, the measurement of water characteristics such as quality. Both of these application areas, Treatment and Test, reside within the Water Infrastructure segment.

Water Infrastructure

Water Infrastructure involves the process that collects water from a source and distributes it to users, and then returns the wastewater responsibly to the environment. Water Infrastructure serves three basic closely-linked applications: Transport, Treatment and Test of water and wastewater for two types of customers: public utilities and industrial facilities.

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Transport

The Transport application includes all of the equipment and services involved in the safe and efficient movement of water from sources, such as oceans, lakes, rivers and ground water, to treatment facilities, and then to users. It also includes the movement of wastewater from the point of use to a treatment facility and then back into the environment. We serve the higher-value equipment markets, such as water and wastewater submersible pumps, monitoring controls, and application solutions; we do not serve the market for lower-value equipment such as pipes and fittings. We believe our business is the largest player in this served market based on management estimates. With operations on six continents, we also have the world s largest dewatering rental fleet, serviced with our Flygt and Godwin brands. In our Water Infrastructure Segment, Transport accounted for approximately 73% of our consolidated revenue in 2011 and 74% of our consolidated revenue in 2010.

Flygt Flygt is the world s premier manufacturer of submersible pumps, mixers, and aeration equipment for use in environments such as water and wastewater treatment, raw water supply, abrasive or contaminated industrial processes, mining and crop irrigation. The Flygt brand was founded in 1901 in Lindås, Sweden and developed the world s first submersible close-coupled motor-driven pump. Flygt products have leading non-clogging capabilities and innovative N-technology, which provide customers with highly sustainable efficiencies and lowest total cost of ownership. Flygt products have applications in various markets, including wastewater lift stations, water and wastewater treatment facilities, pressurized sewage systems, oil and gas, steel, mining and leisure markets. Customers include public utility wastewater and clean water treatment facilities, oil and gas platforms, and steel manufacturing companies. As an example, Flygt recently served the village of Hartland, WI, population 8,350, located in Wisconsin s Lake Country. The Hartland Department of Public Works (DPW) is, among other things, responsible for operation and maintenance of sanitary sewers, lift stations and manholes. The DPW had experienced a range of problems resulting from ongoing clogging of the pumps in their collection-system lift stations. Replacing the pumps with self-cleaning Flygt N-pumps eliminated the clogging as well as unscheduled and costly service calls.

Godwin Pumps With more than 30 years as a leader in pump manufacturing, Godwin Pumps has established itself as a well-recognized and respected brand in the global portable pump market for removal of temporary, unwanted water. It manufactures, sells, rents and services products that are economical, reliable and customized to the specific needs of its clients. Founded in Quenington, England, Godwin Pumps is currently headquartered in Bridgeport, NJ. Godwin Pumps products include the fully automatic self-priming Dri-Prime pump, a range of Sub-Prime electric and Heidra hydraulic submersible pumps, Wet-Prime gasoline-powered contractor pumps and a broad line of generators and portable light towers. Godwin products are primarily used in construction, disaster recovery, flooding, heavy industry, marine use, mining, oil, gas and chemical extraction, refineries, temporary fire protection and water and wastewater transport. Customers include industrial plants, construction contractors, public utility wastewaters and clean water treatment and transportation facilities, oil, gas and chemical drilling outfits, and refineries. Godwin s fleet of equipment is rented through 33 U.S. branches and a global network of distributors.

Treatment

The Treatment application includes equipment and services that treat both water for consumption and wastewater to be returned responsibly to the environment. While there are several treatment solutions in the market today, we focus on three basic treatment types: (i) filtration, (ii) disinfection and (iii) biological treatment systems. Filtration uses gravity-based media filters and clarifiers to clean both water and wastewater. Leopold, with more than 80 years of experience, is our leading filtration brand. Disinfection systems, both ultraviolet (UV) and ozone oxidation, treat both public utility drinking water and wastewater, as well as industrial process water, and are provided through our WEDECO brand. Biological treatment systems are key to the treatment of solids in wastewater plants, which is provided through our Sanitaire brand. We believe our business is the largest player in this served market based on management estimates. In our Water Infrastructure Segment, Treatment accounted for approximately 18% of our consolidated net sales in 2011 and 20% of our consolidated net sales in 2010.

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Sanitaire Launched in 1967, the Sanitaire brand provides complete biological wastewater treatment solutions for public utility and industrial applications. Sanitaire s comprehensive offering includes diffused aeration, sequencing batch reactors, drum filters and state-of-the-art controls. Sanitaire is regarded as a leading brand in diffused aeration, which is a process that introduces air into a liquid, providing an aerobic environment for degradation of organic matter. Fine-pore diffusion of air is highly competitive due to its high oxygen transfer efficiency and lower energy costs. Sanitaire wide-band aeration systems are used in applications such as grit chambers and sludge that require non-clogging, maintenance-free systems. Principal Sanitaire customers are public utility and industrial wastewater treatment facilities.

WEDECO WEDECO was founded in 1975 in Herford, Germany to develop chemical-free and environmentally friendly water treatment technologies, including ultraviolet light and ozone systems. There are over 250,000 installed WEDECO systems for UV disinfection and ozone oxidation globally in private, public utility and industrial locations. WEDECO introduced ozone technology in 1988 and has been expanding internationally ever since. UV disinfection systems have a number of applications including water treatment and aquaculture. Ozone disinfection systems have applications in drinking water, wastewater, process water, product polishing, bleaching, ozonolysis/synthesis and desodoration. Customers include public utility wastewater and clean water treatment facilities, power plants, pulp and paper mills, food products manufacturers and aquaculture facilities.

Leopold Founded in 1924 in Pittsburgh, PA, Leopold is a leader in rapid gravity media filtration and clarification solutions for the water and wastewater industry. In Potable Drinking Water treatment plants, the Clari-DAF system is used to clarify raw water to remove contaminants such as turbidity, algae, color, iron/ manganese, organics, and taste and odor compounds. In public utility wastewater treatment plants, the ClariVAC system is used in final clarifiers to remove the sludge solids. For those areas where nitrogen and phosphorus nutrient removal is required, we provide elimi-NITE systems which convert the filters to become biologically active so that the effluent meets the mandated nitrate and phosphorus levels. In desalination systems, Leopold Clari-DAF systems and Filterworx systems are provided to remove contaminants that will harm reverse osmosis membranes, so that salt can be removed from the seawater to make it potable. Primary customers are public utility water and wastewater systems, as well as desalination plant facilities.

Test

Analytical instrumentation is used across most industries to ensure regulatory requirements are met. Growth in this market is primarily driven by increasing regulation of water and wastewater in North America, Europe and Asia. Largely through our 2010 acquisition of Nova Analytics, our served market is predominately focused on water and the environment for quality levels throughout the water infrastructure loop. Analytical systems are applied in three primary ways: in the field, in a facility laboratory, or real time, online monitoring in a treatment facility process. We believe we have a leading position in this served market based on management estimates. In our Water Infrastructure Segment, Test accounted for approximately 9% of our consolidated net sales in 2011 and 6% of our consolidated net sales in 2010.

WTW In wastewater treatment facilities, WTW-branded systems monitor parameters such as dissolved oxygen, pH, and turbidity throughout the water process to ensure regulatory standards are met before water is discharged back into the environment. Founded in 1945 as a major brand in Europe, WTW has particularly strong market penetration in the environmental, water and wastewater segments. WTW holds leading market positions in both field and on-line instrumentation and manufactures premium positioned robust and reliable analysis products for the measurement of pH, dissolved oxygen, conductivity, total dissolved solids, turbidity, specific ions and biological oxygen demand. WTW s product offering includes meters, sensors, data-loggers, photometers and software providing customers solutions to even the most challenging applications.

AADI Aanderaa Data Instruments AS (AADI), founded in 1966 and headquartered in Bergen, Norway, offers sensors, instruments and systems for measuring and monitoring in the most demanding environments such as rivers, oceans and the polar regions through fully networked systems using wireless technology that monitors

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temperature, salinity, oxygen, turbidity, current and waves for ecosystem health. The main market areas are marine transportation, environmental and ocean research, oil and gas, aquaculture, road and traffic, and construction. AADI s new technologies underlie the most advanced distributed instrumentation for underwater and atmospheric measurements. Hydro-acoustic, electro-optical, electro-chemical, pressure, temperature and meteorological data are captured by observing networks and self-contained instrumentation using real-time communication. Key customers include many oceanographic institutes, universities, geophysical surveyors, navies, offshore oil and gas companies, drilling companies, port and harbor authorities, government agencies, water authorities and electric power utilities internationally.

OI Analytical Oceanography International Corporation (OI Analytical) provides innovative products used for chemical analysis. We develop, manufacture, sell, and service analytical instruments that detect, measure, analyze, and monitor chemicals in liquids, solids, and gases. OI Analytical was originally focused on oceanography equipment. This led to OI Analytical s production of water-quality measurement instrumentation, as oceanography equipment sales declined. In 1969, O.I. Corporation developed O.I. Corporation s first total organic carbon analyzer. Since that time, the Company has become recognized worldwide as a provider of quality analytical instrumentation. We also provide products used to digest, extract, and separate components of chemical mixtures.

YSI Yellow Springs Instrument Company (YSI), founded in 1948, develops and manufactures sensors, instruments, software and data collection platforms for environmental and coastal water quality monitoring and testing. YSI also offers Life Sciences products including biochemical analyzers for bioprocess monitoring, food and beverage processing, and sports physiology. The main market areas are marine transportation, environmental and ocean research, oil and gas, aquaculture, road and traffic, and construction.

Applied Water

Applied Water encompasses all the uses of water. Since water is used to some degree in almost every aspect of human, economic and environmental activity, this segment has innumerable applications. Our served market today consists of the main uses of global water: Building Services, Industrial Water and Irrigation.

Building Services

This business is defined by four main uses of water in building services applications, such as in residential homes and commercial buildings, including offices, hotels, restaurants and malls. The first is the supply of potable water for consumption, such as for drinking and hygiene. The Goulds brand is a leader in pumps and boosting systems utilized within buildings, sourcing water from distribution networks or from wells. The second application is wastewater removal with sump and sewage pumps. The third application is in heating, ventilation and air conditioning (HVAC), where Bell & Gossett specializes in pumps and valves that are used in water-based heating and cooling systems. The fourth water-related building service area is fire protection, where our AC Fire brand supplies full pump systems for emergency fire suppression. In Europe, Lowara is a leading brand in the commercial and residential water market with applications in the four main uses of water. We believe our business is the second largest player in this served market based on management estimates. In our Applied Water Segment, Building Services accounted for approximately 51% of our consolidated net sales in 2011 and 55% of our consolidated net sales in 2010.

Industrial Water

Water is used in most industrial facilities to provide processing steps such as cooling, cleaning and mixing. Our Goulds brand supplies vertical multistage pumps to boost pressure for purposes such as circulating water through a manufacturing facility to cool machine tools. Our Lowara brand focuses on water treatment, industrial washing equipment and machine tool cooling. The Standard brand delivers heat exchangers for combined heat and power (CHP) applications within power generation plants. We also provide niche applications such as flexible impeller

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pumps for wine processing facilities served by our Jabsco brand, and water-based detergent dispensing and water circulation within car washes served by Flojet and Goulds air-operated diaphragm and end suction pumps. Across all these various end applications, we believe our business is the second largest player in this served market based on management estimates. In our Applied Water Segment, Industrial Water accounted for approximately 42% of our consolidated net sales in 2011 and 38% of our consolidated net sales in 2010.

Irrigation

The irrigation business consists of irrigation-related equipment and services associated with bringing water from a source to the plant or livestock need, including hoses, sprinklers, center pivot and drip irrigation. We focus on the pumps and boosting systems that supply this ancillary equipment with water. Our Goulds brand brings mixed flow pumps, and our Flowtronex group specializes in equipment solutions such as the Hydrovar boosting system, which incorporates monitoring and controls to optimize energy efficiency in irrigation delivery. Our Lowara brand also produces pumps for agriculture applications and irrigation of gardens and parks. We believe we have a leading position in this served market based on management estimates. In our Applied Water Segment, Irrigation accounted for approximately 7% of our consolidated net sales in 2011 and 2010.

As described above, the following brands and products are used across the applications in our Applied Water segment:

Our Brands

Goulds Water Technology With origins dating back over 150 years, Goulds is a leading brand of centrifugal and turbine pumps, controllers, variable frequency drives and accessories for residential and commercial water supply and wastewater applications. Goulds is a leader in the water technologies market with its line of residential water well pumps. The Goulds product portfolio includes submersible and line shaft turbine, 4 submersible, jet, sump, effluent, sewage and centrifugal pumps for residential, agriculture and irrigation, sewage and drainage, commercial and light industrial use. Goulds submersible, deepwell or other pumps can be found in more than a quarter of the existing 15 million household wells and more than 380,000 public and community wells in the United States. Products for commercial wastewater include sewage, effluent and grinder pumps and packages. Agriculture products include pump and control products for irrigation, stockwater, wash systems, cooling systems and waste management, with turf irrigation products including submersible and surface pumps for landscape and turf irrigation systems. We serve the building trades market with filtration, chilling, pressure boost, wash system, water, supply, wastewater and boiler feed applications. We also have a range of standard cast iron and bronze end-suction and multistage pumps for various commercial applications.

Lowara Founded in 1968, and headquartered in Vicenza, Italy, Lowara is a leader in stainless steel pump manufacturing technology for water technology applications. The Lowara range includes submersible, sump, effluent, sewage, centrifugal pumps and booster packages for water supply and water pumping needs in the residential, agriculture, industrial, public utility, building service and commercial markets worldwide, with particular strength in Europe. Residential applications include pumps for pressurization, conditioning, fire-fighting systems, lifting stations and dewatering. Agriculture applications include pumps for irrigation of gardens and parks. Industrial applications include drinking water, water treatment, industrial washing equipment and machine tool cooling. As an example of how Lowara has served the commercial building services market, seven Lowara water booster sets are used for even pressure water supply in the world s tallest building, the Burj Khalifa in the United Arab Emirates.

Bell & Gossett Founded in 1916 in Chicago, IL, Bell & Gossett has been headquartered in Morton Grove, IL since 1941. Bell & Gossett, or B&G, is a leader in plumbing and water-based heating and air conditioning markets. Products are used in residential applications where single- or multi-family homes are heated with hot water or steam. Key products include circulating pumps, valves, and specialty products used in these systems. B&G also sells wastewater pumps for residential applications. In commercial applications, B&G provides a broad range of products, including a wide variety of pumps, heat exchangers, valves and controls for heating and

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air-conditioning systems, sump pumps for wastewater systems, condensate pumping systems for steam heating systems and a comprehensive line of energy-saving variable speed controls. Training is provided for Building System Design Engineers at B&G s industry renowned Little Red Schoolhouse in Morton Grove. Key commercial building types include hospitals, schools, and data centers. B&G products are sold globally by independent manufacturer representatives and distributed locally by heating, ventilating and air conditioning, or HVAC, wholesalers. B&G recently sold some of its largest pumps to the new Children s Memorial Hospital building in Chicago, IL. These pumps will circulate chilled water throughout the building to provide air-conditioning for the occupants.

AC Fire Allis-Chalmers Company was founded in the 1840s in Milwaukee, WI. It offers turnkey fire pump systems for commercial, residential and industrial applications. We design and custom-build a wide range of fire pump systems including prefabricated packages and house units that meet every fire protection need. AC Fire products include In-Line Pumps, Vertical Turbine, Package Systems, Split Case (various series) and 13D Home Defender for residential fire pump service. The 13D Home Defender is designed to boost water pressure for automatic residential sprinkler systems. In addition to residential applications, turnkey fire pumping systems from A-C Pump protect an increasing number of petrochemical facilities, commercial buildings and factories around the world.

Flowtronex Flowtronex, founded in 1974 as Pumping Systems, Inc., began by producing some of the golf industry s first prefabricated water pumping systems. The Silent Storm package and Pace Integrated Pump Controller are our two primary products sold into the golf market. In landscape, Flowtronex products, primarily the Floboy system, are sold to customers such as cities and nurseries. In golf, Flowtronex products are sold to golf course superintendents through our Toro Distribution partnership. Retrofit sales of golf pumping systems are sold through our FlowNet Service Network, a group of factory authorized service technicians that provide set up and start up and service and repair of Flowtronex pump stations.

Standard For close to 90 years Standard has been the leader in the design and manufacture of shell and tube heat exchangers. Standard is the brand of our complete line of heat transfer products used in industrial and process applications such as heating or cooling liquids or gases, heat recovery in chemical processing, power and co-generation, paper and pulp, OEM and commercial marine markets. Products include basic shell-and-tube heat exchangers, air coolers, heat transfer coils, compact brazed, welded, gasketed plate units and packaged steam condensers.

Jabsco The Jabsco brand is known for its marine, industrial, and hygienic/sanitary pumps and systems that are used in many industries, including marine, industrial, healthcare and food processing. It was founded in 1941 by the inventors of the flexible impeller pump. Jabsco is a leader in the leisure marine market, with a broad range of products including water system, engine cooling pumps, searchlights and marine waste systems. Jabsco also offers industrial pumps for hygienic applications, fluid transfer in chemical processing, laboratory, paint processing, plating, and construction. Jabsco rotary lobe pumps offer outstanding performance with unique capabilities. Jabsco Hy-line and Ultima rotary lobe pumps support food and dairy product production, healthcare, chemical, pharmaceutical and biotech applications, whether the product is thin, viscous or fragile. Jabsco also offers multi-purpose and specialized flexible impeller, diaphragm and sliding vane pumps for chemical and general transfer applications.

Flojet Established in 1975, the Flojet brand encompasses a broad range of small pumps, motors and dispensing pumps for the beverage, industrial, RV, marine and food processing markets. Flojet is a leader in the small pump market, offering a versatile range of products serving the beverage market, including both air- and motor-operated diaphragm pumps and centrifugal chilling pumps, as well as booster systems and accumulator tanks. Flojet s beverage pumps can be found in applications such as beer dispensing, syrup mixing for carbonated drinks, re-circulation in vending machines and refrigerators, bottled water dispensers, icemakers and coffee machines. In addition to significant beverage applications, Flojet s electric and air-operated diaphragm pumps are utilized in street sweepers, car washes, carpet cleaners, parts washers, agricultural spraying and road rollers.

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Flojet s positive displacement diaphragm pumps can be driven by air, electric motor or solenoid. The positive displacement diaphragm design of Flojet pumps makes them ideal for use in conditions that require self-priming and dry running capability for short periods of time. Additionally, the compact size of these pumps makes them very useful in tight spaces where one cannot ensure a flooded suction. Flojet pumps are designed to be more efficient and are often the choice of customers for applications where low power consumption is critical.

Geographic Profile

In addition to the traditional markets of the United States and Western Europe, opportunities in emerging markets within Asia Pacific, Eastern Europe, Latin America and other countries are growing. Revenue derived from emerging markets comprised 19% of our revenue in 2011 including growth in Latin America and the Middle East.

The table below illustrates the annual revenue and long-lived assets, by geographic area, for the three years ended December 31, 2011.

	Revenue			Property, Plant & Equipment		
(in millions)	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
United States	**$ 1,363**	$ 1,125	$ 956	**$ 178**	$ 168	$ 73
Europe	**1,422**	1,262	1,217	**209**	219	196
Asia Pacific	**426**	343	269	**57**	49	46
Other	**592**	472	407	**19**	18	19
Total	**$ 3,803**	$ 3,202	$ 2,849	**$ 463**	$ 454	$ 334

Percentage of revenue by geographic area

	2011	**2010**	**2009**
United States	**36%**	35%	34%
Europe	**37%**	39%	43%
Asia Pacific	**11%**	11%	9%
Other	**16%**	15%	14%

Distribution, Training and End Use

Water Infrastructure provides more than 70% of its sales through direct channels with remaining sales through indirect channels and service capabilities. Both public utility and industrial facility customers increasingly require our teams global but locally proficient expertise to use our equipment in their specific applications. Several trends are increasing the need for this application expertise: (i) the increase in type and amount of contaminants in water supply, (ii) increasing environmental regulations, (iii) the need to increase system efficiencies due to rising energy costs, and (iv) the retirement of a largely aging water industry workforce not systematically replaced at utilities.

