

A dynamic graphic of a water splash in shades of blue and teal, with several water droplets suspended in the air above the main splash. The splash is captured in a way that shows the movement and texture of the water.

xylem
Let's Solve Water

ROBERT W. BAIRD
2015 INDUSTRIAL CONFERENCE
NOVEMBER 10, 2015

Forward-Looking Statements

This presentation 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,” “forecast,” “believe,” “target,” “will,” “could,” “would,” “should” and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include statements about the capitalization of Xylem Inc. (the “Company”), the Company’s restructuring and realignment, future strategic plans and other statements that describe the Company’s business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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Key Notes For Today's Presentation

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 - **Full year 2015 references are based on disclosures during our 3rd Quarter Earnings Call on October 29, 2015.**
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- **Certain references to performance measures are on an adjusted basis to exclude restructuring & realignment costs, other special non-recurring items and impacts of foreign exchange translation. Refer to the appendix section of our Investor Briefing available in the investors section of the Xylem website (www.xylem.com) for non-GAAP reconciliations of historical financial periods.**

Investment Thesis

WE WILL BENEFIT FROM A FAVORABLE MACRO OUTLOOK

Well positioned in key end markets with sustainable growth profiles for the next 5 years



MARKET-PLUS GROWTH DRIVEN BY FOCUSED STRATEGIES

Increased investment in faster-growth regions and innovation



RUNWAY FOR FURTHER MARGIN EXPANSION

Multi-year plan continues to create value → 300 to 400 bps over next 5 years



ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE

Strong cash flow generation and capital structure enables significant value creation



Xylem Overview



UNIQUELY POSITIONED TO OUTPERFORM

- **~ \$4B Focused Water Play**
- **Leading Market Positions in Highly Fragmented Industry**
- **Fortress Brands and World Class Distribution**
- **Diverse Geographic and End Market Exposure**
- **Large Installed Base: ~40% Recurring Revenue**
- **Strong Cash Flow Generation and Financial Position**

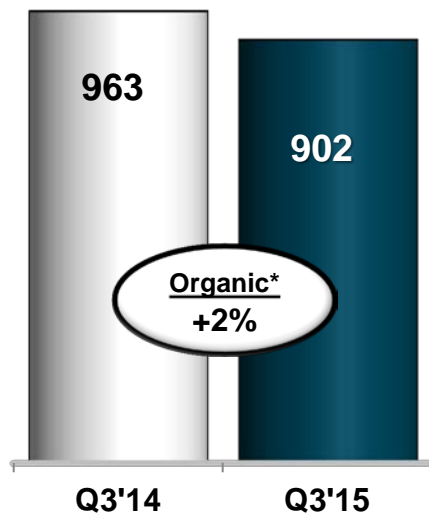
Q3 2015 Financial Summary

(Dollars In Millions, except EPS)

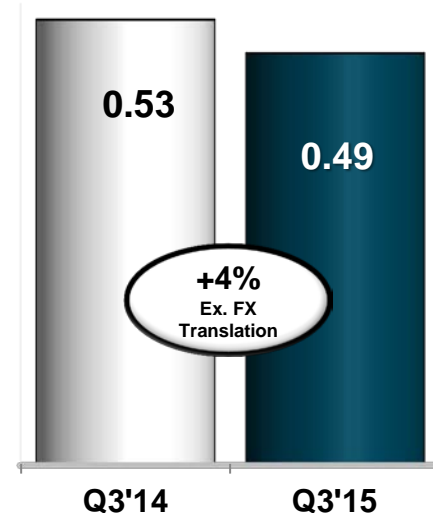
PERFORMANCE HIGHLIGHTS

- Affirmed full-year guidance; Expected Earnings per Share of \$1.82 to \$1.87
- Public Utility growth accelerated, up 5% (~1/3 of Xylem Revenue)
- Continued growth in Emerging Markets, up 9% driven by infrastructure investment
- Accelerated capital deployment ... Opportunistically repurchased shares, \$75M
- Announced 1st acquisition in > two years ... HYPACK bolt-on to Analytics platform

REVENUE

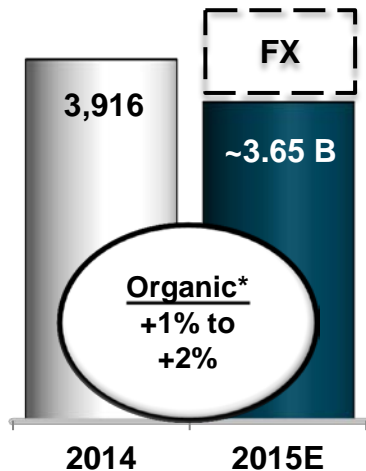


EPS*



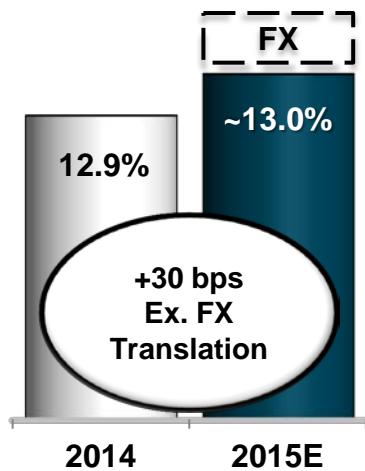
2015 Outlook (As of October 29, 2015)

REVENUE



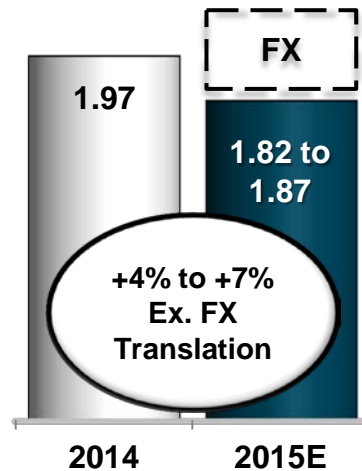
Organic Growth +1% to +2%
FX Translation - 8%

OP MARGIN*



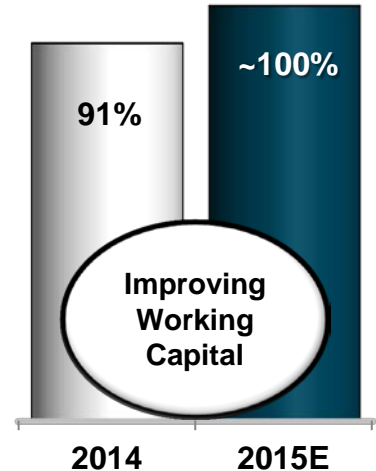
Operations +30 bps
FX Translation - 20 bps

EPS*



Operations +\$0.08 to +\$0.13
FX Translation - \$0.23

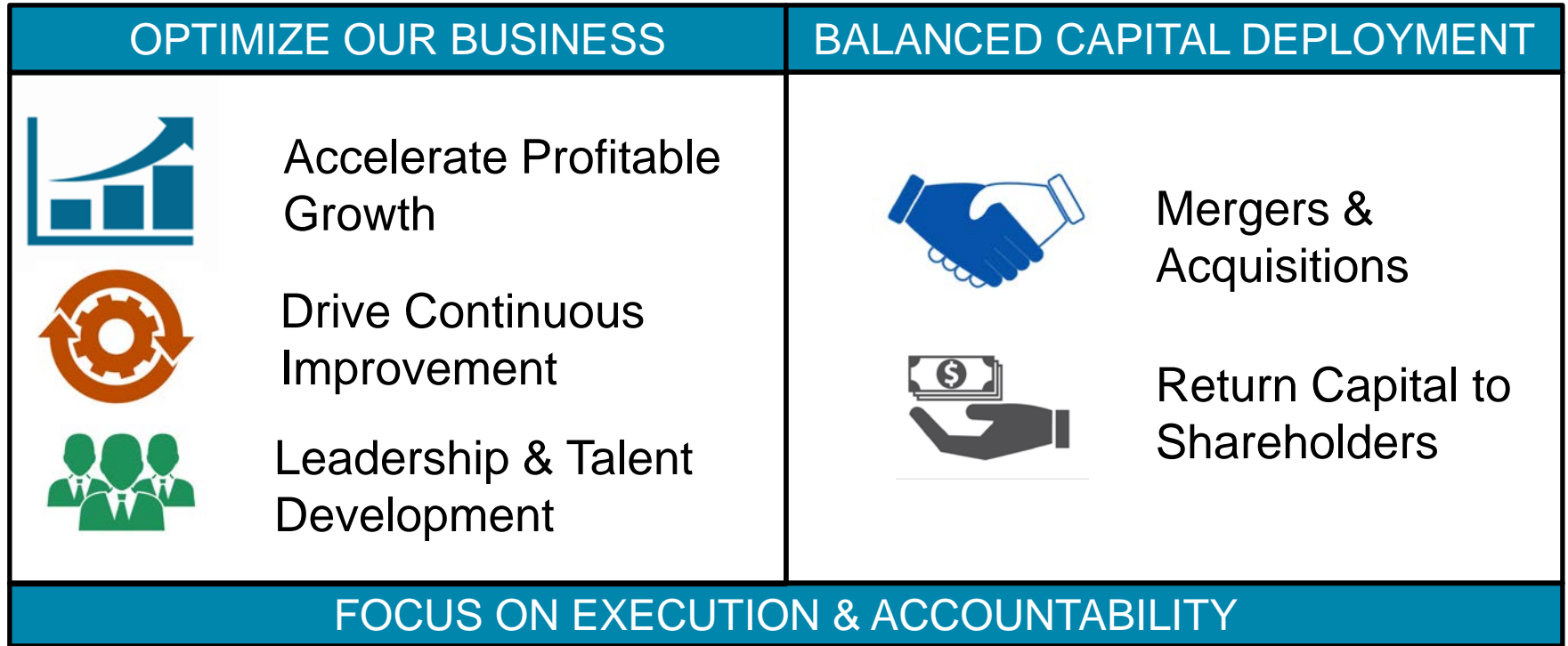
FCF* CONVERSION



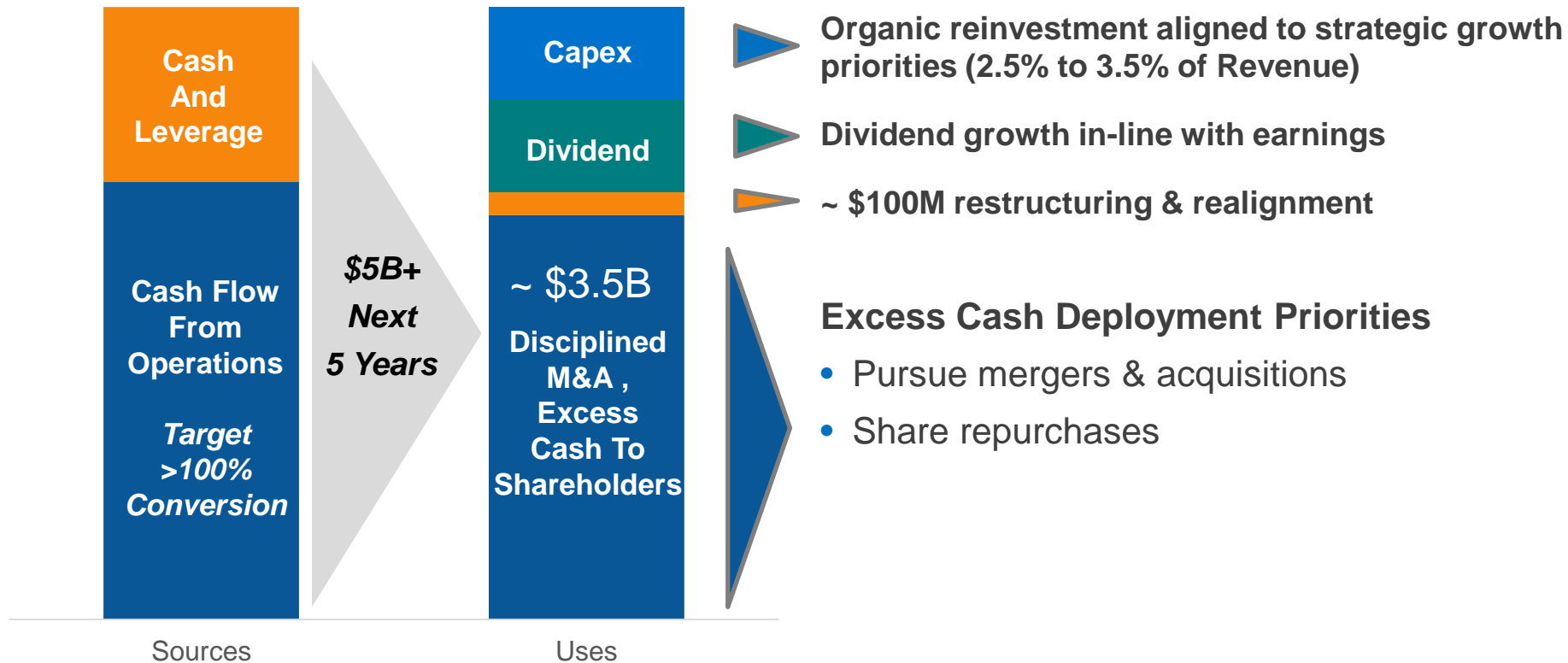
Committed to Disciplined Capital Deployment
10% Dividend Increase
\$125M Shares Repurchased (YTD)

FOCUSED ON EXECUTION & DRIVING PRODUCTIVITY

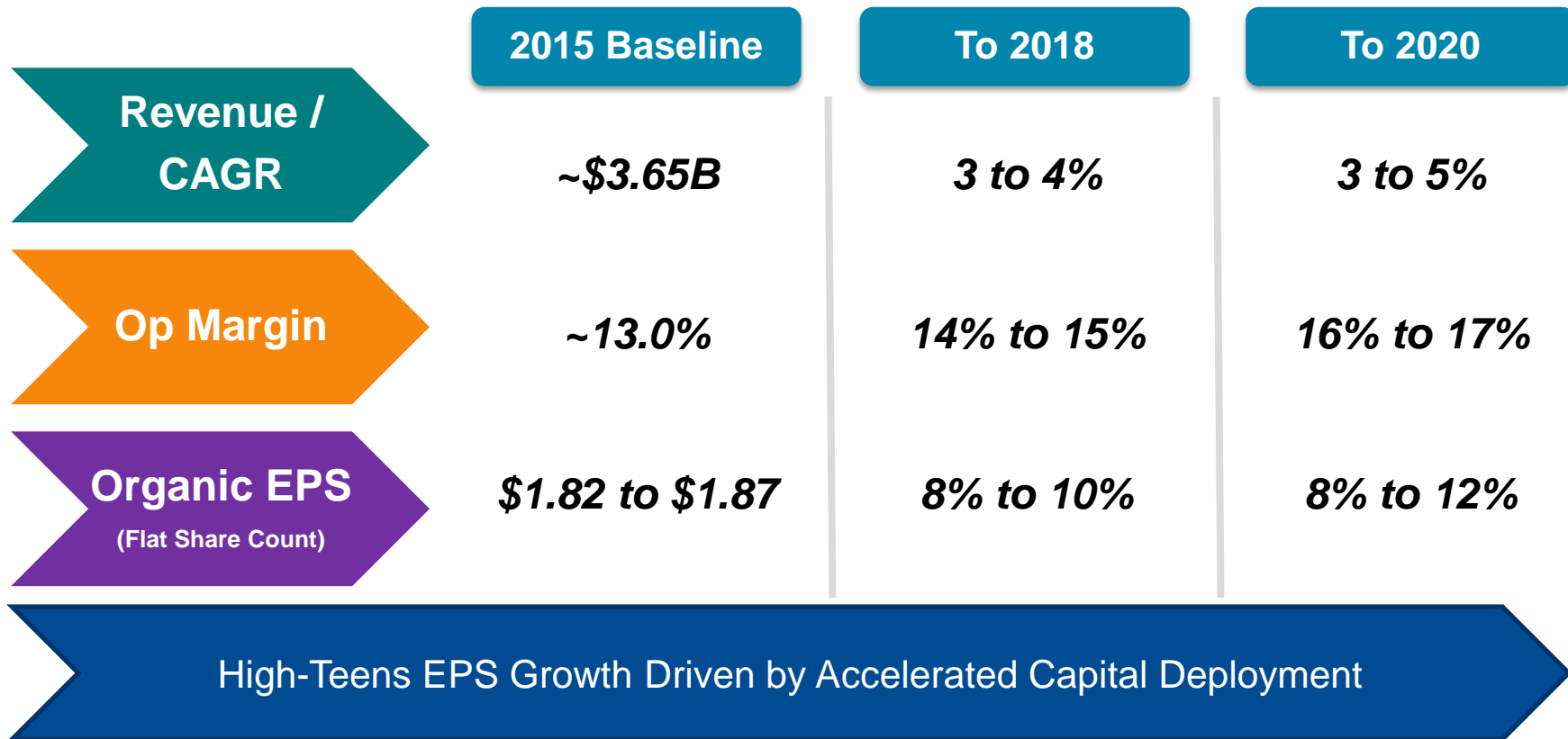
Xylem's Value Creation Roadmap



Strong Cash Flow and Capital Structure Enables Balanced Capital Deployment



2020 Target Roadmap → Pace Accelerates



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Increased investment in faster-growth regions and innovation