In the Applied Water segment, many end-use areas are widely different, so specialized distribution partners are often preferred. Our commercial teams have built long-standing relationships around our brands in many of these industries through which we can continue to leverage new product and service applications. Revenue opportunities are balanced between OEM and after-market customers. Our products in the Applied Water segment are sold through our global direct sales and world-class indirect channels with more than 85% of revenue going through indirect channels. We have long-standing relationships with the leading independent distributors in the markets we serve, and we provide incentives to distributors, such as specialized training programs, to exclusively sell our products.

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Aftermarket Parts and Service

We have more than 120 service centers around the world which employ approximately 600 service employees to provide aftermarket parts and services to our customers. During their lifecycle, installed products require maintenance, repair services and parts due to the harsh environments in which they operate.

In addition, depending on the type of product, median lifecycles range from 5 years to over 50 years, at which time they must be replaced. Many of our products are precisely selected and applied within a larger network of equipment driving a strong preference by customers and installers to replace them with the same exact brand and model when they reach the end of their lifecycle. This dynamic establishes a large recurring revenue stream for our business.

Supply and Seasonality

We have a global manufacturing footprint, with production facilities in Europe, North America, Latin America, and Asia. In addition, we maintain a global network of service centers providing after-market customer care. Service centers offer an array of integrated service solutions for the industry including: preventive monitoring, contract maintenance, emergency field service, engineered upgrades, inventory management, and overhauls for pumps and other rotating equipment.

We offer a wide range of highly engineered products. We primarily employ configure-to-order capabilities to maximize manufacturing and logistics efficiencies by producing high volumes of basic product configurations. When we provide a configure-to-order solution, we configure a standard product to our customers specifications. To a lesser extent, we provide engineer-to-order products to meet the customization requirements of our customers. This process requires that we apply our technical expertise and production capabilities to provide a non-standard solution to the customer.

Our inventory management and distribution practices seek to minimize inventory holding periods by taking delivery of the inventory and manufacturing immediately prior to the sale or distribution of products to our customers. All of our businesses require various parts and raw materials, the availability and prices of which may fluctuate. Parts and raw materials commonly used in our products include motors, fabricated parts, castings, bearings, seals, nickel, copper, aluminum, and plastics. While we may recover some cost increases through operational improvements, we are still exposed to some pricing risk. We attempt to control costs through fixed-priced contracts with suppliers and various other programs, such as our global strategic sourcing initiative.

Our business relies on third-party suppliers, contract manufacturing and commodity markets to secure raw materials, parts and components used in our products. We typically acquire materials and components through a combination of blanket and scheduled purchase orders to support our materials requirements. For most of our products, we have existing alternate sources of supply, or such sources are readily available.

We may experience price volatility or supply constraints for materials that are not available from multiple sources. From time to time, we acquire certain inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. There have been no raw material shortages that have had a significant adverse impact on our business as a whole.

Customers

Our business is not dependent on any single customer or a few customers, the loss of which would have a material adverse effect on the respective market or on us as a whole. No individual customer accounted for more than 10% of our consolidated 2011 revenue.

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Backlog

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 $739 million at March 31, 2012, an increase of $88 million or 13.5% as compared to $651 million at December 31, 2011 and an increase of $17 million or 2.4% as compared to $722 million at March 31, 2011. We anticipate that in excess of 85% of the backlog at March 31, 2012 will be recognized as revenue in the remainder of 2012.

Competition

Given the highly fragmented nature of the water industry, Water Infrastructure competes with a large number of businesses. Competition in the water transport and treatment technologies markets focuses on product performance, application expertise, design, quality, delivery, and price. In the sale of products and services, we benefit from our large installed base of pumps and complementary products, which require maintenance, repair and replacement parts due to the nature of the products and the conditions under which they operate. Timeliness of delivery, quality and the proximity of service centers are important customer considerations when selecting a provider for after-market products and services as well as equipment rentals. In geographic regions where we are locally positioned to provide a quick response, customers have historically relied on us, rather than our competitors, for after-market products relating to our highly engineered and customized solutions.

Competition in the Applied Water segment focuses on brand names, application expertise, product delivery and performance, quality, and price. We compete by offering a wide variety of innovative and high quality products, coupled with world-class application expertise. We believe our distribution through well-established channels and our reputation for quality significantly enhance our market position. Our ability to deliver innovative product offerings has allowed us to compete effectively, to cultivate and maintain customer relationships and to serve and to expand into many niche and new markets.

Research and Development

Research and development (R&D) is a key element of our engineering culture and is generally focused on the design and development of products and application know-how that anticipate customer needs and emerging trends. Our engineers are involved in new product development and improvement of existing products. Our businesses invest substantial resources for R&D. We anticipate we will continue to develop and invest in our R&D capabilities to promote a steady flow of innovative, high-quality and reliable products and applications to further strengthen our position in the markets we serve. We invested $100 million, $74 million, and $63 million for the years ended December 31, 2011, 2010 and 2009, respectively, towards R&D.

We have over 600 engineering and research employees in more than 40 technology centers around the world. R&D activities are initially conducted in our technology centers, located in conjunction with some of our major manufacturing facilities to ensure an efficient development process. We have established a wastewater Center of Excellence in Stockholm, Sweden, with over 100 research, development and engineering employees. We have launched Centers of Excellence in India and China, where we are accelerating the customization of our application expertise to local needs. In the scale-up process, our R&D activities are conducted at our piloting and testing facilities or at strategic customer sites. These piloting and testing facilities enable us to serve our strategic markets in each region of the world.

We generally seek patent protection for those inventions and improvements likely to be incorporated into our products or where proprietary rights will improve our competitive position. We believe that our patents and applications are important for maintaining the competitive differentiation of our products and improving our return on research and development investments. While we own, control or license a significant number of patents, trade secrets, confidential information, trademarks, trade names, copyrights, and other intellectual property rights which, in the aggregate, are of material importance to our business, management believes that our business, as a whole, as well as each of our core business segments, is not materially dependent on any one intellectual property right or related group of such rights.

Patents, patent applications, and license agreements expire or terminate over time by operation of law, in accordance with their terms or otherwise. As the portfolio of our patents, patent applications, and license agreements has evolved over time, we do not expect the expiration of any specific patent to have a material adverse effect on our financial position, results of operations or cash flows.

Environmental Matters and Regulation

Our manufacturing operations worldwide are subject to many requirements under environmental laws. In the United States, the Environmental Protection Agency and similar state agencies administer laws and regulations concerning air emissions, water discharges, waste disposal, environmental remediation, and other aspects of environmental protection. Such environmental laws and regulations in the United States include, for example, the Federal Clean Air Act, the Clean Water Act, the Resource, Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Environmental requirements significantly affect our operations. We have established an internal program to address compliance with applicable environmental requirements and, as a result, management believes that we are in substantial compliance with current environmental regulations.

While environmental laws and regulations are subject to change, such changes can be difficult to predict reliably and the timing of potential changes is uncertain. Management does not believe, based on current circumstances, that compliance costs pursuant to such regulations will have a material adverse effect on our financial position, results of operations or cash flows. However, the effect of future legislative or regulatory changes could be material to our financial condition or results of operations.

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. It can be difficult to estimate reliably the final costs of investigation and remediation due to various factors. 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 based upon the facts and circumstances as currently known to us. 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 do not anticipate these liabilities will have a material adverse effect on our consolidated and combined financial position, results of operations or cash flows. We cannot make assurances that other sites, or new details about sites known to us, that could give rise to environmental liabilities with such material adverse effects on us will not be identified in the future. At December 31, 2011, we had estimated and accrued $15 million related to environmental matters.

Employees

As of December 31, 2011, Xylem had approximately 12,500 employees worldwide. We believe that our facilities are in favorable labor markets with ready access to adequate numbers of workers, and we believe our relations with our employees are good.

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Properties

We have over 320 locations in over 40 countries. These properties total approximately 8.5 million square feet, of which over 280 locations, or approximately 4.9 million square feet, are leased. We consider the many offices, plants, warehouses, and other properties that we own or lease to be in good condition and generally suitable for the purposes for which they are used. The following table shows the significant locations by segment.

Location	State or Country	Principal Business Activity	Approx. Square Feet	Owned or Expiration Date of Lease
		Water Infrastructure		
Emmaboda	Sweden	Administration and Manufacturing	1,156,000	Owned
Shenyang	China	Manufacturing	394,000	Owned
Stockholm	Sweden	Administration and Research and Development	172,000	2019
		Applied Water		
Morton Grove	Illinois	Administration and Manufacturing	530,000	Owned
Montecchio	Italy	Manufacturing	379,000	Owned
Nogales	Mexico	Manufacturing	358,000	2013
Auburn	NY	Manufacturing	298,000	Owned
Lubbock	TX	Manufacturing	229,000	Owned
Cheektowaga	NY	Manufacturing	200,000	Owned
		Corporate Headquarters		
White Plains	NY	Administration	46,000	2013

Our corporate headquarters is currently located at 1133 Westchester Avenue, Suite N200, White Plains, New York. We are currently located in the same building as our former parent, ITT, but occupy an independent space on separate floors with each company having its own entrance, security and maintenance systems. We have agreed to lease this space directly from the third-party building owner at market rates for a two-year period through 2013.

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, product liability and personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. Although we cannot predict the outcome of these and other proceedings, including the cases below, with certainty, we believe that they will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

On December 20, 2011, the Ad Hoc Committee of ITT Bondholders filed a Complaint in New York State court alleging that ITT breached the early redemption provisions of certain bonds issued in 2009. In 2009, ITT issued $500 million in bonds with a 10-year maturity date in 2019 and an interest rate of 6.125%. The documents governing the bonds contained certain provisions governing early redemptions. On September 20, 2011, ITT notified the holders of the debt that it intended to redeem the bonds on October 20, 2011 in accordance with the terms of the governing documents. On October 18, 2011, the redemption price was disclosed. The Plaintiffs contend that ITT used an improper discount rate in calculating the redemption price and otherwise failed to comply with required redemption procedures. The Plaintiffs allege damages in excess of $5 million and further allege that if such damages are extended to all holders of these bonds, the damages would be in excess of $15 million. The costs associated with this matter, if any, will be shared with ITT and Exelis in accordance with the Distribution Agreement (21% ITT, 39% Exelis and 40% Xylem).

On October 26, 2011, the Company and ITT filed a declaratory judgment action against Xylem Group LLC in the U.S. District Court for the Northern District of Georgia, seeking a declaration of non-infringement regarding the Company s use of the name Xylem. The suit was filed in response to a letter received in July 2011 from Xylem Group LLC, a supplier of bath furniture and fixtures, demanding that the Company cease and desist using the XYLEM mark worldwide for its water treatment business. The Company seeks an order declaring its use of XYLEM does not infringe upon Xylem Group LLC s trademark rights, and Xylem Group LLC, in its counterclaim, seeks an order enjoining the Company from further use of the XYLEM mark in certain markets and unspecified monetary damages.

On or about February 17, 2009, following a statement submitted to the Spanish Competition Authority (Comision Nacional de la Competencia, CNC) by Grupo Industrial Ercole Marelli, S.A. regarding a cartel in which it said it had been participating, the CNC conducted an investigation at the offices of ITT Water & Wastewater Espana S.A. (now named Xylem Water Solutions Espana S.A.) and the offices of other members of the Spanish Association of Fluid Pump Manufacturers. On September 16, 2009, the Investigations Division of the CNC commenced formal proceedings for alleged restrictive practices, such as agreement on general terms and conditions of sale, prohibited under applicable law. Following the conclusion of the formal proceedings, the CNC Council imposed fines on nineteen Spanish manufacturers and distributors of fluid pumps, including a fine of Euro 2,373,675 applied to ITT Water & Wastewater Espana S.A. and ITT Corporation. The Company has appealed the findings to the court, Audiencia Nacional, and is vigorously defending the case.

Mine Safety Disclosures

Pursuant to the reporting requirements under Section 1503(a) of the Dodd-Frank Act, the Company is providing the following information: one facility owned and operated by Xylem Water Solutions Zelienople LLC (f/k/a ITT Water and Wastewater Leopold, Inc.) is regulated by the Federal Mine Health and Safety Act (MHSA). This facility is a coal processing facility located in Watsontown, Pennsylvania. In December 2010, the Watsontown facility was inspected by the MHSA and was issued a minor citation. Corrective actions have been taken and this citation was terminated by the MHSA inspector in March 31, 2011.

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MANAGEMENT

Our Executive Officers

The following table sets forth information about our executive officers, and their respective ages, as of the date of this prospectus. Each of the executive officers was elected to his or her position by the Company s Board of Directors in connection with the Spin-off.

Name	Age	Position
Gretchen W. McClain	49	President and Chief Executive Officer
Michael T. Speetzen	42	Senior VP and Chief Financial Officer
Frank R. Jimenez	47	Senior VP, General Counsel and Corporate Secretary
Angela A. Buonocore	54	Senior VP and Chief Communications Officer
Kenneth Napolitano	50	Senior VP and President, Residential and Commercial Water and Flow Control
Michael L. Kuchenbrod	47	Senior VP and President, Water Solutions
Christopher R. McIntire	48	Senior VP and President, Analytics
Robyn T. Mingle	47	Senior VP and Chief Human Resources Officer
Colin R. Sabol	44	Senior VP and Chief Strategy and Growth Officer

Gretchen W. McClain Gretchen W. McClain serves as our President and Chief Executive Officer and as a Director on our Board of Directors. Ms. McClain served as President of the ITT Fluid and Motion Control business. Ms. McClain joined ITT in September 2005 as the President of ITT s Residential & Commercial Water business. She was named President of ITT Fluid Technology in March 2007 and served in that role before being named President of Fluid and Motion Control in December 2008. Prior to joining ITT, Ms. McClain was Vice President and General Manager of the Business, General Aviation & Helicopters (BGH) Electronics division at Honeywell Aerospace. Prior to assuming the BGH position, she held a variety of leadership positions in Honeywell Aerospace s Engines, Systems & Services division, including Vice President for Engineering and Technology and Vice President for Program Management. She joined AlliedSignal in 1999, which later merged with Honeywell. Earlier, Ms. McClain spent nine years with NASA and served as Deputy Associate Administrator for Space Development, where she played a pivotal role in the successful development and launch of the International Space Station Program. Also with NASA, she served as Chief Director for Space Station, and as a Deputy Director for Space Flight. Ms. McClain currently serves on the Board of Faradyne, an ITT joint venture with Pentair, Inc. Ms. McClain is a graduate of the University of Utah in Salt Lake City, where she earned her bachelor s degree in mechanical engineering. Ms. McClain has an extensive business, developmental and strategic background, a strong technical background and, in particular, has intimate knowledge of the Company s business and operations, having served as President of the ITT Fluid and Motion Control and Residential and Commercial Water businesses since 2005. Ms. McClain has also served as a Director on the Board of the Hydraulic Institute, the largest association of pump producers in North America, providing additional relevant experience.

Michael T. Speetzen Michael T. Speetzen serves as our Senior Vice President and Chief Financial Officer. Mr. Speetzen served as Vice President of Finance for the Fluid and Motion Control business of ITT. He joined ITT in 2009 as Vice President of Finance for Fluid Technology, and his role was expanded to his current position later that year. Before joining ITT, Mr. Speetzen served as Executive Vice President and Chief Financial Officer for the StandardAero division of private equity firm Dubai Aerospace Enterprise from 2007 to 2009. Previously, he held positions with Honeywell from 1995 to 2007 and General Electric from 1993 to 1995. Mr. Speetzen currently serves on the board of Faradyne, an ITT joint venture with Pentair, Inc. Mr. Speetzen holds a bachelor s degree in management with an emphasis in finance from Purdue University, and a Master of Business Administration from Thunderbird s School of Global Management.

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Frank R. Jimenez Frank R. Jimenez serves as our Senior Vice President, General Counsel and Corporate Secretary. Mr. Jimenez served as Vice President and General Counsel for ITT. He joined ITT in June 2009 and previously served under U.S. Presidents Bush and Obama as the General Counsel of the U.S. Navy from 2006 to 2009. Prior to that, Mr. Jimenez served as Principal Deputy General Counsel, U.S. Department of the Navy, from 2004 to 2005, and as Deputy General Counsel, U.S. Department of Defense, from 2005 to 2006. Earlier, Mr. Jimenez served as Chief of Staff at the U.S. Department of Housing and Urban Development (HUD) from 2002 to 2004. Prior to HUD, he was Deputy Chief of Staff (1999-2002) and acting General Counsel (2000) for Florida Governor Jeb Bush. Previously, he practiced commercial and white-collar litigation from 1992 to 1999 in the Miami office of Steel Hector & Davis LLP (now Squire Sanders & Dempsey LLP), where he was named a partner in 1998. Mr. Jimenez received his law degree from the Yale Law School, and he holds a master of business administration, with majors in finance and strategic management, from the University of Pennsylvania s Wharton School, and a master s degree in national security and strategic studies, with distinction, from the U.S. Naval War College. He earned his bachelor s degree, with honors, from the University of Miami.

Angela A. Buonocore Angela A. Buonocore serves as our Senior Vice President and Chief Communications Officer. Ms. Buonocore served as Senior Vice President and Chief Communications Officer for ITT Corporation. She joined ITT in March 2007 from The Pepsi Bottling Group where she served as Vice President, Corporate Communications since 2001. Prior to her 12-year career in the PepsiCo system, Ms. Buonocore spent 11 years with IBM and five years at General Electric Company in various internal and external communications roles. Ms. Buonocore is a trustee of the Arthur W. Page Society and the Institute for Public Relations, and a member of the Wisemen and the Seminar, all organizations of senior corporate communications executives. In 2003, she was elected a member of the Accademia Europea per le Relazioni Econimiche e Culturali, a Rome-based organization that honors Italians and Italian-Americans who are leaders in their fields. In 2010, she was honored by the National Organization for Women s New York City chapter as a Woman of Power and Influence. Ms. Buonocore holds a bachelor s degree in advertising with high honors from the University of Florida and was honored as a Distinguished Alumna of the College of Journalism and Communications in May 2007.

Kenneth Napolitano Kenneth Napolitano serves as our Senior Vice President and President of Residential and Commercial Water and Flow Control. Mr. Napolitano served as President of the ITT Residential and Commercial Water business. He began his career with ITT Goulds Pumps as an intern in 1980. Subsequently, Mr. Napolitano served as President of the ITT Industrial Process business, and held a number of other leadership assignments within ITT, including Vice President of the Americas Sales and Service organization and General Manager of ITT Monitoring and Controls, where he focused on the development of advanced technologies. In March 2011, he was elected Chairman of the Board of the Hydraulic Institute. In 2010, Mr. Napolitano also served as the President of the Hydraulic Institute and received the prestigious President s Award in recognition of his efforts and leadership. Mr. Napolitano holds a bachelor s degree in interdisciplinary engineering and management from Clarkson University.

Michael L. Kuchenbrod Michael L. Kuchenbrod serves as our Senior Vice President and President of Water Solutions. He served as President of ITT Water and Wastewater, a role to which he was appointed in May 2011. Prior to that, Mr. Kuchenbrod served as President of ITT s China Operations, a regional value center focused on delivering the ITT commercial portfolio within these critical markets. Prior to his post in China and India, Mr. Kuchenbrod spent most of his 23-year career with ITT in the Interconnect Solutions business with operations throughout the Americas, Europe and Asia, ultimately becoming President of that value center. He was also head of our KONI shock absorber business in the Netherlands. Mr. Kuchenbrod holds a bachelor s degree in chemical engineering from Montana University.

Christopher R. McIntire Christopher R. McIntire serves as our Senior Vice President and President of Analytics. Mr. McIntire served as President of Analytics of the ITT Fluid and Motion Control business. He joined ITT in March 2009 when ITT acquired Nova Analytics. During his time with Nova Analytics, he served as President and Chief Operating Officer. Prior to joining Nova Analytics, Mr. McIntire held various leadership positions including Chief Executive Officer of WTW, a Munich based company in the Nova portfolio. Earlier, he

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spent 14 years with Thermo Fisher Scientific in various engineering and operational roles, including several in the Water and Environmental division. He also served as General Manager for both Thermo Affinity Sensors in the United Kingdom and Thermo Detection in the United States. Mr. McIntire holds a master of business administration from Northeastern University.