RUNWAY FOR FURTHER MARGIN EXPANSION

Multi-year plan continues to create value → 300 to 400 bps over next 5 years



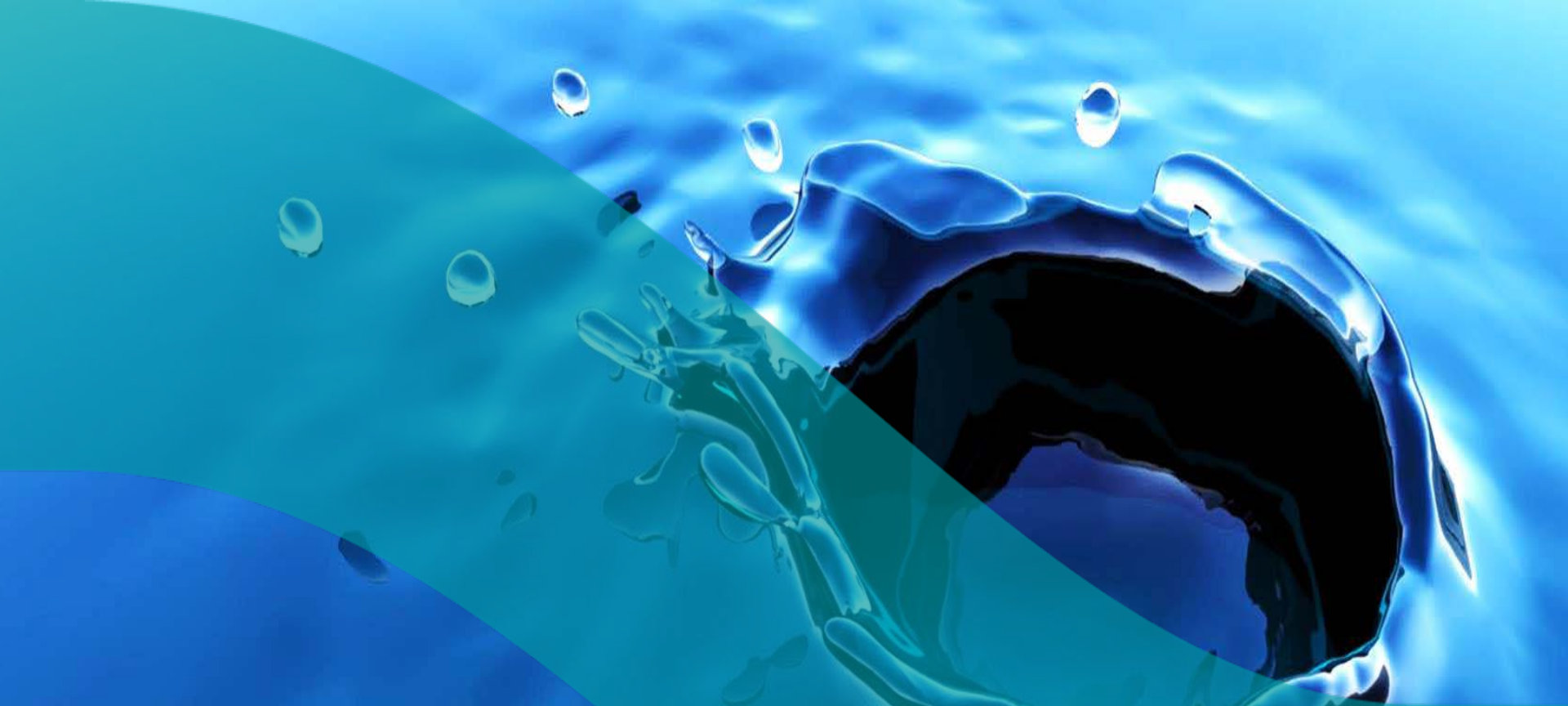
ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE

Strong cash flow generation and capital structure enables significant value creation



xylem

Let's Solve Water



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Let's Solve Water

INVESTOR BRIEFING
NOVEMBER 2015

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INVESTOR BRIEFING NOTES

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XYLEM OVERVIEW



xylem
Let's Solve Water

INVESTMENT THESIS

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Strong cash flow generation and capital structure enables significant value creation



XYLEM OVERVIEW



UNIQUELY POSITIONED TO OUTPERFORM

- **~ \$4B Focused Water Play**
- **Leading Market Positions in Highly Fragmented Industry**
- **Fortress Brands and World Class Distribution**
- **Diverse Geographic and End Market Exposure**
- **Large Installed Base: ~40% Recurring Revenue**
- **Strong Cash Flow Generation and Financial Position**

FAVORABLE REGULATORY AND MACRO CONDITIONS PROVIDE FOR COMPELLING LONG-TERM GROWTH

REGULATORY



- Environmental focus
- Quality standards
- Energy efficiency

DEMOGRAPHICS



- Population growth
- Urbanization
- Increasing middle class in emerging markets

INFRASTRUCTURE NEEDS



- Aging infrastructure
- Water scarcity
- Resilience to extreme weather

**WE ARE UNIQUELY POSITIONED
TO SOLVE THE WORLD'S GROWING WATER CHALLENGES**

WE ADDRESS CUSTOMER CHALLENGES ACROSS THE WATER CYCLE



TRANSPORT

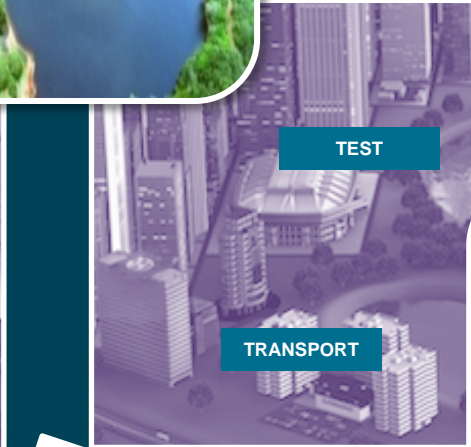


TREATMENT

TRANSPORT



TEST



TEST

TRANSPORT

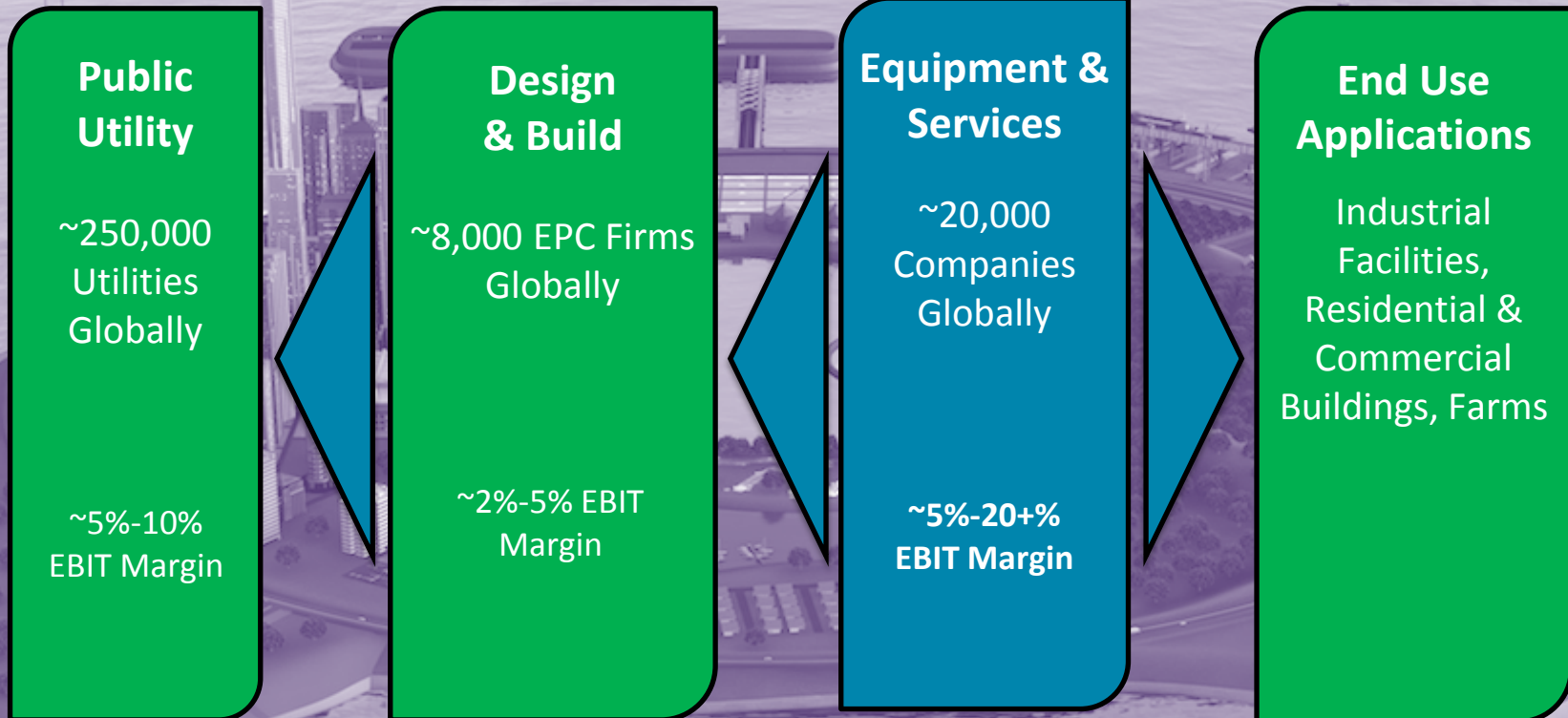


TREATMENT



TRANSPORT

GLOBAL WATER INDUSTRY >\$550B : VALUE CHAIN VIEW



XYLEM FOCUSED ON SWEET SPOTS OF EQUIPMENT & SERVICES

LEADING GLOBAL PROVIDER OF WATER SOLUTIONS & SPECIALTY SERVICES

- Higher Value Equipment
- Differentiated Solutions
- Knowledge-Based Services

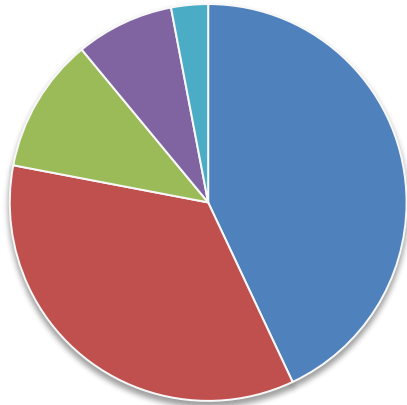
OUR
ADDRESSABLE MARKET
\$37 Billion

WE HAVE LEADING POSITIONS IN ATTRACTIVE MARKET SEGMENTS



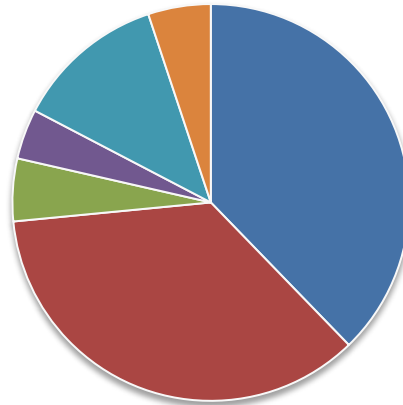
WE HAVE A DIVERSIFIED PORTFOLIO

2014 REVENUE BY END MARKET



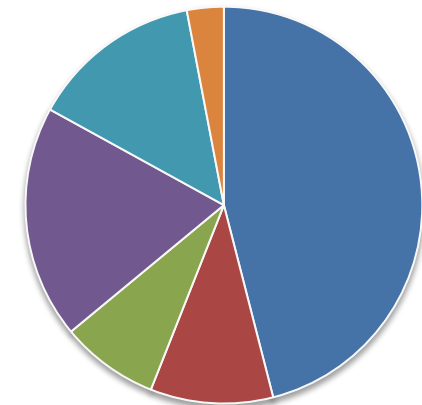
 Industrial	44%
 Public Utility	33%
 Commercial	13%
 Residential	7%
 Agriculture	3%







2014 REVENUE BY GEOGRAPHY



 United States	38%
 Europe	35%
 Latin America	5%
 ME/Africa	4%
 Asia Pac	12%
 Rest of World	6%

2014 REVENUE BY APPLICATION



 Transport	45%
 Treatment	9%
 Test	8%
 Building Svcs	20%
 Industrial Water	15%
 Irrigation	3%

A Growing Emerging Market Presence ... Today ~21%

OUR BROAD PORTFOLIO ALLOWS US TO ADDRESS A DIVERSE SET OF MARKETS AND PROVIDES FOR A UNIQUE INVESTMENT OPPORTUNITY

XYLEM'S VALUE CREATION ROADMAP

OPTIMIZE OUR BUSINESS



Accelerate Profitable Growth

- Innovation & Technology
- Commercial Leadership
- Emerging Markets
- Mergers & Acquisitions



Accelerate Profitable Growth

- Business Simplification
- Lean & Six Sigma
- Global Procurement



Leadership & Talent Development

BALANCED CAPITAL DEPLOYMENT



Mergers & Acquisitions

- Measurement, Analytics and Control
- Advanced Treatment
- Industrial Water Services
- Defend the Core



Return Capital to Shareholders

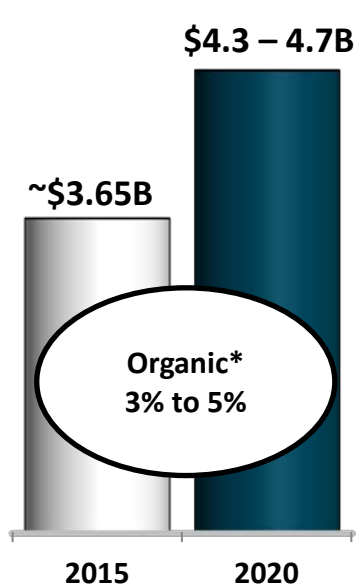
- Dividend Growth In-Line with Earnings
- Opportunistic Share Repurchases

FOCUS ON EXECUTION & ACCOUNTABILITY

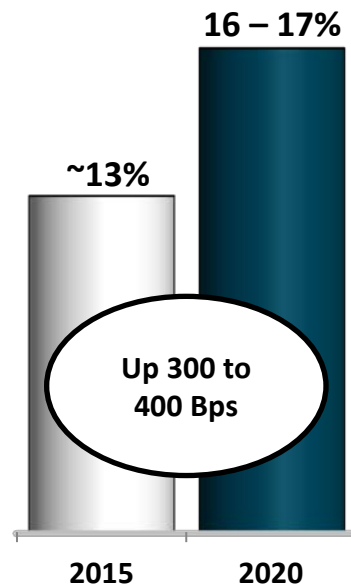
LONG-TERM FINANCIAL TARGETS

AGGRESSIVE BUT ACHIEVABLE ORGANIC 2020 TARGETS

REVENUE



OP MARGIN*



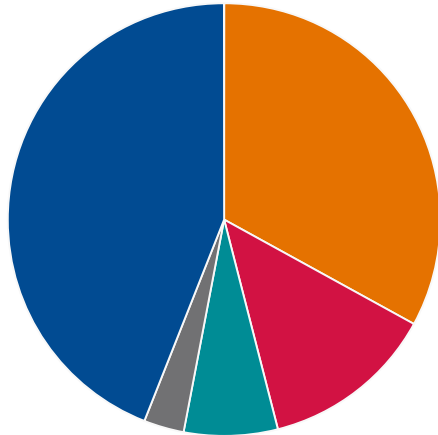
Highlights & Assumptions

- **Strategic Initiatives Drive Above Market Growth**
 - Total organic growth 3% to 5%
 - End market growth 2% to 3%
- **Op Margin Expands 300 to 400 bps**
 - Strong conversion drives 120 to 220 bps
 - Continuous Improvement drives ~300+ bps
 - Increased R&D Investment ~100 bps
- **Other P&L Highlights/Assumptions**
 - Gross Margin range of 42% to 43%
 - G&A cost reduction of ~200 bps
 - Share Count Flat / ~21% Tax Rate





SERVING CUSTOMERS IN DIVERSE AND GROWING MARKETS

2020
5 YEAR CAGR

2014 Revenue Profile



- Industrial 44%
- Public Utility 33%
- Commercial 13%
- Residential 7%
- Agriculture 3%