Robyn T. Mingle Robyn T. Mingle serves as our Senior Vice President and Chief Human Resources Officer. Ms. Mingle joined ITT in July 2011 and served as Vice President of Human Resources of the ITT Fluid and Motion Control business. Ms. Mingle brings more than 20 years of domestic and international human resources experience across multiple industries. Most recently, she spent 8 years as Senior Vice President of Human Resources at Hovnanian Enterprises, Inc. during a period of significant growth and transformation. Ms. Mingle also spent 14 years with The Black & Decker Corporation, where she held numerous HR leadership roles. During this time, she served as Vice President of Human Resources for DeWalt and Black & Decker Power Tools, and held an expatriate assignment in Singapore where she led HR efforts in Asia/Pacific, the Middle East, Africa, and Australia/New Zealand. Ms. Mingle has also served on several non-profit boards, including the Juvenile Diabetes Research Foundation. She holds a master s degree in industrial psychology from the University of Baltimore and a bachelor s degree in psychology/industrial relations from Bloomsburg University.

Colin R. Sabol Colin R. Sabol serves as our Senior Vice President and Chief Strategy and Growth Officer. Mr. Sabol served as Vice President of Marketing and Business Development for the ITT Fluid and Motion Control business. He joined ITT in 2006 as Vice President of Marketing and Business Development, a position he held until March 2009, when his role was expanded to include responsibility for the Motion Control businesses. Prior to joining ITT, Mr. Sabol was with General Electric Corporation (GE). During his 17 years with GE, he held a number of professional and managerial positions of increasing responsibility, including Chief Financial Officer for GE Energy Services and Vice President of Mergers and Acquisitions for GE Corporate. Mr. Sabol holds a bachelor s degree in materials engineering from Alfred University.

Our Board of Directors

The following table sets forth information about our directors, and their respective ages, as of the date of this prospectus. Biographical information for Gretchen W. McClain is above under Our Executive Officers.

Name	Age	Position
Markos I. Tambakeras	61	Chairman
Victoria D. Harker	47	Director
Gretchen W. McClain	49	Director
Curtis J. Crawford	64	Director
John J. Hamre	61	Director
Surya N. Mohapatra	62	Director
Sten E. Jakobsson	63	Director
Steven R. Loranger	60	Director, Chairman Emeritus
Edward J. Ludwig	61	Director

Class I Directors Whose Term Expires in 2012

Markos I. Tambakeras Chairman of our Board of Directors

Markos I. Tambakeras serves as Chairman of our Board of Directors. Mr. Tambakeras has been a Director of ITT since 2001. Mr. Tambakeras served on the Board of Parker Hannifin Corporation from 2005 until October 2011 and served as a Director of the Board of Newport Corporation from May 2008 through December 31, 2009. Mr. Tambakeras also served as Chairman of the Board of Directors of Kennametal, Inc. from July 1, 2002 until December 31, 2006. He was also President and Chief Executive Officer of Kennametal from July 1999 through December 31, 2005. From 1997 to June 1999, Mr. Tambakeras served as President, Industrial Controls Business,

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for Honeywell Incorporated. Mr. Tambakeras serves on the Board of Trustees of Loyola Marymount University and he is also a trustee of Arizona State University and has served for two years on the President s Council on Manufacturing. He was previously the Chairman of the Board of Trustees of the Manufacturers Alliance/MAPI, which is the manufacturing industry s leading executive development and business research organization. Mr. Tambakeras received a B.Sc. degree from the University of Witwatersrand, Johannesburg, South Africa and a master of business administration from Loyola Marymount University. Mr. Tambakeras has strong strategic and global operational industrial experience, having worked in increasingly responsible positions in several manufacturing companies, including leadership positions in South Africa and the Asia-Pacific area. In addition to his Board experience described above, Mr. Tambakeras has an extensive background in international operations, providing experience and skills relevant to the Company s global sales and manufacturing infrastructure.

Victoria D. Harker Former Chief Financial Officer and President of Global Business Services, AES Corporation

Victoria D. Harker serves as a Director on our Board of Directors. Ms. Harker served as Chief Financial Officer and President of Global Business Services of the AES Corporation (AES), a global power company from 2006 to May 7, 2012. She joined AES in 2006 to lead the Global Finance Team in a restructuring of its financial reporting, controls and capitalization. Before joining AES, Ms. Harker was the acting Chief Financial Officer and Treasurer of MCI from November 2002 through January 2006, and served as Chief Financial Officer of MCI Group, a unit of World Com Inc., from 1998 to 2002. Ms. Harker held several positions in finance, information technology and operations at MCI. She serves on the Board of Directors of Darden Restaurants, Inc., the parent company of Capital Grille, Olive Garden and Red Lobster, among others. Ms. Harker also serves as Chair of the University of Virginia s Board of Managers, where she previously served as Investment and Audit Committee Chair. She serves on the executive committee of the Board of Directors of The Wolf Trap Foundation for the Performing Arts. Additionally, she sits on the American University Advisory Council and is a member of The Economic Club of Washington, D.C. Ms. Harker holds a bachelor s degree in English and economics from The University of Virginia and a master of business administration with a concentration in finance from American University. Ms. Harker has extensive international business experience with a wide-ranging management and financial reporting background. Ms. Harker has also served as a Director of other public companies, providing additional relevant experience.

Class II Directors Whose Term Expires in 2013

Curtis J. Crawford, Ph.D. President and Chief Executive Officer, XCEO, Inc.

Curtis J. Crawford serves as a Director on our Board of Directors. Dr. Crawford was a Director of ITT from 1996 until October 2011. He is a Director of E.I. DuPont de Nemours and Company and ON Semiconductor Corporation. Dr. Crawford was previously a Director of Agilysys, Inc. from April 2005 to June 2008. Dr. Crawford is President and Chief Executive Officer of XCEO, Inc., which provides professional mentoring, personal leadership and governance programs. From April 1, 2002 to March 31, 2003, he served as President and Chief Executive Officer of Onix Microsystems, a private photonics technology company. He was Chairman of the Board of Directors of ON Semiconductor Corporation from September 1999 until April 1, 2002. Previously, he was President and Chief Executive Officer of ZiLOG, Inc. from 1998 to 2001 and its Chairman from 1999 to 2001. Dr. Crawford also has extensive executive experience with AT&T Corporation and IBM Corporation. He is a member of the Board of Trustees of DePaul University. He holds a bachelor s degree in business administration and computer science and a master s degree from Governors State University, a master of business administration from DePaul University and a Ph.D. from Capella University. Governors State University awarded him an honorary doctorate in 1996 and he received an honorary doctorate degree from DePaul University in 1999. Dr. Crawford is an expert on corporate governance and the author of three books on leadership and corporate governance and has significant experience leading high-technology companies. Dr. Crawford has also served as a Director in other public companies providing additional relevant experience.

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John J. Hamre, Ph.D. President and Chief Executive Officer, Center for Strategic & International Studies

John J. Hamre serves as a Director on our Board of Directors. Dr. Hamre was a Director of ITT from 2000 to October 2011. Dr. Hamre was elected President and Chief Executive Officer of the Center for Strategic & International Studies (CSIS), a public policy research institution dedicated to strategic, bipartisan global analysis and policy impact, in April of 2000. Prior to joining CSIS, he served as U.S. Deputy Secretary of Defense from 1997 to 2000 and Under Secretary of Defense (Comptroller) from 1993 to 1997. Dr. Hamre is a Director of MITRE Corporation, a not-for-profit organization chartered to work in the public interest, with expertise in systems engineering, information technology, operational concepts, and enterprise modernization. He has served as a Director of SAIC, Inc. since 2005 and has served as a Director of Oshkosh Corporation from 2009 to January of 2012. Dr. Hamre was previously a Director of Choicepoint, Inc. from May 2002 through September 2008. Dr. Hamre has served on the Exelis Inc. Board of Directors since October 2011. He holds a bachelor s degree, with highest distinction, from Augustana College in Sioux Falls, South Dakota, was a Rockefeller Fellow at the Harvard Divinity School and was awarded a Ph.D., with distinction, from the School of Advanced International Studies, Johns Hopkins University. Dr. Hamre has extensive strategic and international experience, and has achieved recognized prominence in strategic, international and defense fields. Dr. Hamre has also served as a Director in other public companies providing additional relevant experience.

Surya N. Mohapatra, Ph.D. Former Chairman, President, and Chief Executive Officer of Quest Diagnostics Incorporated

Surya N. Mohapatra serves as a Director on our Board of Directors. Dr. Mohapatra served as a Director of ITT from 2008 to October 2011, a Director of Quest Diagnostics Incorporated from 2002 through April 2012, and as a Director of Vasogen, Inc. from 2002 to 2006. Dr. Mohapatra joined Quest Diagnostics as Senior Vice President and Chief Operating Officer in June 1999 and was appointed President in December 1999, a Director in 2002, its Chief Executive Officer in May 2004, and Chairman of the Board in December 2004. Dr. Mohapatra served as Quest Incorporated s Chairman, President and Chief Executive Officer through April 2012. Prior to joining Quest Diagnostics, Dr. Mohapatra was Senior Vice President of Picker International, a worldwide leader in advanced medical imaging technologies, where he served in various executive positions during his 18-year tenure. Dr. Mohapatra is also a Trustee of the Rockefeller University and a member of the Corporate Advisory Board of Johns Hopkins Carey Business School. Dr. Mohapatra holds a bachelor s degree in electrical engineering from Regional Engineering College (Rourkela)/Sambalpur University in India. Additionally, he holds a master s degree in medical electronics from the University of Salford, England, as well as a doctorate in medical physics from the University of London and The Royal College of Surgeons of England. Dr. Mohapatra has extensive international business experience with a wide-ranging operational and strategic knowledge and has a strong technical background, with an emphasis on Six-Sigma quality and customer-focused business practices. Dr. Mohapatra has also served as a Director in other public companies providing additional relevant experience.

Class III Directors Whose Term Expires in 2014

Sten E. Jakobsson Former President and Chief Executive Officer, ABB AB

Sten E. Jakobsson serves as a Director on our Board of Directors. Mr. Jakobsson has served on the Board of Stena Metall AB since 2005, on the Board of SAAB AB since 2008, on the Board of FLSmidth&Co A/S since 2011 and as Chairman of the Board of Power Wind Partners AB since 2011. Mr. Jakobsson served in various positions with increasing responsibilities at ABB Ltd, a world leading company in Power and Industrial Automation, for nearly 40 years until his retirement in 2011. Most recently in 2011, Mr. Jakobsson was CEO of ABB AB, the Swedish part of ABB and from 2006 also Head of North Europe Region including UK, IRL, the Nordic countries, Russia and Central Asia and Caucasus. From 1992 through 1996, Mr. Jakobsson was Global Business Area Manager for the global cable business in ABB and from 1996 EVP of ABB AB (Sweden) responsible for the Transmission and Distribution Segment. Mr. Jakobsson has strong experience in managing international sales, complex project execution and manufacturing in a global company. Mr. Jakobsson has a Master of Science degree from The Royal Technical Institute of Stockholm.

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Steven R. Loranger Former Chairman, President and Chief Executive Officer, ITT Corporation

Steven R. Loranger serves as Chairman Emeritus of our Board of Directors in recognition of his long-standing service as the former Chairman, President and Chief Executive Officer of ITT, our former parent company. In addition to sharing his industry and leadership experience with our senior executives, Mr. Loranger will act as ambassador for the responsible use, and healthy return, of water in the world environment. Mr. Loranger serves on the Boards of the National Air and Space Museum and the Congressional Medal of Honor Foundation and joined the Wings Club Board of Directors in November 2011. Mr. Loranger has served on the Exelis Inc. Board of Directors since October 2011. Mr. Loranger was a member of the Business Roundtable and served on the Executive Committee of the Aerospace Industries Association Board of Governors until December 2011. Prior to ITT, Mr. Loranger served as Executive Vice President and Chief Operating Officer of Textron, Inc. from 2002 to 2004, overseeing Textron s manufacturing businesses, including aircraft and defense, automotive, industrial products and components. From 1981 to 2002, Mr. Loranger held executive positions at Honeywell International Inc. and its predecessor company, AlliedSignal, Inc., including serving as President and Chief Executive Officer of its Engines, Systems and Services businesses. Mr. Loranger holds a bachelor s and master s degree in science from the University of Colorado. Mr. Loranger has extensive operational and manufacturing experience with industrial companies and, in particular, he has intimate knowledge of the Company s business and operations, having served as Chief Executive Officer of ITT since 2004. Mr. Loranger also serves as a Director on the Board of FedEx Corporation, providing additional relevant experience.

Edward J. Ludwig Chairman and Former Chief Executive Officer, Becton, Dickinson and Company

Edward J. Ludwig serves as a Director on our Board of Directors. Mr. Ludwig currently serves as Chairman of the Board of Directors of Becton, Dickinson and Company (BD), a global medical technology company. Since joining BD in 1979, Mr. Ludwig has also served as Chief Executive Officer from January 2000 through September 2011, and as President and Chief Financial Officer, among other positions. Before joining BD, he served as a Senior Auditor with Coopers and Lybrand (now PriceWaterhouseCoopers), where he earned a CPA certificate, and as a Financial and Strategic Analyst at Kidde, Inc. Mr. Ludwig is a member of the Board of Trustees of the College of the Holy Cross and serves on the Columbia Business School Board of Overseers. He is also Chairman of the Hackensack University Medical Center Advisory Board and a member of the Board of Directors of Project HOPE. Previously, Mr. Ludwig served as Chairman of the Board of Directors of AdvaMed, the world s largest medical technology association, and as a past Chair of the Health Advisory Board for the Johns Hopkins Bloomberg School of Public Health. Mr. Ludwig also serves as Lead Director of the Board of Directors of AETNA and is the Chair of the Board of Directors Finance Committee. Mr. Ludwig holds a bachelor s degree in economics and accounting from The College of the Holy Cross and a master of business administration with a concentration in finance from Columbia University. Mr. Ludwig has extensive financial, management and manufacturing experience. Mr. Ludwig has also served as a Director of various public and non-public companies, providing additional relevant experience.

Structure of the Board of Directors

Our Amended and Restated Articles of Incorporation provide for a classified Board of Directors divided into three classes: Markos I. Tambakeras, Victoria D. Harker and Gretchen W. McClain constitute a class with a term that expires at the Annual Meeting of Shareowners in 2012; Curtis J. Crawford, John J. Hamre and Surya N. Mohapatra constitute a class with a term that expires at the Annual Meeting of Shareowners in 2013; and Sten E. Jakobbson, Steven R. Loranger and Edward J. Ludwig constitute a class with a term that expires at the Annual Meeting of Shareowners in 2014.

Committees of the Board of Directors

Audit Committee

The members of the Audit Committee are Victoria D. Harker (chair), Curtis J. Crawford, Sten E. Jakobsson, Edward J. Ludwig and Surya N. Mohapatra. The Audit Committee has the responsibility, among other things, to

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meet periodically with management and with both our independent auditor and internal auditor to review audit results and the adequacy of and compliance with our system of internal controls. In addition, the Audit Committee appoints or discharges our independent auditor, and reviews and approves auditing services and permissible non-audit services to be provided by the independent auditor in order to evaluate the impact of undertaking such added services on the independence of the auditor. By the date required by the transition provisions of the rules of the New York Stock Exchange (NYSE), all members of the Audit Committee will be independent and financially literate. Further, the Board of Directors has determined that Ms. Harker, Mr. Crawford, Mr. Jakobsson, Mr. Ludwig and Mr. Mohapatra possess accounting or related financial management expertise within the meaning of the NYSE listing standards and that each qualifies as an audit committee financial expert as defined under the applicable SEC rules.

Leadership Development and Compensation Committee

The members of the Leadership Development and Compensation Committee are Curtis J. Crawford (chair), Victoria D. Harker, Edward J. Ludwig and Sten E. Jakobsson. The Leadership Development and Compensation Committee oversees all compensation and benefit programs and actions that affect our senior executive officers. The Leadership Development and Compensation Committee also provides strategic direction for our overall compensation structure, policies and programs and oversees and approves the continuity planning process. Each member of the Leadership Development and Compensation Committee is a non-employee director and there are no Leadership Development and Compensation Committee interlocks involving any of the members of the Leadership Development and Compensation Committee.

Nominating and Governance Committee

The members of the Nominating and Governance Committee are Surya N. Mohapatra (chair), John J. Hamre, Steven R. Loranger and Markos I. Tambakeras. The Nominating and Governance Committee is responsible for developing and recommending to the Board of Directors criteria for identifying and evaluating director candidates; identifying, reviewing the qualifications of and proposing candidates for election to the Board of Directors; and assessing the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the Board of Directors. The Nominating and Governance Committee also reviews and recommends action to the Board of Directors on matters concerning transactions with related persons and matters involving corporate governance and, in general, oversees the evaluation of the Board of Directors.

Director Independence

The Company s Non-Employee Directors must meet the NYSE independence standards. The Company s Corporate Governance Principles define independence in accordance with the independence definition in the current NYSE corporate governance rules for listed companies. The Charters of the Audit, Leadership Development and Compensation, and Nominating and Governance Committees also require all members to be independent directors after the completion of the NYSE independence phase-in periods. All members of our Audit and Leadership Development and Compensation Committees are currently independent. With respect to the Nominating and Governance Committee, the NYSE allows Xylem to phase in its independent directors. The NYSE requires the Nominating and Governance Committee to have at least a majority of its members determined to be independent within 90 days from the listing date applicable to Xylem s common stock on the NYSE on October 13, 2011, and be composed solely of members determined to be independent within one year of such listing date. Our Nominating and Governance Committee is in compliance with the phase-in independence requirements of the NYSE and the Nominating and Governance Committee Charter.

Based on its review, the Board of Directors affirmatively determined, after considering all relevant facts and circumstances, that no Non-Employee Director, with the exception of Mr. Loranger, has a material relationship with the Company and that all Non-Employee Directors, including all members of the Audit, Leadership

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Development and Compensation, and Nominating and Governance Committees, with the exception of Mr. Loranger, meet the independence definition in the current NYSE corporate governance rules for listed companies. Mr. Loranger is not considered independent as he was the Chairman, President and Chief Executive Officer of ITT, the company that spun off Xylem as a public company on October 31, 2011.

Each year, the Company s Directors and executive officers complete annual questionnaires designed to elicit information about potential related person transactions. Additionally, Directors and executive officers must promptly advise the Corporate Secretary if there are any changes to the information previously provided.

The Nominating and Governance Committee reviews and considers all relevant facts and circumstances with respect to independence for each Director standing for election prior to recommending selection as part of the slate of Directors presented to the shareowners for election at the Company s Annual Meeting. The Nominating and Governance Committee reviews its recommendations with the full Board, which separately considers and evaluates the independence of Directors standing for re-election using the standards described above.

In February 2012, the Board considered regular commercial sales and payments in the ordinary course of business as well as charitable contributions with respect to each of the Non-Employee Directors standing for re-election at the Company s Annual Meeting. In particular, the Board evaluated the amount of sales to Xylem or purchases by Xylem with respect to companies where any of the Directors serve or served as an executive officer or director.

In no instances was a Director a current employee, or was an immediate family member of a Director a current executive officer, of a company that has made payments to, or received payments from the Company for property or services in an amount which, in any of the last three fiscal years, exceeded the greater of $1 million, or 2% of each respective company s consolidated gross revenues. The Board also considered the Company s charitable contributions to non-profit organizations with respect to each of the Non-Employee Directors. No contributions exceeded 1% of the consolidated gross revenues of any non-profit organization.

Ms. McClain is not independent because she serves as President and Chief Executive Officer of the Company. Mr. Loranger is not independent because of his former position as Chairman, President and Chief Executive Officer of ITT.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

On October 31, 2011, ITT completed the Spin-off of Xylem, formerly ITT s water equipment and services businesses. Prior to the Spin-off from ITT, our compensation philosophy and programs were reviewed and approved by the Compensation and Personnel Committee of ITT (the ITT Compensation Committee). This Compensation Discussion and Analysis describes the compensation programs and philosophy for 2011 for our Named Executive Officers (NEOs) representing actions taken prior to our Spin-off from ITT and post-Spin-off as Xylem. Xylem s Leadership Development and Compensation Committee (the Xylem LDCC) currently approves and oversees administration of our executive compensation program. Xylem is referred to as we, us, our or the Company. Our NEOs for 2011 are:

Executive	Xylem Current Position	ITT Previous Position
Gretchen W. McClain	President and Chief Executive Officer	Senior Vice President and President, Fluid and Motion Control
Michael T. Speetzen	Senior Vice President and Chief Financial Officer	Vice President of Finance, Fluid and Motion Control
Frank R. Jimenez	Senior Vice President, General Counsel and Corporate Secretary	Vice President and General Counsel
Angela A. Buonocore	Senior Vice President and Chief Communications Officer	Senior Vice President and Chief Communications Officer
Kenneth Napolitano	Senior Vice President and President, Residential and Commercial Water and Flow Control	President, ITT Residential and Commercial Water

Overview

During 2011, not only was Xylem officially launched as a publicly-traded company effective October 31, 2011, but we delivered strong financial performance for the year which benefited our shareowners, executives and employees. Revenues were $3.8 billion in 2011, up 19% as compared to 2010. We had full-year 2011 earnings of $1.50 per share and adjusted earnings of $1.93 per share (which excludes $0.39 of separation costs net of tax and $0.04 of special tax items), up 25% from 2010 earnings per share of $1.55 (which excludes $0.23 of special tax items). These results occurring during the year of the successful Spin-off, which was completed on-time and on-budget while retaining key talent across the three newly created Spin-off companies (Xylem, ITT and Exelis) - rendered 2011 an outstanding year.

Transition Year Changes

Shortly after the Spin-off from ITT, the Xylem LDCC developed and adopted an Executive Total Rewards Philosophy to serve as the committee s guiding principles for the design and implementation of executive compensation and benefit programs and levels. While many of the executive compensation and benefit programs offered by our former parent company, ITT, were adopted, we made a number of changes to ITT s programs, which are highlighted throughout our Compensation Discussion and Analysis. In connection with the Spin-off, we also had a number of one-time compensation actions such as Founders Grants and Transaction Success Incentives (TSI awards) for our NEOs.

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The base salaries, annual incentive bonuses and long-term equity grants (except for the Founders Grants, described in the long-term incentive section) paid to the NEOs for 2011, and reflected in the tables that follow this Compensation Discussion and Analysis, were paid primarily under compensation programs established by the ITT Compensation Committee. Our Executive Total Rewards Philosophy and executive compensation and benefit programs that were adopted by the Xylem LDCC after the Spin-off were in effect for only a short period in 2011. The goal and intent of our newly adopted philosophy will be recognized in the future as management and the Xylem LDCC have the opportunity to apply the guidelines and principles of the philosophy to compensation actions going forward for 2012 and beyond.

Spin-off related compensation changes were approved by the ITT Compensation Committee prior to the Spin-off and supported by the Xylem LDCC after the completion of the Spin-off.

Over the past year, several important changes to compensation programs were made.

- Several of our NEOs received compensation increases related to the Spin-off as they accepted new roles with greater responsibility in Xylem.

- Tax gross-up provisions associated with the financial counseling and tax preparation for ITT s senior executives were eliminated by the ITT Compensation Committee. This change was made effective July 1, 2011, and no offsetting compensation increase was provided.

- The formula to determine severance payments following a change in control for senior executives was modified to incorporate current base salary and current bonus (versus highest salary and highest bonus in the previous three years under the former ITT plan). In addition, such payments must be reduced to the extent needed to have the executive avoid excises taxes under Section 280G of the Internal Revenue Code (versus providing an excise tax gross-up under previous ITT plans).

- Beginning with the first payroll cycle in 2012, the Xylem LDCC decided to eliminate all perquisites to NEOs and senior executives. A one-time salary adjustment was provided to offset the change. Perquisites are viewed as not imperative for attraction and retention of senior-most Xylem executives.

2011 Compensation Actions

Based on our results and taking into consideration the impact of the Spin-off, compensation actions were taken in 2011 as follows:

Base Salary and Bonus Target Adjustments

Gretchen W. McClain received a 50% base salary increase upon the Spin-off when she was promoted from SVP and President, Fluid and Motion Control of ITT to the larger role of President and Chief Executive Officer for Xylem. Her new base salary and total compensation remain below the market median for the new role. There was no change made to her bonus target as a percentage of base salary for 2011, but the dollar value of the bonus target increased with her base salary increase.

Michael T. Speetzen received a 36% increase in base salary upon the Spin-off when he was promoted from VP of Finance, Fluid and Motion Control of ITT to the larger role of SVP and Chief Financial Officer for Xylem. His new base salary and total compensation remain below the market median for the new role. His bonus target for 2011 changed from 50% to 80% of base salary for the last two months of 2011.

Frank R. Jimenez did not receive an increase in base salary upon the Spin-off as he moved into a comparable role as SVP, General Counsel and Corporate Secretary for Xylem. His salary and total compensation are comparable to the market median for the role. There was no change made to his bonus target.

Angela A. Buonocore did not receive an increase in base salary upon the Spin-off as she moved from the SVP and Chief Communications Officer position at ITT into the role of SVP and Chief Communications Officer at

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Xylem. Her total compensation is above the market median for the role and considered appropriate given her experience and impact. While Xylem has significantly less revenue than ITT had prior to the Spin-off, the role of the Chief Communications Officer has been critically important for Xylem as a new public company. In that role, Ms. Buonocore led the external marketing and branding and several significant change initiatives both internally and externally in the launching of Xylem as a new company. There was no change made to her bonus target.

Kenneth Napolitano received an 11% base salary increase upon the Spin-off when he was promoted from President, ITT Residential and Commercial Water to SVP and President, Residential and Commercial Water and Flow Control (RCW) for Xylem. His base salary and total compensation are comparable to the market median for the new role. His bonus target changed from 50% to 60% of base salary for the last two months of 2011.

Annual Incentive Plan (AIP) Payouts

In 2011, ITT and Xylem delivered strong operational performance which resulted in a 2011 AIP total payout of 121.7% for nearly all NEOs. The one exception was Ken Napolitano s AIP payout, which was paid out at 91.1%. This was a function of the fact that half of his AIP payout was based on his business s operating performance, which had below-plan performance.

Long-Term Incentives

In March 2011, ITT made an annual long-term incentive grant which was one-third stock options, one-third RSUs and one-third Total Shareholder Return (TSR) awards.

At Spin-off, all ITT outstanding and unvested long-term incentive awards were converted to Xylem equity. More specifically, Xylem employees with ITT restricted stock or ITT RSUs had their outstanding awards converted into restricted stock/RSUs of Xylem, preserving their pre-Spin-off value. Xylem employees with ITT stock options received a stock option grant from Xylem, keeping the embedded spread value (the difference between the exercise price and the existing share value) of the stock option. No other changes were made to the terms and conditions of these long-term incentive awards.

Upon the Spin-off, there were three years of outstanding TSR awards. For the 2009-2011 TSR awards, 94.4% (34 months out of 36 months) of the performance period was completed; performance for the first 34 months was below threshold (zero payout); additionally, a discretionary cash payment was made to participants for the uncompleted portion of the performance period (two months) at target. For the uncompleted portion of the TSR awards for 2010-2012 and 2011-2013, the remaining target value was determined and provided as Xylem RSUs with the same vesting periods as the TSR award performance periods. No cash payments were made for the completed portions of the 2010-2012 and 2011-2013 TSR awards given that performance was below threshold and did not qualify for any payment.

Special One-Time Awards

In consideration of their successful efforts in consummation of the Spin-off, our NEOs received certain one-time awards, including a Transaction Success Incentive (TSI) payable in cash and a Founders Grant. The Founders Grant was designed as an equal mix of RSUs and stock options with vesting over three years in order to align Xylem executives with long-term shareowner value creation going forward.

Strong Governance and Best Pay Practices

The Xylem LDCC has continued the best pay practices which were effective prior to the Spin-off from ITT. These best pay practices include:

- Officer stock ownership guidelines

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Policy to prohibit speculation in Company stock

Engagement of an independent compensation consultant for the Xylem LDCC

No repricing or replacement of stock options without shareowner approval

No tax gross-ups

Strong risk management program

Balanced pay programs

Recoupment/clawback policy (to be adopted)

Oversight of Business Risk and Compensation

In 2012, as part of the Board s risk oversight responsibilities, the Xylem LDCC (as performed by ITT in past years) evaluated risk factors associated with the Company s businesses in determining compensation structure and pay practices. The structure of the committees of the Board of Directors facilitates this evaluation and determination. During 2011, the Chair of the Xylem LDCC was a member of the Audit Committee and the Audit Committee Chair was a member of the Xylem LDCC. The membership overlap provides insight into the Company s business risks and affords the Xylem LDCC access to the information necessary to consider the impact of business risks on compensation structure and pay practices. Further, overall enterprise risk is considered and discussed at Board meetings, providing additional important information to the Xylem LDCC. At the request of the committee, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer attend those portions of the Xylem LDCC meetings at which plan features and design components of the Company s annual and long-term incentive plans are considered and approved.

Independent Compensation Consultant

Prior to the Spin-off from ITT, in 2011 the ITT Compensation Committee retained Pay Governance LLC as its independent compensation consultant (Pay Governance or the ITT Compensation Consultant). Pay Governance provided independent consulting services in support of the ITT Compensation Committee s charter as well as in support of ITT s Nominating and Governance Committee s Charter, including providing competitive data on director compensation pre- and post-Spin-off.

Following the Spin-off from ITT, the Xylem LDCC retained Pearl Meyer & Partners as its independent compensation consultant (Pearl Meyer or the Xylem Compensation Consultant). The Xylem LDCC reviewed Pearl Meyer s independence and determined that Pearl Meyer was independent. Pearl Meyer provides independent consulting services in support of Xylem LDCC Charter and, during 2011, attended the December Xylem LDCC meeting. The Xylem LDCC has sole authority to retain and terminate the Xylem Compensation Consultant with respect to compensation matters.

Our Executive Compensation Program

Overall compensation policies and programs

Historically. In 2011, the ITT Compensation Committee retained Pay Governance as its independent compensation consultant. Pay Governance provided independent consulting services in support of the ITT Compensation Committee s charter. The ITT Compensation Consultant provided objective expert analyses, assessments, research and recommendations for executive employee compensation programs, incentives, perquisites, and compensation standards. In this capacity, the ITT Compensation Consultant provided services that related solely to work performed for and at the direction of ITT s Compensation Committee, including analysis of material prepared by ITT for ITT s Compensation Committee s review. In 2011, ITT s human resources, finance and legal departments supported the work of the ITT Compensation Committee. The ITT Compensation

Consultant provided no other services to ITT during 2011.

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In 2011 prior to the Spin-off, the ITT Compensation Committee considered competitive market compensation data for companies comparable to ITT to establish overall policies and programs that address executive compensation, benefits and perquisites. This review included analysis of the Towers Watson Compensation Data Bank (Towers Watson CDB) information provided by the ITT Compensation Consultant. The analyses used a sample of 192 companies from the S&P Industrials Companies that were available in the Towers Watson CDB. The compensation data from these companies were evaluated by the ITT Compensation Consultant for differences in the scope of operation as measured by annual revenue. The ITT Compensation Committee believes that these 192 companies most closely reflect the labor market in which ITT competes for talent.

The ITT Compensation Committee delegated to ITT s Senior Human Resources Executive responsibility for administering the executive compensation program. During 2011, ITT s Chief Executive Officer and Senior Human Resources Executive made recommendations to the ITT Compensation Committee regarding executive compensation actions and incentive awards for both annual pay actions (merit, bonus and long-term incentives) as well as special compensation related to the Spin-off transactions from ITT. The ITT Compensation Committee reviewed each compensation element for Mmes. McClain and Buonocore and Mr. Jimenez, and made the final determination regarding executive compensation for these executives using the processes described in this Compensation Discussion and Analysis. Ms. McClain, in her role as Senior Vice President of ITT and President of its Fluid and Motion Control businesses, made recommendations to Steven R. Loranger, in his role as President and CEO of ITT, with respect to Messrs. Speetzen s and Napolitano s executive compensation. After discussing Ms. McClain s recommendations, the final executive compensation determinations for Messrs. Speetzen and Napolitano were made jointly by Mr. Loranger and Ms. McClain. The ITT Compensation Committee also approved the 2011 long-term incentive awards for the Xylem NEOs.

Going forward as Xylem. Pearl Meyer was selected and retained directly by the Xylem LDCC as its independent compensation consultant and performs no other consulting or services for Xylem. The Xylem LDCC held its first meeting in December and developed its Executive Total Rewards Philosophy, which was further modified and formally approved during the February 2012 Xylem LDCC meeting. During the December 2011 Xylem LDCC meeting, the Charter for the Xylem LDCC was reviewed.

Xylem s Executive Total Rewards Philosophy is a framework for establishing all elements of executive compensation (base salary, AIP, long-term incentives) and benefits that the Xylem LDCC oversees. Specifically, the key principles within the philosophy are:

- Compensation programs should reflect our overarching business rationale and the compensation design should be reasonable, fair, fully disclosed, and consistently aligned with long-term value creation.

- Compensation should be designed and structured so that unnecessary or excessive risk-taking behavior is discouraged.

- Compensation should be flexible to recognize Xylem s transition to a stand-alone entity and should be reviewed annually to ensure continued support of its business objectives.

- Direct compensation will include base salary and variable, performance-based annual and long-term incentive compensation. Inclusion of performance-based annual and long-term incentive compensation will be achieved in the form of the AIP and the awarding of stock options.

- Total direct compensation opportunities should reflect the median of the competitive market and may be adjusted for outstanding performance, strategic impact, level of responsibility and tenure in the position. Actual compensation and incentive award payouts should vary with annual and long-term performance.

The Xylem LDCC has delegated to Xylem s Senior Vice President and Chief Human Resources Officer responsibility for administering the executive compensation program.

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Individual Executive Positions

Historically. ITT s senior management positions, including each of its named executive officer positions, were compared to positions with similar attributes and responsibilities based on the Towers Watson CDB information. This information was used to provide the market median dollar value for annual base salary, annual incentives and long-term incentives. Compensation levels within a range of the market median dollar value were considered by the ITT Compensation Consultant and the ITT Compensation Committee. The ITT Compensation Committee used the Towers Watson CDB information, along with other qualitative information described below, in making its determination of target and actual compensation provided to each of ITT s NEOs. The ITT Compensation Committee could consider deviations from the market median range depending on a position s strategic value, ITT s objectives and strategies, and individual experience and performance in the position. The ITT Compensation Committee could, but was not required to, consider prior years compensation, including short-term or long-term incentive payouts, restricted stock or RSU vesting or option exercises, in compensation decisions for the Xylem NEOs.

As reflected by the ITT comparable analysis completed in early 2011, the following chart sets out the 2011 total target NEO compensation for annual base salary, annual incentive, long-term incentive and total compensation relative to the market median dollar value for positions held by our NEOs while employed at ITT prior to the completion of the Spin-off. For Messrs. Jimenez and Napolitano, deviations below the market median range were primarily related to the relatively short tenure of each in their positions at ITT at the time. For Ms. Buonocore, the deviation above the market median range was based on her extensive individual experience and qualifications.

Named Executive Officer	Annual Base Salary Effective March 2011	Annual Base Salary Effective March 2011 Percentage of Market Median Dollar Value	Target 2011 Annual Incentive Award	Target 2011 Annual Incentive Award as Percentage of Market Median Dollar Value	2011 Long-Term Incentive Award	2011 Long-Term Incentive Award as Percentage of Market Median Dollar Value	Anticipated Total Compensation as Percentage of Market Median Range
Gretchen W. McClain President and Chief Executive Officer (formerly SVP and President, Fluid and Motion Control of ITT)	$ 600,000	103%	85% of Annual Base Salary	98%	$ 1,600,000	104%	103%
Michael T. Speetzen SVP and Chief Financial Officer (formerly VP of Finance, Fluid and Motion Control of ITT)	$ 322,300	107%	50% of Annual Base Salary	111%	$ 333,000	112%	110%
Frank R. Jimenez SVP, General Counsel and Corporate Secretary (formerly VP & General Counsel of ITT)	$ 435,000	87%	60% of Annual Base Salary	70%	$ 700,000	65%	72%
Angela A. Buonocore SVP and Chief Communications Officer (formerly SVP and Chief Communications Officer of ITT)	$ 365,000	104%	60% of Annual Base Salary	112%	$ 500,000	118%	112%
Kenneth Napolitano	$ 325,400	85%	50% of Annual Base Salary	68%	$ 425,000	83%	80%

SVP and President, Residential and Commercial Water and Flow Control (formerly President, ITT Residential and Commercial Water)	

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Going forward as Xylem. The Xylem LDCC has revised the methodology for assessing NEO compensation relative to market data. Market data will consist of Primary Peer Group and market survey data sources.

Xylem s peer groups for market benchmarking were selected based on a robust three-step screening process that emphasized companies with similar business mix, global presence, revenue size and market capitalization. The selection process identified 15 Primary Peer Group companies, as well as four Supplemental Peer Group companies. The Primary Peer Group will be used by the Xylem LDCC (along with published survey data) to review, on a periodic basis, the performance of these companies and the compensation of their named executive officers both in terms of compensation levels and practices. The Primary Peer Group data will be taken into account when making compensation decisions for Xylem s NEOs. Through this peer review process, a Supplemental Peer Group was also identified of companies that have a similar industry focus but different revenue size parameters. The Supplemental Peer Group can be considered for pay design and corporate governance, but not for benchmarking compensation levels. For 2012, the Xylem Peer Groups consist of the following companies:

Primary Peer Group (15 companies):

AMETEK, Inc.

Cooper Industries plc

Dover Corporation

Flowserve Corporation

Gardner Denver, Inc.

IDEX Corporation

Ingersoll-Rand plc

Pall Corporation

Pentair Inc.

Roper Industries

Snap-on Incorporated

SPX Corporation

Terex Corporation

Thermo Fisher Scientific Inc.

Waters Corporation

Supplemental Peer Group (4 companies):

Danaher Corporation

Mueller Water Products, Inc.

United Technologies Corporation

Watts Water Technologies, Inc.

In addition to using the Primary Peer Group for setting NEO compensation, the Xylem LDCC uses multiple market survey data to create market consensus data for assessing the competitiveness of our NEOs compensation. Market survey data sources include: Towers Watson CDB, Mercer Executive Compensation General Industry survey and Equilar Top 25.

This refined market benchmarking methodology will be applied by the Xylem LDCC for compensation actions beginning with compensation decisions approved in 2012. Our NEOs total annual compensation opportunity should reflect the median of the competitive market consensus and may be adjusted for other factors such as outstanding performance, strategic impact, level of responsibility, tenure in the position and internal pay equity. Our NEOs total actual compensation should vary with annual and long-term performance.

Prior to the Spin-off, the ITT Compensation Committee reviewed the Towers Watson CDB information provided by the ITT Compensation Consultant. The ITT Compensation Committee used this information to determine

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market median dollar values for each of the Xylem NEOs for annual base salaries effective upon completion of the Spin-off, the target 2012 long-term incentive award (an equity-based award), and target awards for the 2012 annual incentive award. The ITT Compensation Committee used the Towers Watson CDB information, along with other qualitative information described below, in making its determination of anticipated target and actual compensation to be provided to each of the Xylem NEOs. For Ms. McClain and Mr. Speetzen, deviations below the market median range were primarily related to the relatively short tenure each had in their positions at Xylem. For Messrs. Jimenez and Napolitano, the ITT Compensation Committee determined to maintain substantially the same level of compensation that each had been receiving from ITT based on their individual experience and the importance of their respective positions to the success of Xylem, and anticipated compensation at this level placed both of them within the market median range. For Ms. Buonocore, the ITT Compensation Committee also determined to maintain substantially the same level of compensation that she had been receiving from ITT. The ITT Compensation Committee recognized that maintaining Ms. Buonocore s current level of compensation would set her anticipated compensation with Xylem above the market median range for her new position, but considered such anticipated compensation to be appropriate based on her individual experience and broader role. Specifically, the ITT Compensation Committee determined that Ms. Buonocore s strong marketing and communications background was essential to the re-branding strategy of Xylem as a new public company.