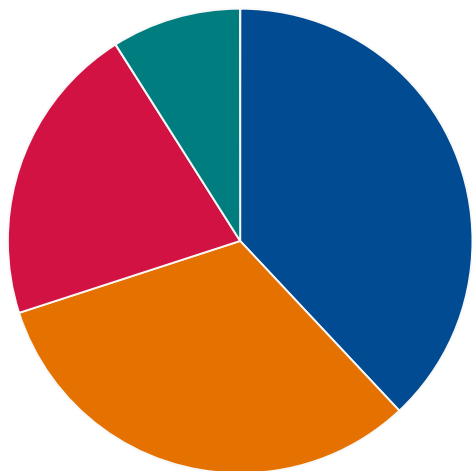
	INDUSTRIAL	MKT GROWTH	XYL GROWTH
 <ul style="list-style-type: none"> Sustainability focus / water efficiency Shifting burden of infrastructure 		2% - 3%	3% - 5%
PUBLIC UTILITY			
 <ul style="list-style-type: none"> Aging infrastructure / pent-up demand Emerging market build-out 		3% - 5%	4% - 7%
COMMERCIAL			
 <ul style="list-style-type: none"> Increasing efficiency regulation Sustainability focus / "smart" buildings 		2% - 4%	3% - 5%
RESIDENTIAL			
 <ul style="list-style-type: none"> Increasing efficiency regulation Strong replacement 		2% - 3%	2% - 3%

Positioned to Deliver Organic Growth of 3% to 5%





OUR BALANCED MARKET COVERAGE DRIVES SUSTAINABLE GROWTH

2020
5 YEAR CAGR

2014 Revenue Profile



United States	38%
Western Europe	32%
Emerging Markets	21%
Rest of World	9%

UNITED STATES		MKT GROWTH	XYL GROWTH
	<ul style="list-style-type: none"> Increased investment in infrastructure Stable non-res construction markets 	2% - 3%	3% - 4%
WESTERN EUROPE			
	<ul style="list-style-type: none"> Recovering economic growth Improving outlook for public utilities 	1% - 3%	2% - 4%
EMERGING MARKETS			
	<ul style="list-style-type: none"> Continued investment in infrastructure Need for efficient technologies 	4% - 7%	7% - 10%
REST OF WORLD			
	<ul style="list-style-type: none"> Stable economies Commodity pressures 	1% - 2%	1% - 2%

Positioned to Deliver Organic Growth of 3% to 5%

DISCIPLINED FINANCIAL POLICY DELIVERS VALUE AND UPSIDE

MANAGE LEVERAGE

- Intend to maintain **investment grade** Credit Rating
- Leverage today: **2.8x**
- Target leverage ratio **2.5-3.0x** EBITDA

INVEST IN GROWTH

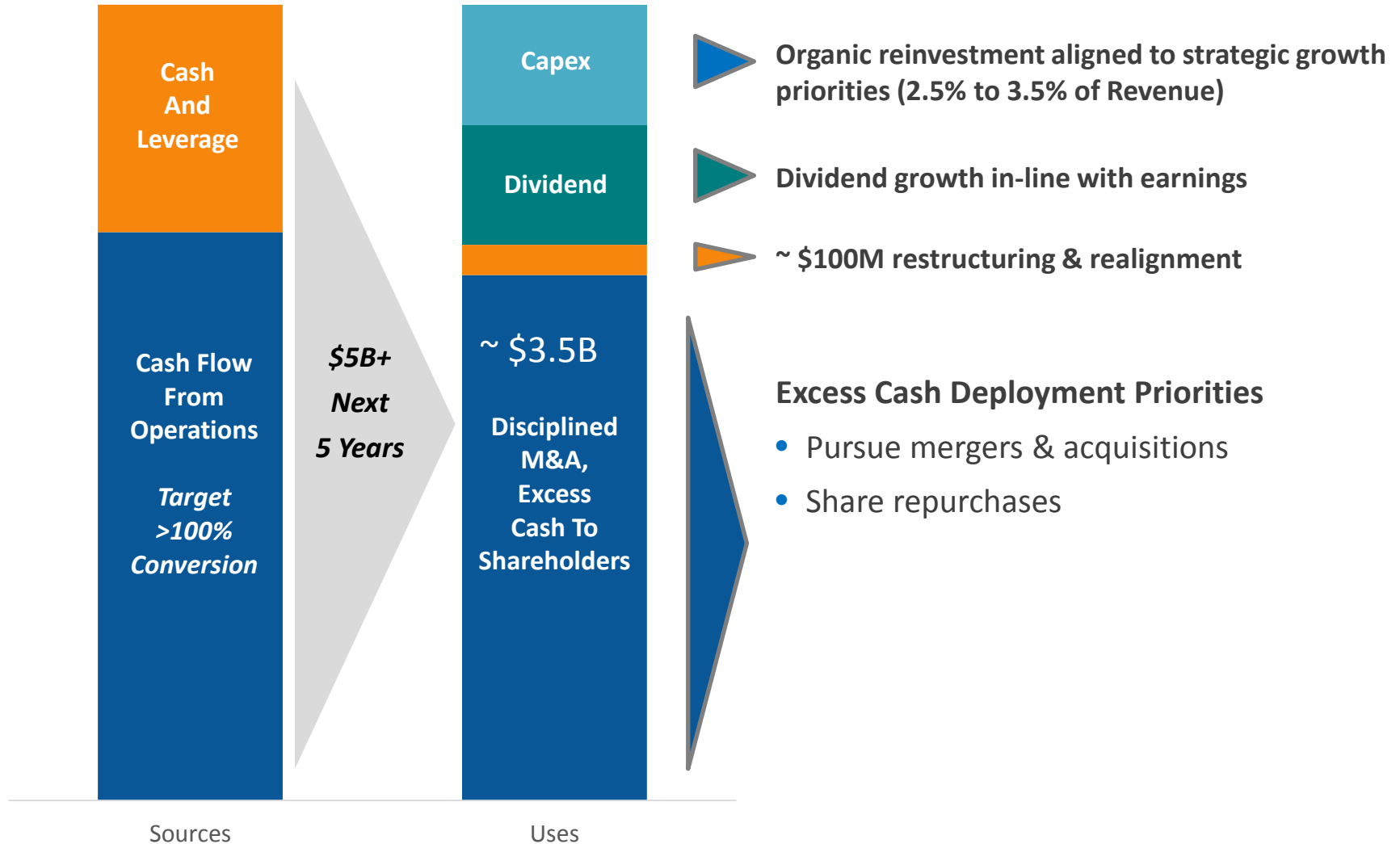
- **High ROI organic investments** to support growth and productivity
- **Disciplined M&A to accelerate** growth

RETURN CASH TO SHAREHOLDERS

- **Grow dividends** in-line with earnings
- Excess cash **enhances returns**
- **Opportunistic share repurchase**

Financial Flexibility to Drive Disciplined Growth Strategy & Enhance Return of Capital to Shareholders

Strong Cash Flow and Capital Structure Enables Balanced Capital Deployment



M&A Overview

- Strategic Platforms
 - Measurement, Analytics and Control
 - Advanced Treatment
 - Industrial Water Services
 - Defend the Core
- Disciplined Criteria