The following benchmarking is based on the NEOs new roles with Xylem. Differences in results are due to post-Spin-off roles and updated benchmarking data.

Named Executive Officer	Annual Base Salary Effective Upon Spin-Off	Annual Base Salary Effective Upon Spin-Off as Percentage of Market Median Dollar Value	Target 2012 Annual Incentive Award	Target 2012 Annual Incentive Award as Percentage of Market Median Dollar Value	2012 Long-Term Incentive Award	2012 Long-Term Incentive Award as Percentage of Market Median Dollar Value	Anticipated Total Compensation as Percentage of Market Median Range
Gretchen W. McClain President and Chief Executive Officer	$ 900,000	85%	100% of Annual Base Salary	67%	$ 3,400,000	72%	73%
Michael T. Speetzen SVP and Chief Financial Officer	$ 439,000	85%	80% of Annual Base Salary	90%	$ 746,000	65%	75%
Frank R. Jimenez SVP, General Counsel and Corporate Secretary	$ 435,000	101%	60% of Annual Base Salary	98%	$ 700,000	95%	98%
Angela A. Buonocore SVP and Chief Communications Officer	$ 365,000	155%	60% of Annual Base Salary	244%	$ 500,000	385%	238%
Kenneth Napolitano SVP and President, Residential and Commercial Water and Flow Control	$ 360,000	95%	60% of Annual Base Salary	90%	$ 510,000	99%	96%

The compensation levels above reflect the analysis completed by the ITT Compensation Committee prior to the Spin-off and reflect new base salaries and bonus targets for our NEOs effective on October 31, 2011, the date of the Spin-off.

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Our Compensation Cycle

Compensation is reviewed in detail every year during the first quarter by the Xylem LDCC. This review includes:

- Annual performance reviews for the prior year,
- Approval of compensation actions and increases normally established in March,
- Annual Incentive Plans (AIP) target awards,
- Long-term incentive target awards (including stock options and RSUs); and
- Oversight of the establishment and administration of executive benefit programs and severance policies.

The actual grant date of stock options and RSUs is determined when the Xylem LDCC approves these awards (currently in March). Award recipients receive communication of their awards as soon as reasonably practical after the grant date of the award. The ITT Compensation Committee reviewed and assessed the performance of Xylem NEOs during 2011. The Xylem LDCC reviewed the performance of Xylem NEOs in March 2012. The Xylem LDCC will continue to review and assess the performance of the Chief Executive Officer and all senior executives and authorize salary actions it believes are appropriate and commensurate with relevant competitive data and the approved salary program.

Prior to the Spin-off from ITT, executive compensation was reviewed in detail every year during the first quarter of the year. The review included annual performance reviews for the prior year, base salary merit increases (normally established in March), AIP target awards, and long-term incentive target awards (including stock options, RSUs and Total Shareholder Return (TSR) awards).

The ITT Compensation Committee reviewed the compensation as well as approved all special awards related to the Spin-off.

Qualitative Considerations

Historically. ITT considered individual performance, including consideration of the following qualitative performance factors, in making compensation decisions, in addition to the quantitative measures discussed in this Compensation Discussion and Analysis. While there is no formal weighting of qualitative factors, the following factors were considered important in making compensation decisions:

- Portfolio Repositioning,
- Differentiated Organic Growth,
- Strategic Execution, and
- Cultural Transformation.

Going forward as Xylem. Similar to ITT s consideration of individual performance against additional qualitative performance factors, the following factors will be considered important in making compensation decisions within Xylem. No formal weighting will apply.

Growth through Creativity and Innovation,

Creation of a High Performance Culture,

Creating Strategies and Products which Support a Sustainable Environment, and

Operational Excellence.

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Compensation Program Objectives

	How We Achieve Our Objectives	
Objective	**General Principle**	**Specific Approach**
Provide challenging and rewarding career opportunities that attract, retain and motivate diverse, high quality leaders.	Design Xylem s executive compensation program to attract, reward and retain high quality executives. Design total executive compensation to provide a competitive balance of salary, short-term and long-term incentive compensation.	Comparison to companies and markets where Xylem competes for executive talent. Target pay levels should reflect the median of competitive market (peer companies and market survey data) and may be adjusted for outstanding performance, strategic impact, level of responsibility, tenure in the position and internal pay equity.
Match compensation components to Xylem s short-term and long-term operating and strategic goals.	In addition to salary, Xylem includes short-term and long-term performance incentives in its compensation program.	Xylem believes the mix of short-term and long-term performance-based incentives focuses executive behavior on annual performance and operating goals, as well as strategic business objectives that will promote long-term shareowner value creation.
		Pay mix will be structured to balance short-term and long-term objectives, support management s sustained ownership of company stock, and reinforce the importance of shareowner value creation.
Align at-risk compensation with levels of executive responsibility.	The mix of total direct compensation elements will be significantly focused towards variable pay annual and long-term incentives. As an executive s rank increases, the proportion of pay in the form of salary will decrease, and the portion of stock-based pay will increase.	NEO compensation is structured so that a substantial portion of compensation is at risk for executives with greater levels of responsibility. The Xylem LDCC considers allocation of short-term and long-term compensation, cash and non-cash compensation and different forms of non-cash compensation for NEOs based on its assessment of the proper compensation balance needed to achieve Xylem s short-term and long-term goals.
Tie short-term executive compensation to specific business objectives.	The AIP performance metrics are designed to further Xylem s total enterprise objectives. By linking AIP performance to total enterprise performance, collaboration across the enterprise is rewarded.	The AIP sets out short-term performance components. If specific short-term performance goals are met, cash payments that reflect performance across the enterprise may be awarded.

	How We Achieve Our Objectives	
Objective	**General Principle**	**Specific Approach**
Tie long-term executive compensation to shareowner value creation.	The long-term incentive award programs link executive compensation to increases in absolute shareowner value creation.	Long-term executive compensation is comprised of RSUs and stock options. Inclusion of performance-based pay within the long-term program may be achieved in the form of stock options.
Provide reasonable and competitive indirect compensation.	Make sure that other executive benefits are reasonable in the context of a competitive compensation program and aligned with company values.	NEOs participate in many of the same benefit plans with the same benefit plan terms as other employees. Xylem will provide reasonable retirement benefits and competitive severance and termination benefits. Effective with the first payroll cycle for 2012, perquisites for NEOs were eliminated.

Primary Compensation Components

Annual base salary, annual incentives, and long-term incentives provide the foundation for our NEO compensation. Additional compensation components, which supplement these foundational components, are also discussed in this Compensation Discussion and Analysis.

The following sections provide information about Base Salary, the AIP and Long-Term Incentive Awards. Unless otherwise noted, the following highlights the ITT program because the Xylem NEOs were ITT employees until the Spin-off, effective October 31, 2011. For the remaining two months of 2011, the Xylem LDCC followed the same pay practices as our former parent company, ITT, unless otherwise noted.

Base Salary

General Principle	Specific Approach
A competitive salary provides a necessary element of stability.	Salary levels reflect comparable salary levels based on survey data provided by the ITT Compensation Consultant.
	Salary levels are reviewed annually or when significant job changes occur (e.g., new hire or reorganization).
Base salary should recognize individual performance, market value of a position and the incumbent s tenure, experience, responsibilities, contribution to ITT and growth in his or her role.	Merit increases are based on overall performance and relative competitive market position.

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Annual Incentive Plan (AIP)

General Principle	Specific Approach
The AIP award recognizes contributions to the year s results and is determined by performance against specific premier metrics on the enterprise level, or, as applicable, Value Center level as well as qualitative factors, as described in more detail in Compensation Discussion and Analysis Our Executive Compensation Program Qualitative Considerations. The 2011 AIP is structured to reward and emphasize overall enterprise, or, as applicable, Value Center performance, and emphasizes collaboration among ITT s groups. Given the Spin-off, 2011 AIP awards were based on the weighted performance of ten months ITT and two months Xylem.	The AIP focuses on operating performance, targeting premier metrics considered predictive of top-ranking operating performance. 2011 AIP targets for Mmes. McClain and Buonocore and Messrs. Speetzen and Jimenez were established based on the following three internal premier performance metrics: sum of total Value Center operating income, sum of total Value Center operating cash flow, and sum of total Value Center revenue. As the leader of the Residential and Commercial Water (RCW) Value Center, the 2011 AIP targets for Mr. Napolitano were based on the following four internal performance metrics: sum of total Value Center operating income, RCW Value Center specific operating cash flow, RCW Value Center specific revenue, and RCW Value Center specific operating margin.
Structure AIP target awards to achieve competitive compensation levels when targeted performance results are achieved. Use objective formulas to establish potential AIP performance awards.	ITT and Xylem s AIP provides for an annual cash payment to participating executives established as a target percentage of base salary. AIP target awards are set with reference to the median of

competitive practice. Any AIP payment is the product of the annual base salary rate multiplied by the target base salary percentage multiplied by the AIP annual performance factor based on the approved metrics. The Xylem LDCC may approve negative discretionary adjustments with respect to NEOs.

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Long-Term Incentive Awards

General Principle	Specific Approach
Design long-term incentives for NEOs to link payouts to success in the creation of shareowner value over time.	The ITT and Xylem LDCC believe that long-term incentives directly reward NEOs for success in long-term value creation and enhanced total shareowner return. The ITT Compensation Committee and the Xylem LDCC employed four considerations in designing the long-term incentive award program: alignment of executive interests with shareowner interests, a multi-year plan that balances short-term and long-term decision-making, long-term awards included as part of a competitive total compensation package, and retention.
For NEOs, long-term equity-based incentives should recognize current performance as well as the expectation of future contributions.	The Xylem LDCC grants RSUs and stock options to link executive compensation to absolute share price performance.
Review award programs annually to provide for regular assessment.	As part of its annual compensation review, the Xylem LDCC determines long-term incentive award program components, the percentage weight of each component, and long-term award target amounts.
For 2011 grants, use competitive market survey data provided by the ITT Compensation Consultant from a sample of S&P Industrials Companies to select long-term components designed to advance ITT s long-term business goals as well as determining competitive target amounts. 2012 grants will be based on competitive data prepared by management and validated by the Xylem Compensation Consultant. Market consensus data will be based on both Primary Peer Group and multiple survey data sources.	In 2011, the ITT Compensation Committee, based on management recommendations, used competitive market data for each of the named executive officer positions to determine the 2011 long-term award value for each named executive officer. The Xylem LDCC will use the updated competitive data for granting the 2012 equity awards.
Balance absolute share price return and relative share price return.	The ITT Compensation Committee balanced long-term awards among awards designed to encourage relative share price performance and awards designed to encourage absolute share price performance. The TSR program was discontinued upon the Spin-off. More information on this allocation is provided in Compensation Discussion and Analysis Overview of Long-Term Incentive Awards.
Consider the median of competitive market data, as well as individual contributions and business performance in determining target awards.	Specific 2011 target awards are set out in the Grants of Plan-Based Awards in 2011 table below.

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Going forward as Xylem. The Xylem LDCC adopted the same principles and approaches with respect to Base Salary as ITT. The Xylem LDCC approved a new AIP and aggregate Long-Term Incentive Target Awards reflecting appropriate measures, goals, and targets for Xylem s industry and business objectives and based on competitive benchmarking.

Overview of the Annual Incentive Program

2011 Internal Performance Metric Attainment and Payout Design

To focus the businesses on operating performance during the Spin-off, the 2011 internal performance metric attainment and payout design was structured to emphasize performance at the Value Center level. Xylem is comprised of four Value Centers, each of which is a collection of similarly themed and synergetic business areas. For Mmes. McClain and Buonocore and Messrs. Speetzen and Jimenez, 2011 AIP awards were based on the performance of all ITT businesses as a whole through the date immediately prior to the Spin-off. The 2011 AIP Award for Mr. Napolitano was based 50% on the performance of all the Value Centers across the enterprise and 50% on the performance of his individual Value Center (as described below). The performance metrics and payout design for 2011 AIP awards for the period after the Spin-off were based on the same metrics and prorated for time of the Spin-off through year-end (e.g., ten months performance based on ITT results and two months based on Xylem results).

The 2011 AIP metrics for Mmes. McClain and Buonocore and Messrs. Speetzen and Jimenez were weighted as follows:

Total Value Center Consolidated Operating Income	50%
Total Value Center Operating Plan Cash Flow	30%
Total Value Center Plan Revenue	20%

The 2011 AIP metrics for Mr. Napolitano were weighted as follows:

Total Value Center Consolidated Operating Income	50%
RCW Value Center Operating Plan (comprised of)	50%

Revenue 15%

Operating Plan Cash Flow 20%

Margin 15%

While the ITT Compensation Committee did not undertake a study of premier companies in setting the 2011 AIP metrics for the period prior to the Spin-off, the ITT Compensation Committee determined that the above metrics would be most closely predictive of top-ranking operating performance in 2011. Internal performance metrics were weighted to represent operational goals and the importance of achieving Operating Income. The ITT Compensation Committee eliminated earnings per share performance across the enterprise as one of the performance metrics for the period prior to the Spin-off in order to further emphasize operating performance at the Value Center level during the execution of the Spin-off. Following the Spin-off, the Xylem LDCC continued the original 2011 AIP metrics and weightings were unchanged, but the goals/performance levels were translated to reflect Xylem performance for the last two months of 2011.

Total Value Center Consolidated Operating Income must meet or exceed a 90% threshold performance before an AIP award will be paid with respect to the applicable component. The remaining metrics must meet or exceed an 85% threshold performance level (as described in the chart below) before an AIP award will be paid with respect to the applicable component.

2011 AIP Attainment and Payout Design

	Consolidated Operating Income			Remaining Metrics		
Performance Percentage of Target	90%	100%	110%	85%	100%	120%
Payout Percentage of Target	50%	100%	200%	50%	100%	200%

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Each performance component of the AIP and the overall AIP award was capped at 200% and results were interpolated between points.

2011 Target AIP Award Percentage of Base Salary and Weighting of AIP Performance Components

Named Executive Officer	Target Award Percentage of Base Salary pre- / post-Spin-off	Total Value Center Consolidated Operating Income(a)	Total Value Center Operating Plan Cash Flow(b)	Total Value Center Plan Revenue(c)	Total Value Center Performance
Gretchen W. McClain	85%/85%	50%	30%	20%	a+b+c
Michael T. Speetzen	50%/80%	50%	30%	20%	a+b+c
Frank R. Jimenez	60%/60%	50%	30%	20%	a+b+c
Angela A. Buoncore	60%/60%	50%	30%	20%	a+b+c

Named Executive Officer	Target Award Percentage of Base Salary pre- / post-Spin-off	Total Value Center Consolidated Operating Income(a)	Individual Value Center Operating Income Plan			Total Performance
			Revenue(b)	Operating Plan Cash Flow(c)	Margin(d)	
Kenneth Napolitano	50%/60%	50%	15%	20%	15%	a+b+c+d

Establishing AIP Performance in 2011

The 2011 AIP was designed to consider internal business achievements. For 2011, the NEOs are from Corporate headquarters other than Mr. Napolitano, who is President of the Residential and Commercial Water Value Center (a smaller business segment within Xylem.

2011 Internal Performance Metrics (Corporate Level)

Performance Metric	Why this Metric
Total Value Center Consolidated Operating Income (50% weighting)	The ITT and Xylem LDCC believe that Operating Income is a better internal performance metric (versus the historical earnings per share) given the Spin-off and the importance of operating performance at the Value Center level. Operating income measures the excess revenues over expenses for normal operating activities.
Total Value Center Operating Plan Cash Flow (30% weighting)	Cash flow reflects ITT s and Xylem s emphasis on cash flow generation. Cash flow is defined as GAAP net cash flow from operating activities, less capital expenditures and adjusted for other non-cash special items and discretionary pension contributions. Cash flow should not be considered a substitute for cash flow data prepared in accordance with GAAP. ITT s and Xylem s definition of Value Center cash flow may not be comparable to similar measures utilized by other companies. Management believes that free cash flow is an important measure of performance, and it is utilized as a measure of ITT s and Xylem s ability to generate cash.

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Performance Metric	Why this Metric
Total Value Center Plan Revenue (20% weighting)	Revenue reflects ITT s and Xylem s emphasis on growth. Revenue is defined as reported GAAP revenue excluding the impact of foreign currency fluctuations and contributions from acquisitions and divestitures. ITT s and Xylem s definition of revenue may not be comparable to similar measures utilized by other companies. Revenue is based on the local currency exchange rate.

2011 Internal Performance Metrics (Value Center Level)

The Value Center AIP design applicable to Mr. Napolitano rewards individual Value Center performance, as well as total ITT and Xylem performance. Value Center performance is directly related to the ability to capture new business, execute contractual requirements and take appropriate actions to optimize cost structures and efficiently run the Value Center. For Mr. Napolitano, the AIP design for the 2011 performance year rewarded both the performance of his Value Center and performance across the enterprise.

Performance Metric	Why this Metric
Total Value Center Consolidated Operating Income (50% weighting)	The ITT Compensation Committee and the Xylem LDCC believe that Operating Income is a better internal performance metric (versus the historical earnings per share) given the Spin-off and the importance of operating performance at the Value Center level. Operating income measures the excess revenues over expenses for normal operating activities.
Value Center Cash Flow (20% weighting)	Value Center cash flow reflects ITT s and Xylem s emphasis on cash flow generation for a Value Center. Cash flow is defined as GAAP net cash flow from operating activities, less capital expenditures and adjusted for other non-cash special items and discretionary pension contributions. Cash flow should not be considered a substitute for cash flow data prepared in accordance with GAAP. ITT s and Xylem s definition of Value Center cash flow may not be comparable to similar measures utilized by other companies. Management believes that Value Center cash flow is an important measure of performance and it is utilized as a measure of ITT s and Xylem s ability to generate cash.
Value Center Revenue (15% weighting)	Value Center revenue reflects ITT s and Xylem s emphasis on growth. Value Center revenue is defined as reported GAAP revenue for a Value Center excluding the impact of foreign currency fluctuations and contributions from acquisitions and divestitures. ITT s and Xylem s definition of revenue may not be comparable to similar measures utilized by other companies. Value Center revenue is based on the local currency exchange rate.

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Performance Metric	Why this Metric
Value Center Operating Margin (15% weighting)	Operating margin is defined as operating income divided by sales. This performance metric is employed to determine how the Value Center actually performed as compared to the applicable Value Center budget.

Internal performance metrics are weighted to represent operational goals, as indicated above.

2011 AIP Awards Paid in 2012

In March 2012, the Xylem LDCC determined the 2011 AIP payouts for all NEOs and all other executives. As permitted by the AIP for Executive Officers, the Xylem LDCC excluded the impact of acquisitions, dispositions and other special items in computing AIP performance relating to AIP targets.

The formula for calculating 2011 AIP Payout = Pro-rated Annual Base Salary x Target Bonus Award x Percentage Full Year Final AIP Score, subject to negative discretion. For those NEOs who had a change in salary or bonus target percentage related to the Spin-off, the AIP payout was prorated (ten months at former salary and former target bonus percentage and two months at new salary and new post-spin target bonus percentage). The exception to this was Ms. McClain s bonus target percentage; her higher target bonus percentage will apply beginning with the 2012 AIP performance cycle.

Payout percentages for each component of the AIP were as follows:

ITT Metrics (applied for first ten months of 2011)	Adjusted Performance Target at 100% Payment	Adjusted 2011 Performance	Performance Percentage of Target	Payout Percentage of Target
	(all $ amounts in millions)			
Total Value Center Operating Income (50% weighting)	$ 1,229	$ 1,317	107.2%	172.0%
Total Value Center Cash Flow (30% weighting)	$ 919	$ 865	94.2%	80.6%
Total Value Center Revenue (20% weighting)	$ 9,428	$ 9,726	103.2%	131.6%

Xylem Metrics (applied for last two months of 2011)	Adjusted Performance Target at 100% Payment	Adjusted 2011 Performance	Performance Percentage of Target	Payout Percentage of Target
	(all $ amounts in millions)			
Total Value Center Operating Income (50% weighting)	$ 120	$ 105	87.3%	0.0%
Total Value Center Cash Flow (30% weighting)	$ 186	$ 180	96.6%	88.6%
Total Value Center Revenue (20% weighting)	$ 681	$ 686	100.9%	108.8%
2011 Full-Year Final AIP Score for Corporate				**121.9%**

(reflects weighing of performance metrics and weighting of ten months of ITT performance and two months of Xylem performance)

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The following AIP targets and AIP performance apply for the portion of Mr. Napolitano s bonus tied specifically to Residential and Commercial Water (RCW) Value Center results.