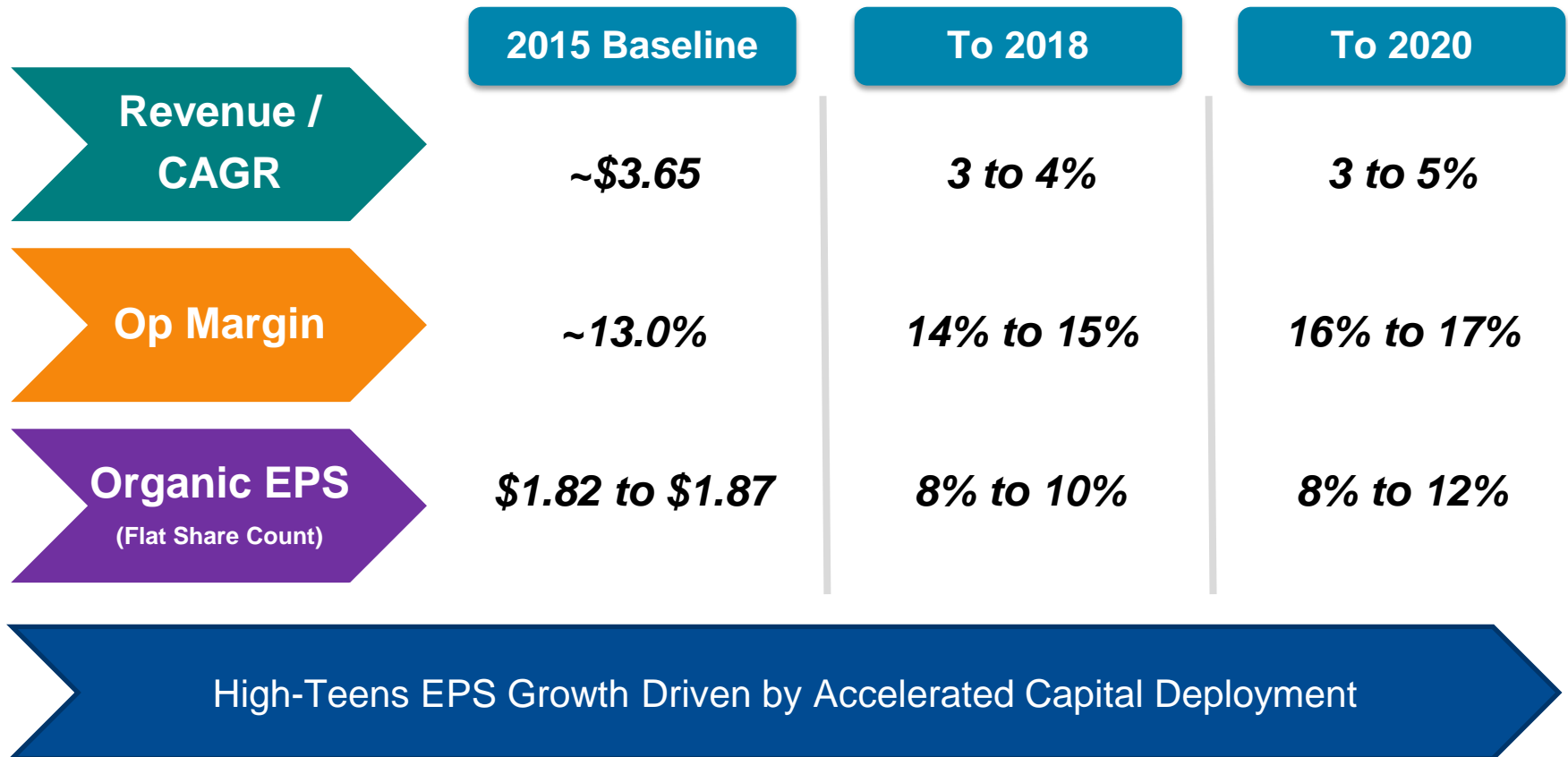
Strategic
Fit

IRR > Cost
of Capital

ROIC >
Cost of
Capital in 3
to 5 Years

EPS
Accretive
After 1st
Year

2020 Target Roadmap → Pace Accelerates



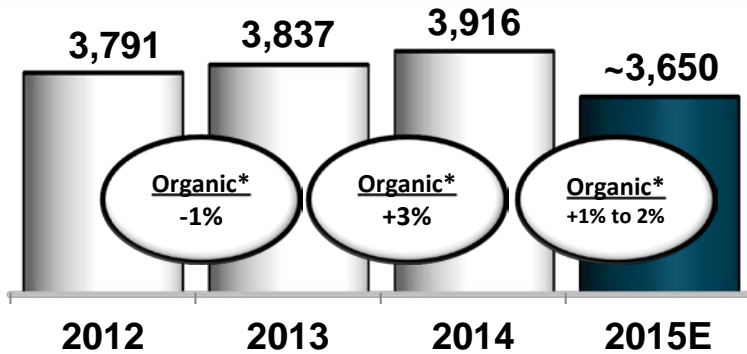
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FINANCIAL OVERVIEW

FINANCIAL OVERVIEW

(Dollars, In Millions)

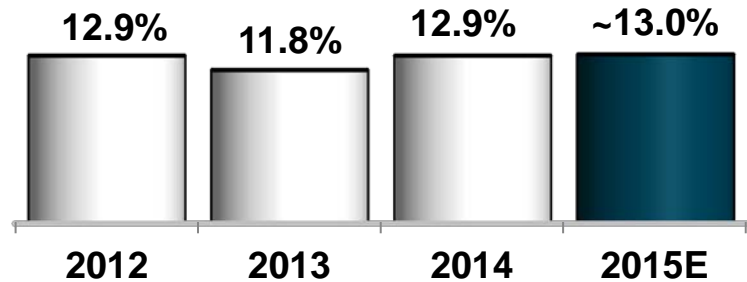
REVENUE



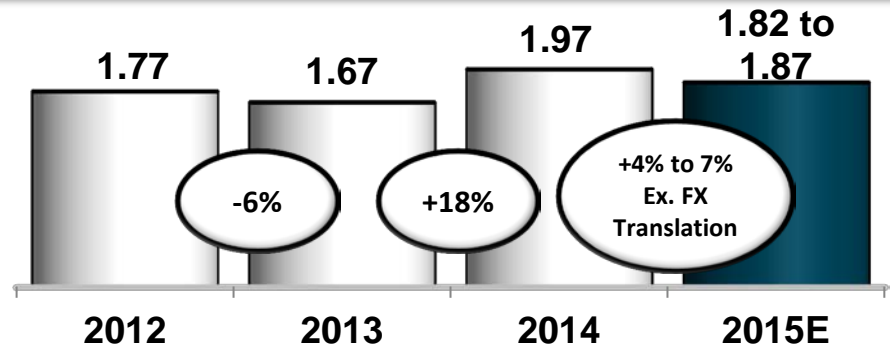
TOP 2015 PRIORITIES

- Advance Focused Emerging Market Growth Strategy
- Develop Industry Vertical Marketing Capabilities
- Develop Business Simplification Roadmap
- Improve Working Capital Performance
- Evaluate and Pursue M&A

OPERATING MARGIN *



EPS *

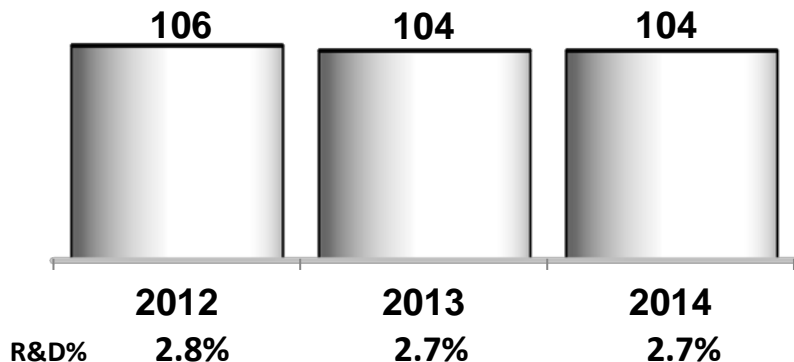


SIGNIFICANT OPPORTUNITY TO CREATE SHAREHOLDER VALUE BY ACCELERATING REVENUE GROWTH & IMPROVING PROFITABILITY

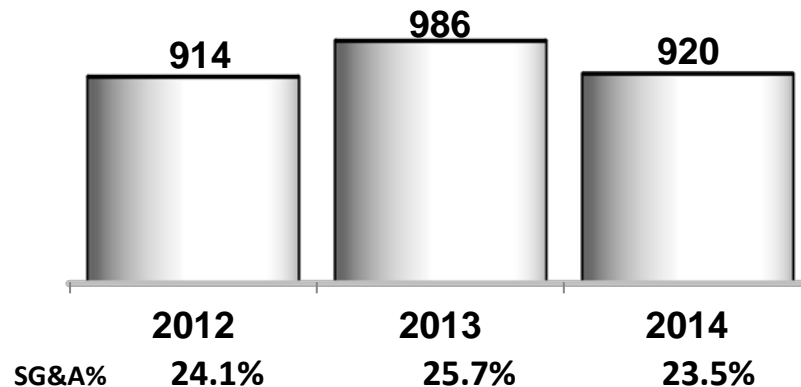
FINANCIAL OVERVIEW

(Dollars, In Millions / % of Revenue)

R&D

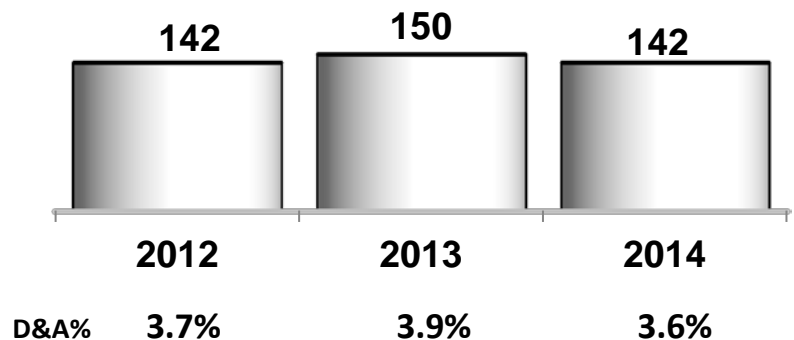


SG&A

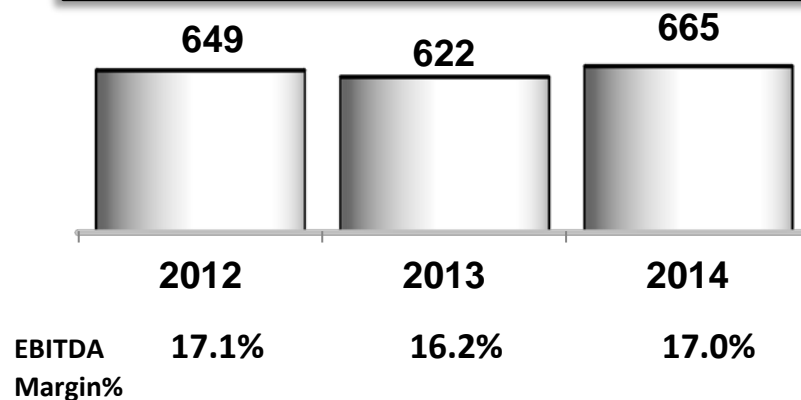


(Note: Includes Realignment Costs)