RCW Metrics	Performance Target at 100% Payment	Adjusted 2011 Performance	Performance Percentage of Target	Payout Percentage of Target
	(all $ amounts in millions)			
RCW Value Center Revenue (15% weighting)	$ 1,174	$ 1,209	103.1%	130.6%
RCW Value Center Cash Flow (20% weighting)	$ 178	$ 125	70.4%	0.0%
2011 Full-Year Final AIP Score for RCW				**91.1%**

(reflects weighing of performance metrics and weighting of ten months of ITT performance and two months of Xylem performance)

The following table details the calculation of the 2011 AIP Awards for NEOs, excluding Mr. Napolitano.

	Pro-rated Annual Base Salary x Target Bonus Award % (x)	Total Value Center Consolidated Operating Income Weighted (a)	Total Value Center Operating Plan Cash Flow Weighted (b)	Total Value Center Plan Revenue Weighted (c)	Total Value Center Performance (d) (d=a+b+c)	Total Value Center Performance Pro-rated (e) (e = d x 10/12 or 2/12 proration)	Full-Year Final AIP Score for Corporate (*)(f)	Final AIP 2011 Awards (x x f)
Gretchen W. McClain (Jan-Oct)	$ 425,000	85.8%	24.2%	26.3%	136.4%	113.7%	121.7%	$ 517,225
Nov Dec	$ 127,500	0.0%	26.3%	21.7%	48.0%	8.0%	121.7%	$ 155,165
Total								$ 672,390
Michael T. Speetzen (Jan Oct)	$ 134,292	85.8%	24.2%	26.3%	136.4%	113.7%	121.7%	$ 163,435
Nov Dec	$ 58,533	0.0%	26.3%	21.7%	48.0%	8.0%	121.7%	$ 71,235
Total								$ 234,670
Frank R. Jimenez (Jan-Oct)	$ 217,500	85.8%	24.2%	26.3%	136.4%	113.7%	121.7%	$ 264,700
Nov Dec	$ 43,500	0.0%	26.3%	21.7%	48.0%	8.0%	121.7%	$ 52,940
Total								$ 317,640
Angela A. Buonocore (Jan Oct)	$ 182,500	85.8%	24.2%	26.3%	136.4%	113.7%	121.7%	$ 222,100
Nov Dec	$ 36,500	0.0%	26.3%	21.7%	48.0%	8.0%	121.7%	$ 44,420
Total								$ 266,520

* Note: The Xylem LDCC decided to apply an immaterial amount of negative discretion to the final bonus score (which is reflected in the above chart) when a small change to the final results was made after payroll processing had commenced. The small change did not have a significant financial impact, and the Company did not want to risk errors or a payroll delay with recalculating bonuses so close to the payout timing.

The following table illustrates the calculation of the 2011 AIP Award for Kenneth Napolitano based on Residential and Commercial Water (RCW) Value Center results:

	Pro-rated Annual Base Salary x Target Bonus Award % (x)	Total Value Center Consolidated Operating Income Weighted	Total RCW Operating Plan Cash Flow and Operating Margin Weighted	Total RCW Revenue Weighted (c)	Total Value Center Performance (d) (d = a+b+c)	Total Value Center Performance Prorated (e) (e = d x 10/12 or 2/12 proration)	Full-Year Final AIP Score for RCW (f) (f=sum of e / FY)	Final AIP 2011 Awards (x x f)

		(a)	(b)					
Kenneth Napolitano (Jan-Oct)	$ 135,583	85.8%	0.0%	19.6%	105.4%	87.8%	91.1%	$ 123,515
Nov-Dec	$ 36,000	0.0%	0.0%	19.6%	19.6%	3.3%	91.1%	$ 32,795
Total								$ 156,310

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2012 Annual Incentive Program

		Team Performance				
Named Executive Officer	Target Award Percentage of Base Salary	Xylem Proforma EPS (a)	Xylem Total Revenue (b)	Xylem Total Cash Flow Conversion (c)	Individual Performance (d)	Total Performance
Gretchen W. McClain	110%	28%	28%	28%	16%	a+b+c+d
Michael T. Speetzen	80%	28%	28%	28%	16%	a+b+c+d
Frank R. Jimenez	60%	28%	28%	28%	16%	a+b+c+d
Angela A. Buonocore	60%	28%	28%	28%	16%	a+b+c+d
Kenneth Napolitano	60%	28%	28%	28%	16%	a+b+c+d

The 2012 AIP will reflect Xylem as a stand-alone company and will emphasize Xylem s financial and strategic objectives. The Xylem 2012 AIP design will require reaching a specific level of Adjusted Net Income which triggers maximum funding of the Xylem Annual Incentive Plan for Executive Officers. Within the AIP, the Xylem LDCC may apply negative discretion and differentiation of actual payouts based on Xylem s business results and individual performance. Team performance will be 84% of the total bonus based on three equally weighted metrics (28% for each metric): Xylem Proforma Earnings per Share, Xylem Total Revenue (local currency equivalent) and Xylem Total Cash Flow Conversion. Individual performance against a number of quantifiable and qualitative metrics focused specifically on strategic initiatives will represent 16% of the AIP.

Each performance component of the AIP and the overall AIP award will be capped at 200% and results will be interpolated between points for business results.

Special One-time Spin-off Cash Incentive Awards

In conjunction with the Spin-off, special one-time Transaction Success Incentive awards were awarded to Ms. Buonocore and Messrs. Speetzen, Jimenez and Napolitano. These awards were assessed independently by the ITT Compensation Committee and were not considered in setting the other annual compensation arrangements described above. The Transaction Success Incentive award is a cash award payable with the 2011 AIP Award and is based on achieving the following performance criteria: timely completion of the Spin-off, retention of key employees and control of corporate Spin-off costs within budget. The ITT Compensation Committee, after consultation with the ITT Compensation Consultant, approved Transaction Success Incentive Awards at approximately 50% of 2011 base salary because the ITT Compensation Committee determined that this amount would appropriately reward the Xylem NEOs for the successful completion of their additional responsibilities in connection with the Spin-off. With respect to Ms. Buonocore, the ITT Compensation Committee determined that Ms. Buonocore s marketing and communications efforts were particularly essential to the successful completion of the Spin-off and the successful launch of the new company brand. Therefore, the ITT Compensation Committee decided to approve a Transaction Success Incentive award for Ms. Buonocore that was greater than 50% of her 2011 base salary.

Named Executive Officer	Transaction Success Incentive Award	
Gretchen W. McClain	$	
Michael T. Speetzen	$	160,000
Frank R. Jimenez	$	220,000
Angela A. Buonocore	$	550,000
Kenneth Napolitano	$	165,000

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Overview of Long-Term Incentive Awards

2011 Long-Term Incentive Awards Program

Historically. ITT s long-term incentive award component for senior executives had three subcomponents, each of which directly tied long-term compensation to long-term value creation, shareowner return and retention:

- In 2011, the ITT Compensation Committee determined to award RSUs, to be settled in shares upon vesting. The ITT Compensation Committee determined to award RSUs rather than restricted stock in 2011 because RSU awards provide consistent tax treatment for domestic and international employees,
- Non-qualified stock option awards, and
- Performance-based cash awards, referred to as TSR Awards.

Allocation of Long-Term Incentive Components

The 2011 ITT long-term incentive awards were allocated as follows: one-third TSR calculated at target payment amount, one-third non-qualified stock options and one-third RSUs. A program valuation date of February 22, 2011 was used to determine the number of options and RSUs to be granted pursuant to this allocation. The number of options to be granted was based on the binomial lattice value on the February 22, 2011 valuation date. The number of RSUs to be granted was based on the average of the high and low ITT stock price on the valuation date. The actual awards were granted on March 3, 2011.

2011 Pre-Spin-off Long-Term Incentive Program

Restricted Stock Units Component

Grants of RSUs provide NEOs with stock ownership of unrestricted stock after the restriction lapses. NEOs received RSU awards because, in the judgment of ITT s Compensation Committee and based on management recommendations, these individuals are in positions most likely to assist in the achievement of long-term value creation goals and to create shareowner value over time. The ITT Compensation Committee reviewed all proposed grants of RSUs for executive officers prior to award, including awards used to award performance, retention-based awards and awards contemplated for new executive officers as part of employment offers.

Key elements of the 2011 RSU program were:

- Holders of RSUs do not have voting rights and do not receive cash dividends during the restriction period,
- Dividend equivalents are accrued and paid in cash upon the vesting of the RSUs,
- RSUs are generally subject to a three-year restriction period and will be settled in shares upon vesting,

If an acceleration event occurs (as described in Potential Post-Employment Compensation Change of Control Arrangements), the RSUs vest in full,

If an employee dies or becomes disabled, the RSU vest in full,

If an employee leaves ITT or Xylem prior to vesting, whether through resignation or termination for cause, the RSUs are forfeited, and

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- If an employee retires or is terminated other than for cause, a pro-rata portion of the RSU vest. With respect to a termination other than for cause, the pro-rata portion includes vesting that reflects the applicable severance period.

In certain cases, such as for new hires or to facilitate retention, selected employees may receive RSUs subject to different vesting terms as determined by the ITT Compensation Committee or the Xylem LDCC.

Non-Qualified Stock Options Component

Non-qualified stock options permit option holders to buy Xylem stock in the future at a price equal to the stock s value on the date the option was granted, which is the option exercise price. Non-qualified stock option terms were selected after the ITT Compensation Committee s review and assessment of the competitive market benchmarking and consideration of terms best suited to the company.

For Ms. McClain and Ms. Buonocore, non-qualified stock options do not vest until three years after the award date. This delayed vesting is referred to as three-year cliff vesting. This vesting schedule prohibits early option exercises, notwithstanding share price appreciation, and focuses senior executives on ITT s long-term value creation goals. Stock options awarded to Messrs. Speetzen, Jimenez, and Napolitano in 2011 vest in one-third annual installments (cliff vesting only applied for SVPs of ITT).

In 2011, the fair value of stock options granted under the employee stock option program was calculated using a binomial lattice valuation model. The ITT Compensation Committee considered this a preferred model since the model can incorporate multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The practice of using the binomial lattice valuation model is being continued by the Xylem LDCC for subsequent stock option grants by Xylem.

Key elements of the 2011 non-qualified stock option program were:

- The option exercise price of stock options awarded is the NYSE closing price of ITT s or Xylem s common stock on the date the award is approved by the ITT Compensation Committee or Xylem LDCC or,
- For options granted to new executives, the option exercise price of approved stock option awards is the closing price on the grant date, generally the day following the first day of employment,
- Options cannot be exercised prior to vesting,
- Three-year cliff vesting is required for executives at the level of senior vice president or above. Stock options vest in one-third cumulative annual installments for executives below the senior vice president level,
- If an acceleration event occurs (as described in Potential Post-Employment Compensation Change of Control Arrangements), the stock option award vests in full,
- Options awarded in 2010 and 2011 and prior to 2005 expire ten years after the grant date. Options awarded between 2005 and 2009 expire seven years after the grant date. In 2010, the seven-year option term was extended to ten years based on a review of competitive market practices,
- If an employee is terminated for cause, vested and unvested portions of the options expire on the date of termination,

Xylem s 2011 Omnibus Incentive Plan prohibits the re-pricing, or exchange, of stock options and stock appreciation rights that are priced below the prevailing market price with lower-priced stock options or stock appreciation rights without shareowner approval, and

There may be adjustments to the post-employment exercise period of an option grant if an employee s tenure with Xylem is terminated due to death, disability, retirement or termination by Xylem other than

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for cause. Any post-employment exercise period, however, cannot exceed the original expiration date of the option. If employment is terminated due to an acceleration event or because the option holder determines in good faith that he or she would be unable to discharge his or her duties effectively after the acceleration event, the option expires on the earlier of the date seven months after the acceleration event or the normal expiration date.

Why both restricted stock units (RSUs) and stock options? A balanced award of RSUs and non-qualified stock options provides a combination of incentives for absolute share price appreciation and retention of executives. The following table provides an overview of some of the main characteristics of RSUs and non-qualified stock options.

Restricted Stock or Restricted Stock Units	Non-Qualified Stock Options
An RSU award is a promise to deliver to the recipient, upon vesting, shares of Xylem stock.	Non-qualified stock options provide the opportunity to purchase Xylem stock at a specified price called the exercise price at a future date.
Holders of RSUs are not entitled to vote the shares and do not receive cash dividends during the restriction period. Dividend equivalents are paid in cash upon RSU vesting beginning with the 2011 awards.	Stock option holders do not receive dividends on shares underlying options and cannot vote such shares unless the stock option is exercised.
RSUs have intrinsic value on the day the award is received and retain some actual value even if the share price declines during the restriction period.	Non-qualified stock options increase focus on activities primarily related to absolute share price appreciation. Xylem s non-qualified stock options expire ten or seven years after their grant date. If the value of Xylem s stock increases and the optionee exercises his or her option to buy at the exercise price, the optionee receives a gain in value equal to the difference between the option exercise price and the price of the stock on the exercise date. If the value of Xylem s stock fails to increase or declines, the stock option has no actual value. Stock options provide less retention value than restricted stock since stock options have actual value only if the share price appreciates over the option exercise price before the options expire.

The Xylem LDCC has selected vesting terms for RSUs and stock options based on the Xylem Compensation Consultant s review and assessment of current market practice for the Primary Peer Group and market survey data, as well as the Xylem LDCC s and ITT Compensation Committee s view of the vesting terms appropriate for Xylem and ITT, respectively.

Total Shareholder Return (TSR) Awards Component

Total Shareholder Return (TSR) Awards were a long-term performance cash program that was offered by the ITT Compensation Committee. The TSR Program tracked ITT s share price performance relative to industrial companies in the TSR Performance Index (the S&P Industrials Companies, without consideration of utility and transportation service industries, described herein as the TSR Performance Index).

As of the date of Spin-off, the 2009 TSR Awards had two months remaining from the original three-year performance period, which was paid out as a cash payment at target value. No compensation was given for the completed portion of the 2009 TSR Awards (the first 34 months of the 2009 TSR performance period) given that performance was below threshold, which did not qualify for any payment. For the uncompleted periods of the

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TSR grants for 2010 and 2011, the remaining target value was determined and provided as an RSU award in Xylem with the same vesting date as the original 2010 and 2011 Awards (December 31, 2012 and December 31, 2013, respectively). No compensation was given for the completed portions of the 2010 and 2011 TSR Awards given that performance was below threshold, which did not qualify for any payment. The TSR program was eliminated effective with the Spin-off from ITT.

2011 Long-Term Incentive Awards

The following table describes the 2011 long-term incentive awards for the NEOs, as determined by the ITT Compensation Committee on March 3, 2011.

Named Executive Officer	TSR (Target Cash Award) $	Non-Qualified Stock Option Award # Options	Restricted Stock Unit Award # Shares
Gretchen W. McClain	533,000	33,459	9,111
Michael T. Speetzen	110,000	7,640	1,879
Frank R. Jimenez	233,300	16,205	3,986
Angela A. Buonocore	166,700	10,456	2,847
Kenneth Napolitano	141,700	9,840	2,420

As a result of the Spin-off from ITT, the Xylem 2011 Omnibus Incentive Plan was approved by the ITT Compensation Committee and the Xylem LDCC. The Xylem 2011 Omnibus Incentive Plan allows Xylem the ability to grant stock options, stock appreciation rights, stock awards, other stock-based awards and target cash awards based on attainment of performance goals. The share reserve placed in the Xylem 2011 Omnibus Incentive Plan is expected to be sufficient to maintain our stock-based incentive plans for at least three years.

Under the Xylem 2011 Omnibus Incentive Plan, no individual may receive more than 3,000,000 shares subject to options in any one year. The Xylem 2011 Omnibus Incentive Plan does not permit re-pricing of stock options without shareowner approval and generally complies in all significant aspects with current best practices in corporate governance of stock-based compensation plans. Upon the Spin-off from ITT, the above 2011 annual long-term incentive grants for the above NEOs were converted to Xylem stock options and RSU awards with the original vesting terms and conditions as follows:

Named Executive Officer	TSR (Target Cash Award) $	Non-Qualified Stock Option Award # Options	Restricted Stock Unit Award # Shares
Gretchen W. McClain	n/a	59,598	16,228
Michael T. Speetzen	n/a	13,608	3,346
Frank R. Jimenez	n/a	28,865	7,100
Angela A. Buonocore	n/a	18,624	5,071
Kenneth Napolitano	n/a	17,527	4,310

As a result of the Spin-off, for Xylem employees who held ITT restricted stock or RSUs, their restricted stock or RSUs were converted into restricted stock/RSUs of Xylem, preserving their pre-Spin-off value. Xylem employees who held ITT stock options received Xylem stock options priced so that the embedded spread value (the difference between the exercise price and the share value at Spin-off) was the same both immediately before and immediately after the Spin-off.

2012 Long-Term Incentive Awards Program

Upon review of Xylem s Primary Peer Group and market survey practices, Xylem s new long-term incentive award program for senior executives will have two components, RSUs and non-qualified stock option awards,

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which directly link long-term compensation to long-term value creation, shareowner return and executive retention:

The Xylem LDCC will continue to award RSUs, which will be settled in shares upon vesting. RSUs provide the same economic risk or reward as restricted stock.

Non-qualified stock option awards will be provided. Beginning with stock option grants made in 2012, the vesting will be harmonized for all executives to vest in one-third annual installments.

Long-term incentive grants for NEOs will be made as 50% RSUs and 50% non-qualified stock options based on the grant date fair value.

Actual award value to be granted to each NEO will be based on market data (as established by assessing the Primary Peer Group of companies and survey data) and individual performance.

Special One-time Spin-off Long-Term Incentive Awards

In conjunction with the Spin-off, special one-time Founders Grants were awarded to each of the NEOs and to other employees in positions deemed critical to the establishment and success of Xylem. These awards were assessed independently by the ITT Compensation Committee and were not considered in setting the other anticipated annual compensation arrangements described above. The Founders Grants are intended to closely align the economic interests of the recipients with the Xylem shareowners. The ITT Compensation Committee, after consultation with the ITT Compensation Consultant, decided to set the Founders Grant award amounts at 1.5 times each NEO s Target 2012 Long-Term Incentive Award because the ITT Compensation Committee determined that this amount would appropriately align the NEOs economic interests with Xylem shareowners while also providing an appropriate retention incentive. The Founders Grants were awarded as: one-half in RSUs and one-half in stock options. The combined awards have a grant date fair value equal to the dollar value of the Founders Grant. The RSUs are subject to three-year cliff vesting and the stock options vest in one-third cumulative annual installments on the date of the award (November 7). Founders Grants are expressed below as aggregate fair value at grant date.

Named Executive Officer	Founders Grant
Gretchen W. McClain	$ 5,100,000
Michael T. Speetzen	$ 1,118,000
Frank R. Jimenez	$ 1,050,000
Angela A. Buonocore	$ 750,000
Kenneth Napolitano	$ 765,000

ITT and Xylem Salaried Investment and Savings Plans

Historically. Most of ITT s salaried employees who work in the United States participated in the ITT Salaried Investment and Savings Plan, a tax-qualified savings plan, which allowed employees to contribute to the plan on a before-tax basis and/or after-tax basis. ITT made a floor contribution of 1/2 of 1% of base salary to the plan for all eligible employees and matched employee contributions up to 6% of base salary at the rate of 50%. Participants could elect to have their contributions and those of ITT invested in a broad range of investment funds including ITT stock. Federal law limits the amount of compensation that can be used to determine employee and employer contribution amounts ($245,000 in 2011) to the tax-qualified plan. ITT had established and maintained a non-qualified, unfunded ITT Excess Savings Plan to pay retirement benefits that could not be paid from the ITT Salaried Investment and Savings Plan due to limits in the amount of benefits under a tax-qualified retirement plan. More details are provided in the narrative to the Non-qualified Deferred Compensation for 2011 table later in this prospectus.

Going forward as Xylem. Effective with the Spin-off, the Xylem LDCC adopted and implemented a competitive retirement savings plan for salaried employees and a supplemental retirement savings plan for salaried employees.

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Post-Employment Compensation

Salaried Retirement Plan

Historically. Most of ITT s salaried employees who worked in the United States participated in the ITT Salaried Retirement Plan. Under the plan, participants had the option, on an annual basis, to elect to be covered by either a Traditional Pension Plan or a Pension Equity Plan formula for future pension accruals. The ITT Salaried Retirement Plan was a tax-qualified plan, which provided a base of financial security for employees after they cease working. The plan is described in more detail in the narrative in Pension Benefits for 2011 and in the 2011 Pension Benefits table later in this prospectus.

Going forward as Xylem. Effective with the Spin-off, ITT transferred the ITT Salaried Retirement Plan, together with all of its associated assets and liabilities, to Exelis Inc. Going forward, Exelis will maintain the ITT Salaried Retirement Plan. The Xylem NEOs will no longer participate in the ITT Salaried Retirement Plan and benefits under that plan have been frozen as of the date of the Spin-off for all Xylem and ITT employees not solely dedicated to Exelis.

Xylem has adopted and implemented a competitive post-employment compensation program referred to as the Xylem Retirement Savings Plan for Salaried Employees (the Xylem Plan) beginning October 31, 2011. The Xylem Plan is the only retirement program offered by Xylem with benefits earned in the ITT Salaried Retirement Plan calculated as of the Spin-off date and frozen. Xylem employees do not lose any of their accrued benefit under the ITT Retirement Salaried Plan as of the date it is frozen.

The Xylem Plan provides company core contributions of either 3% or 4% of eligible pay based on points (age plus years of service) calculated at the beginning of each year. Employees with less than 50 points receive a core contribution of 3% of eligible pay. Employees with 50 or more points receive a core contribution equal to 4% of eligible pay. These contributions are 100% vested upon contribution. Employees also receive Company matching contributions equal to 50% of the first 6% of eligible pay for employee contributions made to the Xylem Plan. Matching contributions are also 100% vested upon contribution.

Employees who worked for ITT for many years, or were nearing retirement at the time of Spin-off, are eligible for additional Xylem company contributions to the Xylem Plan, for up to five years. Transition credit contributions are based on points (age plus service) calculated at the beginning of each plan year. Employees with 60 to 69 points receive additional transition credit contributions equal to 3% of eligible pay. Employees with 70 or more points receive transition credit contributions equal to 5% of eligible pay. Transition credits are also 100% vested upon contribution.

Employees can make 2% to 50% of eligible pay in pre-tax contributions to the Xylem Plan up to the annual Internal Revenue Service (IRS) contribution limits ($17,000 in 2012), and 1% to 50% of eligible pay in after-tax contributions. An after-tax contribution limit of 10% of eligible pay applies to highly compensated employees, including the NEOs, and total pre-tax and after-tax contributions cannot exceed 50% of eligible pay. Employees age 50 and older can contribute additional pre-tax contributions to their account up to $5,500 in 2012.

Xylem Supplemental Retirement Savings Plan

Historically. Because federal law limits the amount of benefits that can be paid and the amount of compensation that can be recognized under tax-qualified retirement plans, Xylem has established and maintains a non-qualified, unfunded supplemental retirement savings plan solely to provide retirement benefits that could not be paid from the Xylem Plan.

Xylem Supplemental Retirement Savings Plan for Salaried Employees

Benefits under the supplemental pension plans are generally paid directly by Xylem. The Xylem Supplemental Retirement Savings Plan for Salaried Employees (the Xylem Supplemental Plan or the SRSP) replaces the

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former ITT Excess Savings Plan, and extends the retirement savings benefits above the IRS limit ($245,000 in 2011; $250,000 in 2012). The same company contributions for core, company match and transition credits apply as in the Xylem Plan. Employees are not eligible to make eligible contributions in the Xylem Supplemental Plan (employee contributions are only accepted in the Xylem Plan). All amounts in the Xylem Supplemental Plan constitute a general unsecured obligation of the Company. Such amounts, as well as any administrative costs relating to the plan are paid out of the general assets of the Company.

Deferred Compensation Plan

Xylem NEOs are also eligible to participate in the Xylem Deferred Compensation Plan. This plan provides executives an opportunity to defer receipt of between 2% and 90% of any AIP payments they earn. The amount of deferred compensation ultimately received reflects the performance of benchmark investment funds made available under the Xylem Deferred Compensation Plan as selected by the executive. Participants in the Xylem Deferred Compensation Plan may elect a fund that tracks the performance of Xylem common stock. Xylem NEOs were eligible to participate in the ITT Deferred Compensation Plan prior to the Spin-off of Xylem from ITT.

Severance Plan Arrangements

Xylem maintains two severance plans for its senior executives the Xylem Senior Executive Severance Pay Plan and the Xylem Special Senior Executive Severance Pay Plan. Xylem s Senior Executive Severance Pay Plan and Special Senior Executive Severance Pay Plan became effective upon the Spin-off from ITT on October 31, 2011. ITT maintained similar executive severance plans prior to the Spin-off and the Xylem executive severance plans were cloned to continue service accruals. The severance plans apply to Xylem s key employees as defined by Section 409A of the Internal Revenue Code. Xylem s severance plan arrangements are not considered in determining other elements of compensation.

Xylem Senior Executive Severance Pay Plan

The purpose of this plan is to provide a period of transition for senior executives. Senior executives who are U.S. citizens or who are employed in the U.S. are covered by this plan. The plan generally provides for severance payments if Xylem terminates a senior executive s employment without cause.

The exceptions to severance payment are:

- the executive terminates his or her own employment,
- the executive s employment is terminated for cause,
- termination occurs after the executive s normal retirement date (first day of the month that coincides with the executive s 65th birthday),
- termination occurs in certain divestiture instances if the executive accepts employment or refuses comparable employment, and
- employment is terminated as a result of a death or disability.

No severance is provided for termination for cause because Xylem believes employees terminated for cause should not receive additional compensation. No severance is provided in the case of termination after a normal retirement date because the executive will be eligible for retirement payments under the Xylem retirement savings plans. No severance is provided in certain divestiture circumstances where an executive accepts or refuses comparable employment because the executive has the opportunity to receive employment income from another party under comparable circumstances. No severance is provided for termination as a result of death or disability because the executive or the executive s estate will be eligible for other death and/or disability benefits provided by the company. All Xylem NEOs participate in this plan.

Xylem Special Senior Executive Severance Pay Plan

The purpose of this plan is to provide compensation in the case of termination of employment in connection with an acceleration event (defined in Potential Post-Employment Compensation Change of Control Arrangements) including a change of control. The provisions of this plan are specifically designed to address the inability of senior executives to influence Xylem s future performance after certain change of control events. The plan is structured to encourage executives to act in the best interests of shareowners by providing for certain compensation and retention benefits and payments, including change of control provisions, in the case of an acceleration event.

The purposes of these provisions are to:

- provide for continuing cohesive operations as executives evaluate a transaction, which, without change of control protection, could be personally adverse to the executive,
- keep executives focused on preserving value for shareowners,
- retain key talent in the face of potential transactions, and
- aid in attracting talented employees in the competitive marketplace.

As discussed above, this plan provides severance benefits for covered executives, including any NEO whose employment is terminated by Xylem other than for cause, or where the covered executive terminates his or her employment for good reason within two years after the occurrence of an acceleration event as described below (including a termination due to death or disability) or if during the two-year period following an acceleration event, the covered executive terminates his or her employment with good reason or the covered executive s employment is terminated in contemplation of an acceleration event that ultimately occurs.

The plan is designed to put the executive in a comparable position, from a compensation and benefits standpoint, as he or she would have been in without the acceleration event. More information about the Xylem Special Senior Executive Severance Pay Plan is provided in Potential Post-Employment Compensation Xylem Special Senior Executive Severance Pay Plan. All Xylem NEOs participate in this plan at the highest level of benefits.

Change of Control Arrangements

As described more fully in Potential Post-Employment Compensation Change of Control Arrangements, many of Xylem s short-term and long-term incentive plans, severance arrangements and non-qualified deferred compensation plans provide additional or accelerated benefits upon a change of control. Generally, these change of control provisions are intended to put the executive in a comparable position as he or she would have been in had the change of control not occurred. Executives then can focus on preserving value for shareowners when evaluating transactions that, without change of control provisions, could be personally adverse to the executive.

Employee Benefits and Perquisites

Executives, including the NEOs, are eligible to participate in Xylem s broad-based employee benefits program. The program includes retirement investment and savings plans, which include before-tax and after-tax savings features, group medical and dental coverage, group life insurance, group accidental death and dismemberment insurance and other benefit plans. These other benefit plans include short- and long-term disability insurance and a flexible spending account plan.

Certain Perquisites to the NEOs

Beginning with the first payroll cycle in 2012, Xylem discontinued providing a car allowance, financial counseling and tax preparation to NEOs and senior executives. A one-time salary increase was provided to offset the change for senior executives, including Xylem NEOs. Financial planning services that were rendered before

the elimination of perquisites may still be reimbursed in 2012 without eligibility for tax reimbursements. Benchmarking of executive perquisites against Xylem s Primary and Supplemental Peer companies and market survey data indicated approximate median values of perquisites for senior-most executives represented only a small portion of total compensation for NEOs and Xylem s senior executives. Therefore, the Xylem LDCC decided to eliminate perquisites altogether and focus on ensuring competitive compensation with significant links to pay for performance. Perquisites are not viewed as imperative for attraction and retention of the senior-most executives.

Compensation Changes Following the Spin-off

Gretchen W. McClain

Please see Summary of Employment Arrangements.

Michael T. Speetzen

Annual Base Salary: As of the Spin-off, Mr. Speetzen s base salary was $439,000. In December 2011, Mr. Speetzen s base salary was increased to $464,000 to reflect a one-time salary adjustment in connection with the elimination of Company perquisites going forward. In March 2012, the Xylem LDCC approved a new base salary of $500,000 for Mr. Speetzen to make his base salary more market competitive.

Long-Term Incentive Award Program: As of the Spin-off, Mr. Speetzen s 2012 long-term incentive award was anticipated to be awarded at $746,000. In March 2012, when the annual long-term awards were granted, such amount was increased to $1,000,000. The Xylem LDCC approved this award to align Mr. Speetzen s long-term compensation closer to market and to recognize Mr. Speetzen s strong performance in 2011.

Kenneth Napolitano

Annual Base Salary: As of the Spin-off, Mr. Napolitano s base salary was $360,000. In December 2011, Mr. Napolitano s base salary was increased to $385,000 to reflect a one-time salary adjustment in connection with the elimination of Company perquisites going forward.

Long-Term Incentive Award Program: As of the Spin-off, Mr. Napolitano s 2012 long-term incentive award was anticipated to be awarded at $510,000. In March 2012, when the annual long-term awards were granted, such amount was increased to $535,000. The Xylem LDCC approved this award to align Mr. Napolitano s long-term compensation closer to market and to recognize Mr. Napolitano s strong performance in 2011.

Frank R. Jimenez and Angela A. Buonocore

In December 2011, Mr. Jimenez and Ms. Buonocore each received an increase to their base salary of $25,000 to reflect a one-time additional salary adjustment in connection with the elimination of Company perquisites going forward. No other changes have been made to Mr. Jimenez s and Ms. Buonocore s compensation.

Consideration of Tax and Accounting Impacts

Section 162(m) of the Internal Revenue Code places a limit of $1,000,000 on the amount of compensation that Xylem may deduct in any one year with respect to its Chief Executive Officer and the three other highest-paid NEOs, other than the Chief Financial Officer. There is an exception to the $1,000,000 limitation for performance-based compensation meeting certain requirements. Compensation attributable to awards under Xylem s AIP and long-term incentive program are generally structured to qualify as performance-based compensation under Section 162(m).

However, the Xylem LDCC realizes that evaluation of the overall performance of the senior executives cannot be reduced in all cases to a fixed formula. There may be situations in which the prudent use of discretion in

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determining pay levels is in the best interests of Xylem and its shareowners and, therefore, desirable. In those situations where discretion is used, awards may be structured in ways that will not permit them to qualify as performance-based compensation under Section 162(m).

In the event it should be determined that any payment of post-termination compensation would constitute an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code, then the aggregate of all post-termination payments for the Xylem Special Senior Executive Severance Plan will be reduced so that the Present Value of the aggregate of all payments does not exceed the Safe Harbor amount, as such terms are defined in the Internal Revenue Code; provided, however, that no such reduction shall be effective if the net after-tax benefit to the special severance executive receiving all of the payments exceeds the net after-tax benefit to the special severance executive resulting from having such payments so reduced.

Xylem s plans are intended to comply with Section 409A of the Internal Revenue Code, to the extent applicable.

Recoupment/Clawback Policy

The Xylem LDCC intends to adopt a policy that provides for recoupment of performance-based compensation if the Board of Directors determines that a senior executive has engaged in fraud or willful misconduct that caused or otherwise contributed to the need for a material restatement of Xylem s financial results. In such a situation, the Board would review all compensation awarded to or earned by that senior executive on the basis of Xylem s financial performance during fiscal periods materially affected by the restatement. This would include annual cash incentive and bonus awards and all forms of equity-based compensation. If, in the Board s view, the compensation related to Xylem s financial performance would have been lower if it had been based on the restated results, the Board will, to the extent permitted by applicable law, seek recoupment from that senior executive of any portion of such compensation as it deems appropriate after a review of all relevant facts and circumstances. The NEOs will be covered by this policy.

Consideration of Material Non-Public Information

Xylem typically closes the window for insiders to trade in Xylem s stock in advance of, and for a period of time immediately following, earnings releases and Board meetings, because Xylem and insiders may be in possession of material non-public information. The first quarter Xylem LDCC meeting at which compensation decisions and awards are typically made for employees usually occurs during a Board meeting period, so stock option awards may occur at a time when Xylem is in possession of material non-public information. The Xylem LDCC does not consider the possible possession of material non-public information when it determines the number of non-qualified stock options granted, price of options granted or timing of non-qualified stock options granted. Rather, it uses competitive data, individual performance and retention considerations when it grants non-qualified stock options and RSUs under the long-term incentive program.

Non-qualified stock option awards and RSU awards granted to NEOs, senior and other executives, and Directors are awarded and priced on the same date as the approval date. Xylem may also award non-qualified stock options in the case of the promotion of an existing employee or hiring of a new employee. Again, these non-qualified stock option grants may be made at a time Xylem is in possession of material non-public information related to the promotion or the hiring of a new employee or other matters. Xylem does not time its release of material non-public information for the purpose of affecting the value of executive compensation, and executive compensation decisions are not timed to the release of material non-public information.

Business Risk and Compensation

In 2012, as part of the Board s risk oversight responsibilities, the Xylem LDCC (as performed by ITT in past years) evaluated risk factors associated with the Company s businesses in determining compensation structure and pay practices. The structure of the committees of the Board of Directors facilitates this evaluation and determination. During 2011, the Chair of the Xylem LDCC was a member of the Audit Committee and the Audit

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Committee Chair was a member of the Xylem LDCC. The membership overlap provides insight into the Company s business risks and affords the Xylem LDCC access to the information necessary to consider the impact of business risks on compensation structure and pay practices. Further, overall enterprise risk is considered and discussed at Board meetings, providing additional important information to the Xylem LDCC. At the request of the Xylem LDCC, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer attend those portions of the Xylem LDCC meetings at which plan features and design components of the Company s annual and long-term incentive plans are considered and approved.

Compensation across the enterprise is structured so that unnecessary or excessive risk-taking behavior is discouraged. Further, total compensation for senior officers is heavily weighted toward long-term compensation consistent with Xylem s compensation philosophy, which is focused on long-term value creation. This long-term weighting discourages behaviors that encourage short-term risks.

The following table summarizes our representative compensation components or policies and relevant risk mitigation factors:

Compensation Component or Policy	**Risk Mitigation Factor**
Salary	Based on market rates.
	Provides stability and minimizes risk-taking incentives.
Annual Incentive Plan	AIP design emphasizes overall performance and collaboration among Value Centers.
	AIP components focus on a balanced mix of several performance metrics that encourage operating performance.
	AIP design is tailored to meet unique business considerations for Corporate headquarters and Value Centers.
Annual Incentive Plan	Individual AIP components and total AIP awards are capped.
Long-Term Incentive Awards	
Restricted Stock Units (RSUs)	RSUs generally vest after three years.
Stock Options	Stock options vest after three years or in one-third cumulative annual installments after the first, second and third anniversary of the grant date varying by NEO and by grant date.
	The three-year vesting (whether cliff vesting or one-third cumulative annual installments) and the seven- and ten-year option terms encourage long-term behaviors.
ITT Total Shareholder Return Awards (TSR)	The former ITT TSR long-term award was based on three-year share price performance and encouraged behaviors focused on long-term goals, while discouraging behaviors focused on short-term risks. TSRs were capped at 200%. Xylem did not adopt this program following the Spin-off.
Severance and Pension benefits	Severance and pension benefits are in line with competitive market data.
Recoupment/Clawback Policy	Will provide mechanism for senior executive compensation to be recaptured/clawed back in certain situations involving fraud or willful misconduct.
Officer Share Ownership Guidelines	Xylem executives are required to own Xylem shares or share equivalents up to 5x base salary, depending on the level of the executive (discussed in Stock Ownership Guidelines). Share ownership guidelines align executive and shareowner interests.

Xylem policy prohibits speculative trading in and out of Xylem securities, including prohibitions on short sales and leverage transactions, such as puts, calls, and listed and unlisted options.

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Compensation Tables

Summary Compensation Table

The following table summarizes the compensation for our NEOs. The information for 2011 reflects compensation paid to our NEOs by ITT prior to the Spin-off on October 31, 2011 and by us after the Spin-off.

Name and Principal	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	Option Awards ($) (3)	Non-Equity Incentive Plan Compensation ($) (4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($) (5)	All Other Compensation ($) (6)	Total ($)
Gretchen W. McClain	2011	632,692	20,000	3,608,803	3,492,838	672,390	250,968	106,289	8,783,980
Chief Executive Officer (formerly	2010	527,604		761,335	372,279	654,700	97,308	74,141	2,487,367
Senior Vice President and President,	2009	504,054	61,000	2,426,708	317,269	474,600	70,753	65,453	3,919,837
Fluid and Motion Control of ITT)									
Michael T. Speetzen	2011	338,273	5,556	777,360	740,433	394,670	47,976	45,844	2,350,112
Chief Financial Officer (formerly	2010	309,692	19,200	639,393	100,104	240,900	20,508	45,978	1,375,775
Vice President of Finance for Fluid and Motion Control of ITT)									
Frank R. Jimenez	2011	431,154	9,261	988,199	912,649	537,640	81,829	80,019	3,040,751
General Counsel and Corporate	2010	412,115		352,524	166,817	384,500	47,578	54,855	1,418,389
Secretary (formerly Vice President and General Counsel of ITT)									
Angela A. Buonocore	2011	360,192	7,500	705,910	679,849	816,520	119,380	93,519	2,782,870
Chief Communications Officer	2010	338,077	15,700	285,521	139,614	315,000	64,169	41,785	1,199,866
(formerly Senior Vice President and Chief Communications Officer of ITT)									
Kenneth Napolitano	2011	328,146	6,944	663,771	669,612	321,310	490,345	109,397	2,589,525
President, Residential and	2010	311,368	10,600	299,656	141,773	213,600	120,905	91,737	1,189,639
Commercial Water and Flow Control (formerly President, ITT Residential and Commercial Water)									

(1) These amounts represent a cash payment for the uncompleted 2-month portion of the 2009 TSR Award approved under ITT to be paid at target and on a discretionary basis. The payments were made in November 2011.