DEPRECIATION & AMORTIZATION



EBITDA *

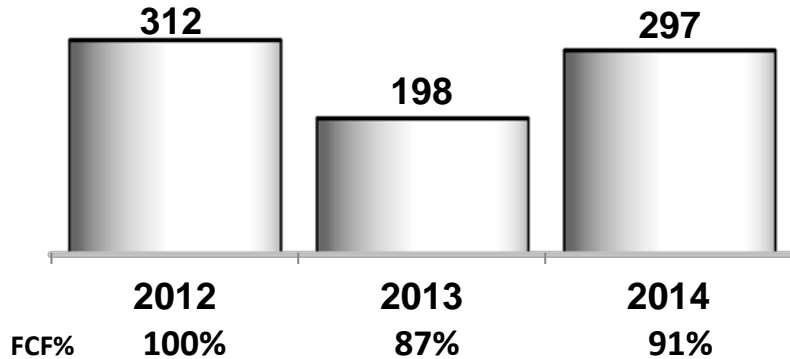


* See appendix for non-GAAP reconciliations

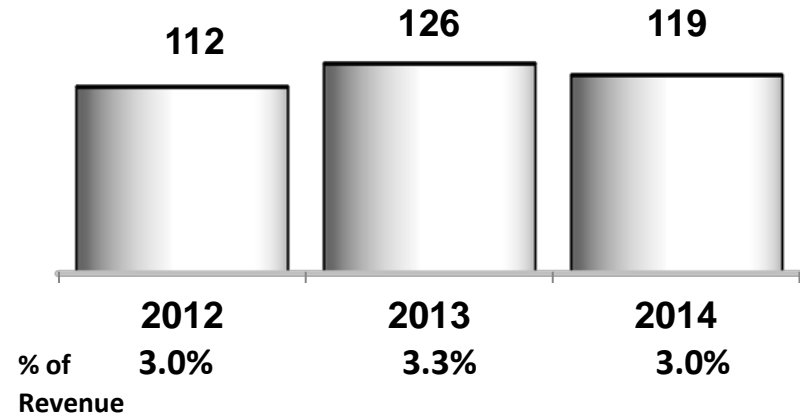
FINANCIAL OVERVIEW

(Dollars, In Millions)

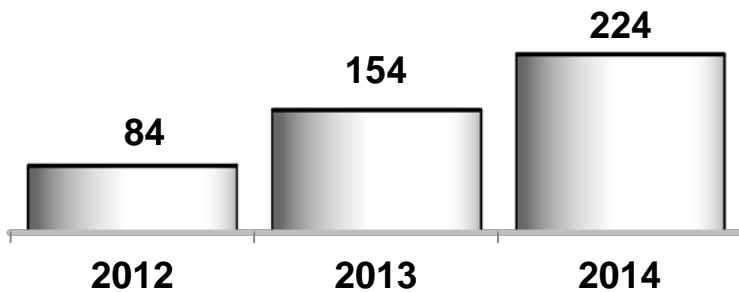
FREE CASH FLOW *



CAPITAL EXPENDITURES

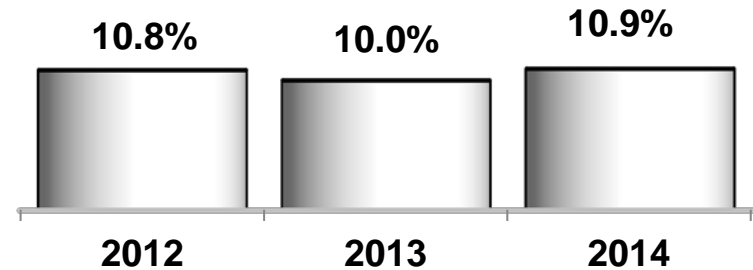


RETURN OF SHAREHOLDER CAPITAL



Dividends & Share Repurchases Under Programs

ROIC **



FINANCIAL OVERVIEW

(Dollars, In Millions)

CAPITAL SUMMARY

September 30, 2015

Cash	611
Debt	1,275
Net Debt	664
Shareholders' Equity	2,043
Net Capital	2,707
Net Debt to Net Capital	24.5%

Liquidity and Cash Management

- Access to Revolver and Commercial Paper for Short-Term Liquidity Requirements
- No Debt Maturities Until 2016 & 2021

Pension Obligations (As of December 31, 2014)

- Status: 101% (Funded Plans); 67% (Overall)

CAPITAL DEPLOYMENT STRATEGY

Manage Leverage

- Intend to maintain investment grade Credit Rating
- Leverage today: 2.8x
- Target leverage ratio 2.5-3.0x EBITDA

Invest in Growth

- High ROI organic investments to support growth and productivity
- Disciplined M&A to accelerate growth

Return Cash to Shareholders

- Grow dividends in-line with earnings
- Excess cash enhances returns
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BALANCED CAPITAL DEPLOYMENT TO ENHANCE SHAREHOLDER RETURNS

SEGMENT OVERVIEW

WATER INFRASTRUCTURE

(Dollars, In Millions)

OVERVIEW

Served Market Size: \$22B

2014 Revenues: \$2.4B

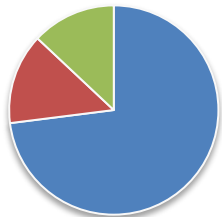
2014 Op Margin*: 14.3%



- Leading Wastewater Pump & Dewatering Services Provider
- Broad Portfolio of Filtration, Biological and Disinfection Technologies
- Industry-Leading Water & Environment Analytics Platform

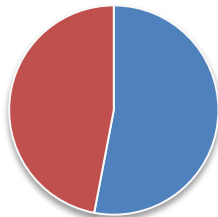
2014 Revenue Profile

By Application



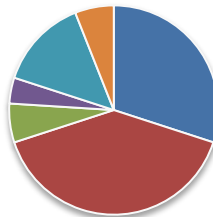
Transport	73%
Treatment	14%
Test	13%

By End Market



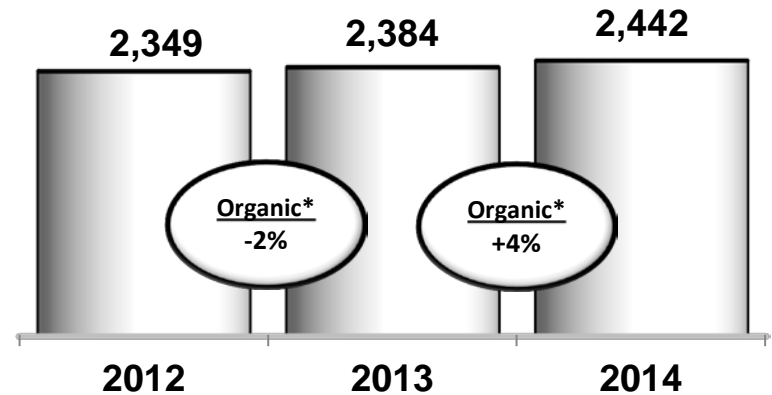
Public Utility	53%
Industrial	47%

By Region

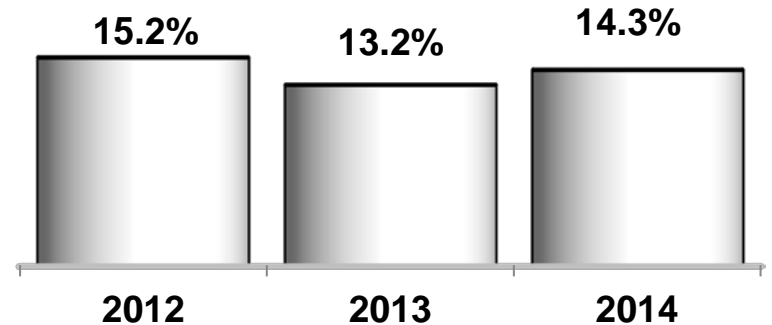


Europe	40%
United States	30%
Asia Pac	14%
Latin America	6%
ME/Africa	4%
Rest of World	6%

REVENUE



OPERATING MARGIN*



APPLIED WATER

(Dollars, In Millions)