(2) Amounts in the Stock Awards column include the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for TSR awards and RSUs for year 2011. The TSR is considered a liability plan under the provisions of FASB ASC Topic 718. A discussion of RSUs and the TSR awards and assumptions used in calculating these values may be found in Note 11 to the Consolidated Financial Statements in the Company s 2011 Annual Report on Form 10-K. The values of TSR awards at target for the 2011-2013 performance period for Ms. McClain, Mr. Speetzen, Mr. Jimenez, Ms. Buonocore and Mr. Napolitano were $533,300, $110,000, $233,300, $166,700 and $141,700, respectively. Assuming the maximum value at the highest level of achievement, Ms. McClain, Mr. Speetzen, Mr. Jimenez, Ms. Buonocore and Mr. Napolitano would receive TSR award payouts of $1,066,600, $220,000, $466,600, $466,600 and $283,400, respectively, following the end of the performance period. This column does not include the aggregate fair value of the RSUs awarded as replacements for the TSR awards with respect to the uncompleted portion of the 2010 and 2011 TSR awards. More information about the TSR awards post-Spin-off is provided in Compensation Discussion and Analysis Overview of Long-Term Incentive Awards Total Shareholder Return (TSR) Awards Component. There was no incremental grant date fair value associated with the conversion of restricted stock shares/units and there was no immediate expense recognized for TSR replacements units as the change in fair value relates to the unvested portion of the original TSR award. The associated expense for the replacement units will be recognized over the remaining vesting periods.

Furthermore, the Stock Awards column reflects the aggregate grant fair value of the Founders Grants, discussed in Compensation Discussion and Analysis above, as follows: Ms. McClain, Mr. Speetzen, Mr. Jimenez, Ms. Buonocore and Mr. Napolitano were $2,550,011, $559,010, $524,589, $375,002, and $382,505, respectively.

For stock awards issued prior to the Spin-off, the fair value was determined by the average of the high and low stock prices of ITT on February 22, 2011, the program valuation date. For stock awards issued post-Spin-off, the fair value was determined by using the closing price of Xylem stock on November 7, 2011.

(3) Amounts in the Option Awards column include the aggregate grant date fair value of non-qualified stock option awards. Pre-Spin-off, the fair values for these grants were determined by using a binomial lattice value effective on February 22, 2011, the program valuation date. The March 3, 2011 grant date fair values after the equity conversion in the Spin-off were $8.89 for Ms. McClain, $8.89 for Ms. Buonocore, $8.03 for Mr. Speetzen, $8.03 for

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Mr. Jimenez and $8.03 for Mr. Napolitano. The post-Spin-off grants awarded under Founders Grants were based on a binomial lattice value effective on November 7, 2011. The Founders Grants amounts were as follows: $2,550,000 for Ms. McClain, $374,998 for Ms. Buonocore, $559,002 for Mr. Speetzen, $524,997 for Mr. Jimenez and $382,500 for Mr. Napolitano. The conversion of stock options from shares of ITT stock to shares of Xylem stock resulted in an incremental change in fair value for each NEO as follows: $412,516 for Ms. McClain, $72,109 for Mr. Speetzen, $155,762 for Mr. Jimenez, $139,130 for Ms. Buonocore and $146,306 for Mr. Napolitano. A discussion of assumptions relating to option awards may be found in Note 11 to the Consolidated Financial Statements in the Company s 2011 Annual Report on Form 10-K.

(4) Amounts in the Non-Equity Incentive Plan Compensation column represent AIP awards for performance year 2011, which to the extent not deferred by an executive, were paid out on March 14, 2012. Furthermore, Transaction Success Incentive awards are included for Mr. Speetzen, Mr. Jimenez, Ms. Buonocore, and Mr. Napolitano for $160,000, $220,000, $550,000 and $165,000, respectively. The TSI awards were paid at the same time as the 2011 AIP awards.

(5) No NEO received preferential or above-market earnings on deferred compensation. The change in the present value in accrued pension benefits was determined by measuring the present value of the accrued benefit at the respective dates using a discount rate of 5.75% at December 31, 2011 (corresponding to the discount rates used for the ITT Salaried Retirement Plan, which is a component of ITT s consolidated pension plans, as described in Note 12 to the Consolidated Financial Statements in the Company s 2011 Annual Report on Form 10-K based on the assumption that retirement occurs at the earliest date the individual could retire with an unreduced retirement benefit). All benefit obligations for plans shown in this column were transferred to Exelis as of October 31, 2011. Accordingly, all benefits under the ITT Salaried Retirement Plan and the ITT Excess Pension Plan after October 31, 2011 are payable by Exelis.

(6) Amounts in this column for 2011 represent items specified in the All Other Compensation Table below.

All Other Compensation Table

	Other Compensation									
Name	Personal Use of Corporate Aircraft ($) (a)	Financial Counseling ($) (b)	Relocation ($) (c)	Auto Allowances ($) (d)	Supplemental Plan Contributions ($) (e)	Tax Reimburse-ments ($) (f)	401(k) Match ($) (g)	Deferred Compensation Plan Contributions ($) (h)	Other ($) (i)	Total All Other Compensa-tion ($)
Gretchen W. McClain	5,484	12,195		15,600	51,156		11,383	9,413	1,057	106,289
Michael T. Speetzen				13,200	18,987		13,321		336	45,844
Frank R. Jimenez		13,000		15,600	30,754	1,362	18,267		1,036	80,019
Angela A. Buonocore		3,211		15,600	34,113	1,773	20,825	16,791	1,206	93,519
Kenneth Napolitano		905	37,554	13,200	15,023	21,326	20,892		497	109,397

(a) Amounts reflect the aggregate incremental cost for personal use of the corporate aircraft for Ms. McClain prior to the Spin-off from ITT. The aggregate incremental cost was determined on a per-flight basis and includes the cost of fuel, a pro-rata share of repairs and maintenance, landing and storage fees, crew-related expenses and other miscellaneous variable costs.

(b) Amounts represent financial counseling and tax service fees paid during 2011. Financial counseling and tax service fees reflect fees for services provided during the calendar year.

(c) Mr. Napolitano received a company-paid apartment with the value of $35,456 and company paid travel for his family of $2,097 under an ITT relocation arrangement in 2011. This arrangement terminated on October 31, 2011.

(d) Auto allowances were provided to a range of executives, including the NEOs.

(e) Amounts represent the floor and matching contributions to the ITT Excess Savings Plan pre-Spin-off and the core and matching contributions to the Xylem Supplemental Plan post-Spin-off. The participants balances in the ITT Excess Savings Plan were transferred to the Xylem Supplemental Plan, effective October 31, 2011. Xylem contributions to the Xylem Supplemental Plan are unfunded and earnings accrue at the same rate as the Stable Value Fund available to participants in the Xylem Plan. These amounts include contributions in fiscal year 2011 as well as contributions for the 2011 AIP and TSI awards earned in 2011 and paid in 2012.

(f) Amounts in this column for Ms. Buonocore and Mr. Jimenez are tax reimbursement allowances intended to offset the inclusion of taxable income of tax preparation services. The amount for Mr. Napolitano represents tax reimbursements related to a relocation arrangement. Tax gross-ups for tax preparation were eliminated effective July 2011.

(g) Amounts represent the aggregate of ITT s floor and matching contributions to the participant s ITT Salaried Investment and Savings Plan account pre-Spin-off and core and matching contributions to the participants under the Xylem Supplemental Retirement Savings Plan after the completion of the Spin-off. These amounts include contributions in fiscal year 2011 as well as contributions for the 2011 AIP and TSI awards earned in 2011 and paid in 2012.

(h) Amounts represent the aggregate of core and matching contributions to the participants under the Xylem Deferred Compensation Plan. These contributions include the 2011 AIP award earned in 2011 and paid in 2012.

(i) Amounts include taxable group term-life insurance premiums attributable to each NEO. For Ms. McClain, this amount also includes a WebMD rebate. For Ms. Buonocore and Mr. Jimenez, the amount includes a WebMD rebate as well as health club fees.

Grants of Plan-Based Awards in 2011

The following table provides information regarding equity and non-equity awards made to our NEOs during the year ended December 31, 2011, including equity and non-equity awards granted to our NEOs by ITT prior to the Spin-off on October 31, 2011. Awards originally granted by ITT prior to the Spin-off were converted into Xylem awards in connection with the Spin-off with vesting dates consistent with the original awards from ITT, other than the uncompleted portion of each of the 2010 and 2011

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TSR awards, which were converted at target into Xylem RSUs (as described in Compensation Discussion and Analysis Overview of Long-Term Incentive Awards Total Shareholder Return (TSR) Awards Component). A discussion of the conversion process for equity awards is described in the Outstanding Equity Awards at 2011 Fiscal Year-End table. The compensation plans under which the grants in the following table were made are described in Compensation Discussion and Analysis and include the AIP, TSI, TSR, RSUs, restricted stock awards and non-qualified stock option awards.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)						
Name	Grant Date	Date of Action	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#) (3)	All Other Option Awards: Number of Securities Under-lying Options (#) (4)	Exercise or Base Price of Option Awards ($/Sh) (5)	Grant Date Fair Value of Stock and Option Awards ($) (6)
Gretchen W. McClain			212,500	425,000	850,000							
			63,750	127,500	255,000							
						266,650	533,300	1,066,600				533,300
	03-Mar-11	03-Mar-11							16,228			525,492
	03-Mar-11	03-Mar-11								59,598	32.3818	668,786
	07-Nov-11	02-Nov-11							103,659			2,550,011
	07-Nov-11	02-Nov-11								307,600	24.6000	2,550,004
	07-Nov-11	02-Nov-11							5,691			139,999
	07-Nov-11	02-Nov-11							15,657			385,162
Michael T. Speetzen			67,146	134,292	268,583							
			29,267	58,533	117,067							
				160,000								
						55,000	110,000	220,000				110,000
	03-Mar-11	03-Mar-11							3,346			108,349
	03-Mar-11	03-Mar-11								13,608	32.3818	140,940
	07-Nov-11	02-Nov-11							22,724			559,010
	07-Nov-11	02-Nov-11								67,431	24.6000	559,003
	07-Nov-11	02-Nov-11							1,581			38,893
	07-Nov-11	02-Nov-11							3,229			79,433
Frank R. Jimenez			108,750	217,500	435,000							
			21,750	43,500	87,500							
				220,000								
						116,650	233,300	466,600				233,300
									7,100			229,911
	03-Mar-11	03-Mar-11								28,865	32.3818	298,955
	03-Mar-11	03-Mar-11							21,341			524,989
	07-Nov-11	02-Nov-11								63,329	24.6000	524,997
	07-Nov-11	02-Nov-11							2,635			64,821
	07-Nov-11	02-Nov-11							6,849			168,485
Angela A. Buonocore			91,250	182,500	365,000	83,350	166,700	333,400				166,700
			18,250	36,500	73,000							
				550,000								
						83,350	166,700	333,400				166,700
	03-Mar-11	03-Mar-11							5,071			164,208
	03-Mar-11	03-Mar-11								18,624	32.3818	210,562
	07-Nov-11	02-Nov-11							15,244			375,002
	07-Nov-11	02-Nov-11								45,235	24.6000	374,998
	07-Nov-11	02-Nov-11							2,134			52,496
	07-Nov-11	02-Nov-11							4,894			120,392
Kenneth Napolitano			67,792	135,583	271,167							

		18,000	36,000	72,000							
			165,000								
					70,850	141,700	283,400				141,700
03-Mar-11	03-Mar-11							4,310			139,565
03-Mar-11	03-Mar-11								17,527	32.3818	181,529
07-Nov-11	02-Nov-11							15,549			382,505
07-Nov-11	02-Nov-11								46,140	24.6000	374,998
07-Nov-11	02-Nov-11							2,240			55,104
07-Nov-11	02-Nov-11							4,160			102,336

(1) Amounts reflect the threshold, target and maximum payment levels, respectively, if an award payout is achieved under the 2011 AIP described above in Compensation Discussion and Analysis Overview of the Annual Incentive Program and Overview of Long-Term Incentive Awards. These potential

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payments are based on achievement of specific performance metrics and are completely at risk. The target award is computed based on the estimated payouts with the target award equal to 100% of the award potential, the threshold equal to 50% of target and the maximum equal to 200% of target.

Amounts for each NEO reflect the threshold, target and maximum payment levels, in two segments, reflecting the 10-month pre-Spin-off AIP potential target payment and the 2-month post-Spin-off potential target payment. The 10-month pre-Spin-off AIP potential target amount relates to a pro-rated portion of each NEO s pre-Spin-off salary and the 2-month post-Spin-off AIP potential target amount relates to a pro-rated portion of each NEO s post-Spin-off salary.

	Pre-Spin-Off (pro-rated for 10 months)			Post-Spin-Off (pro-rated for 2 months)		
Name	**Salary ($)**	**Target %**	**Target Amount ($)**	**Salary**	**Target %**	**Target Amount ($)**
Gretchen W. McClain	600,000	85%	425,000	900,000	85%	127,500
Michael T. Speetzen	322,300	50%	134,292	439,000	80%	58,533
Frank R. Jimenez	435,000	60%	217,500	435,000	60%	43,500
Angela A. Buonocore	365,000	60%	182,500	365,000	60%	36,500
Kenneth Napolitano	325,400	50%	135,583	360,000	60%	36,000

(2) Amounts reflect the threshold, target and maximum payment levels, if an award payout is achieved, under ITT s TSR Plan for the 2011-2013 performance period described above in Compensation Discussion and Analysis Overview of Long-Term Incentive Awards Total Shareholder Return (TSR) Awards Component. Each unit under the TSR Plan equals $1. Payments, if any, under the TSR Plan are paid in cash at the end of the performance period. The performance period for awards under ITT s TSR Plan, reflected in the Estimated Future Payouts Under Equity Incentive Plan Awards column, for the 2011-2013 performance period is January 1, 2011-December 31, 2013. The TSR is no longer a compensation component of Xylem.

(3) Amounts reflect the number of shares of RSUs granted in 2011 to the NEOs. RSUs awarded as replacements for TSR awards with respect to the unvested portion of the 2010 and 2011 TSR awards will vest on December 31, 2012 and December 31, 2013, respectively. The replacement awards have consistent performance periods as the original TSR awards. The number of RSUs granted on March 3, 2011 was determined by the average of the high and low stock price on the program valuation date of February 22, 2011. The number of RSUs granted on November 7, 2011 was determined by the closing price of Xylem stock on the program valuation date of November 7, 2011. RSUs granted to NEOs generally vest in full at the end of the three-year restriction period following the grant date. During the restriction period, the holder will receive dividends at vesting and may not vote the shares. There was no incremental grant date fair value associated with the conversion of restricted stock shares/units and there was no immediate expense recognized for TSR replacement RSUs as the change in fair value relates to the unvested portion of the original TSR award. The associated expense for the replacement RSUs will be recognized over the remaining vest periods.

(4) Amounts reflect the number of non-qualified stock options granted in 2011 to NEOs. For the March 3, 2011 non-qualified stock option grants, the number of non-qualified stock options was determined by the binomial lattice value on the program valuation date of February 22, 2011. Due to the conversion, there was an incremental grant date fair value associated with the March 3, 2011 grants. The values are as follows: Ms. McClain $138,468, Mr. Speetzen $31,618 Mr. Jimenez $67,063, Ms. Buonocore $43,272 and Mr. Napolitano $40,722. For the November 7, 2011 non-qualified stock option grants, the number of non-qualified stock options was determined by the binomial lattice value on the program valuation date of November 7, 2011. Such non-qualified stock options generally become exercisable at the end of the three-year period following the grant date and expire ten years after the grant date.

(5) The option exercise price for non-qualified stock options dated March 3, 2011 was the closing price of ITT common stock on the date the non-qualified stock options were granted. The option exercise price for the non-qualified stock options dated November 7, 2011 was the closing price of Xylem common stock on the date the non-qualified stock options were granted.

(6) Amounts in this column represent the grant date fair value computed in accordance with FASB ASC Topic 718 for TSR target awards, RSUs, restricted stock awards and non-qualified stock option awards granted to the NEOs in 2011.

Summary of Employment Arrangements

Gretchen W. McClain

Term: On October 4, 2011, Ms. McClain accepted an offer of employment with the Company as President and Chief Executive Officer of the Company effective as of the Spin-off from ITT. Ms. McClain is the only NEO with an offer letter arrangement. Ms. McClain s compensation, as for all other NEOs, is subject to the approval of the Xylem LDCC.

Annual Base Salary: Ms. McClain s base salary as of the Spin-off was $900,000. In December 2011, Ms. McClain s base salary was increased to $935,000 to reflect a one-time salary adjustment in connection with the elimination of Company perquisites going forward.

Target Annual Incentive: Ms. McClain s annual incentive target was set at 100% of base salary. In March 2012, the Xylem LDCC approved an increase of that target to 110%. The amount earned in respect to AIP is discretionary and subject to individual and Company performance, as determined by the Xylem LDCC.

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Long-Term Incentive Award: Ms. McClain is eligible to participate in the Company s long-term incentive program. In October, Ms. McClain s 2012 long-term incentive award was anticipated to be awarded at $3,400,000. In March 2012, when the long-term awards were granted, such amount was increased to $4,250,000. The Xylem LDCC approved this award given her strong performance and the fact that Ms. McClain s long-term compensation was below market. Her award was valued using the same methodology used to value 2012 long-term incentive awards to other senior management of the Company.

Founders Grant: Following the Spin-off from ITT, Ms. McClain received a Founders Grant with a value of $5,100,000, which was determined by the ITT Compensation Committee and later approved by the Xylem LDCC. This grant was a one-time special award intended to closely align Ms. McClain s economic interests with Xylem shareowners. This grant was granted as 50% Stock Options and 50% RSUs with a three-year vesting.

Severance Arrangements: Ms. McClain is covered under the terms of the Xylem Senior Executive Severance Pay Plan. Notwithstanding the terms of such plan, should Ms. McClain be terminated by the Company other than for cause at any time, she will receive a severance benefit equal to twenty-four months of current base salary and target AIP, subject to the Company s severance policies. In the event of a termination in connection with a change of control, Ms. McClain would receive a severance benefit under the terms of the Xylem Special Senior Executive Severance Pay Plan.

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Outstanding Equity Awards at 2011 Fiscal Year-End

The following table provides information regarding outstanding stock option awards and unvested restricted stock or RSU awards (including related dividend equivalent units) held by each NEO as of December 31, 2011. All information is presented below on a post-conversion basis. In connection with the Spin-off from ITT, restricted stock, RSUs and non-qualified stock options awarded prior to the Spin-off were converted to Xylem restricted stock, RSUs and non-qualified stock options, and the uncompleted portions of ITT TSR Awards were converted to Xylem RSUs.

		Option Awards				Stock Awards	
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable (1)**	**Number of Securities Underlying Unexercised Options (#) Unexercisable (1)**	**Option Exercise Price ($)**	**Option Expiration Date (1)**	**Number of Shares or Units of Stock That Have Not Vested (#)(2)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)(3)**
Gretchen W. McClain	9/9/2005	59,374		31.2085	9/19/2012	265,515	6,821,080
	3/6/2006	15,541		29.5748	3/6/2013		
	3/7/2007	26,994		32.5558	3/7/2014		
	3/10/2008	29,693		29.8050	3/10/2015		
	3/5/2009		53,669	18.6330	3/5/2016		
	3/5/2010		42,837	30.0295	3/5/2020		
	3/3/2011		59,598	32.3818	3/3/2021		
	11/7/2011		307,600	24.6000	11/7/2021		
Michael T. Speetzen	3/5/2009	2,880	5,892	18.6330	3/5/2016	53,542	1,375,494
	3/5/2010	4,237	8,472	30.0295	3/5/2020		
	3/3/2011		13,608	32.3818	3/3/2021		
	11/7/2011		67,431	24.6000	11/7/2021		
Frank R. Jimenez	6/9/2009	19,636	9,816	25.7179	6/9/2016	50,591	1,299,683
	3/5/2010	7,060	14,119	30.0295	3/5/2020		
	3/3/2011		28,865	32.3818	3/3/2021		
	11/7/2011		63,329	24.6000	11/7/2021		
Angela A. Buonocore	3/7/2007	11,996		32.5558	3/7/2014	45,824	1,177,219
	3/10/2008	14,793		29.8050	3/10/2015		