OVERVIEW

Served Market Size: \$15B



2014 Revenues: \$1.5B

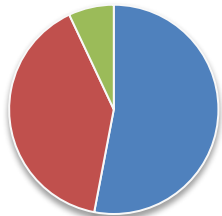


2014 Op Margin*: 14.0%

- Leading Global Provider of a Broad Range of Energy-Efficient Solutions with a Large & Diverse Customer Base
- U.S. Leader in Building Services Equipment & Solutions
- U.S. Leader in Industrial Water Technologies

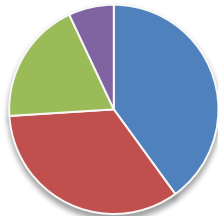
2014 Revenue Profile

By Application



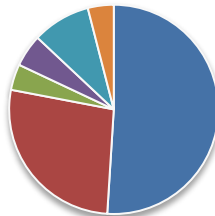
■ Building Svc 53%
■ Ind'l Water 40%
■ Irrigation 7%

By End Market



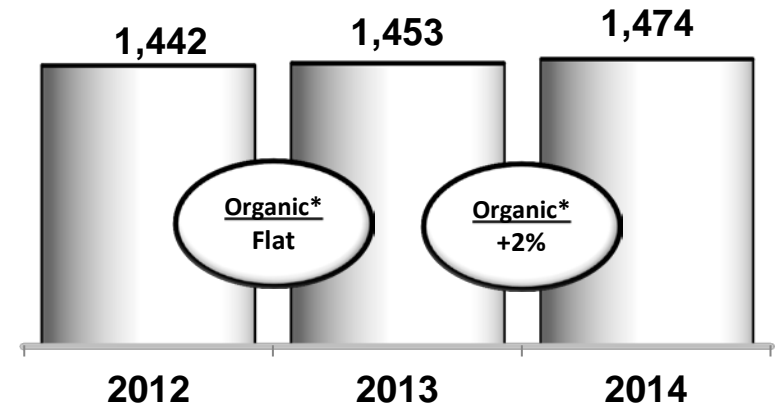
■ Industrial 40%
■ Commercial 34%
■ Residential 19%
■ Agriculture 7%

By Region

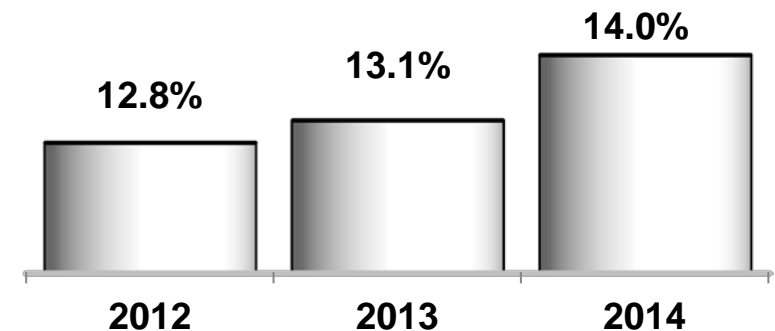


■ United States 51%
■ Europe 27%
■ Asia Pac 9%
■ Latin America 4%
■ ME/Africa 5%
■ Rest of World 4%

REVENUE



OPERATING MARGIN*



* See appendix for non-GAAP reconciliations

XYLEM INC.

Q3 2015 EARNINGS RELEASE

OCTOBER 29, 2015



xylem
Let's Solve Water

BUSINESS UPDATE

3rd Quarter Earnings Release Highlights

- Affirming full-year guidance; Expected Earnings per Share* of \$1.82 to \$1.87
- Public Utility growth accelerates, up 5% (~1/3 of Xylem Revenue)
- Continued growth in Emerging Markets, up 9% driven by infrastructure investment
- Accelerated capital deployment ... Opportunistically repurchased shares, \$75M
- Announcing 1st acquisition in > two years ... HYPACK bolt-on to Analytics platform

3rd Quarter Financial Summary

- Orders of \$939M, solid Book-to-Bill 1.04 ratio supports 4Q outlook
- Revenue of \$902M, organic* growth of 2%, better than expected
- Operating Margin* of 13.7%, flat ex. FX translation (20 bps)
- Earnings Per Share* of \$0.49, up 4% ex. FX translation (\$0.06)
- Free Cash Flow* of \$116M, 132% conversion

ON TRACK TO DELIVER ON OUR COMMITMENTS

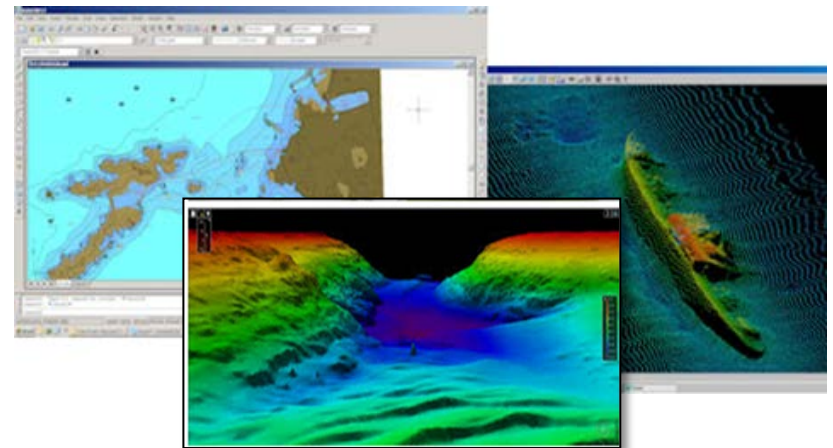
ACCELERATING CAPITAL DEPLOYMENT

RETURN OF CAPITAL TO SHAREHOLDERS

- Opportunistically repurchased ~2M shares for \$75M during the 3Q (Average Price ~\$32)
- Year-to-date Share Repurchases now totals \$125M
- ~\$475M available for future repurchases under our authorized programs
- Dividend payments of \$26M in the quarter; \$77M year-to-date reflecting approximately 10% increase on a per share basis

HYPACK ACQUISITION

- Software firm specializing in coastal / hydrographic market
- Strengthens our Analytics position in the surface water, and ocean and coastal markets
- Purchase Price: \$18M
- 2016E Revenue: \$8.5M

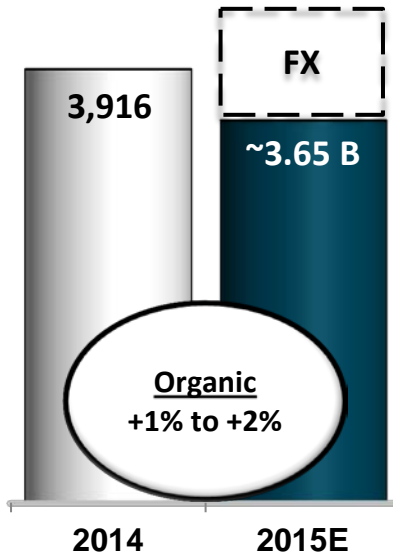


COMMITTED TO BALANCED CAPITAL DEPLOYMENT

2015 OUTLOOK

(Dollars In Millions, except EPS)

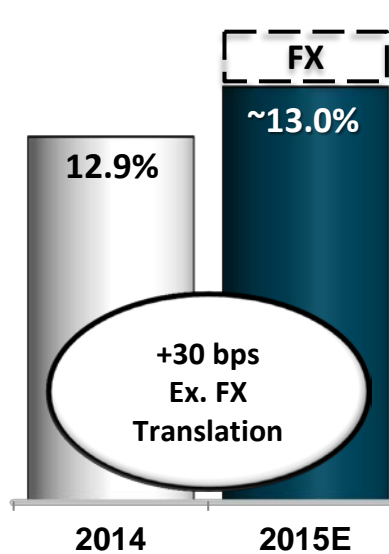
REVENUE



Organic Growth +1% to +2%

FX Translation - 8%

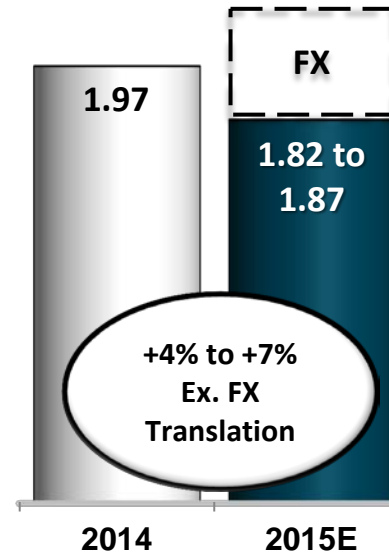
OP MARGIN*



Operations +30 bps

FX Translation - 20 bps

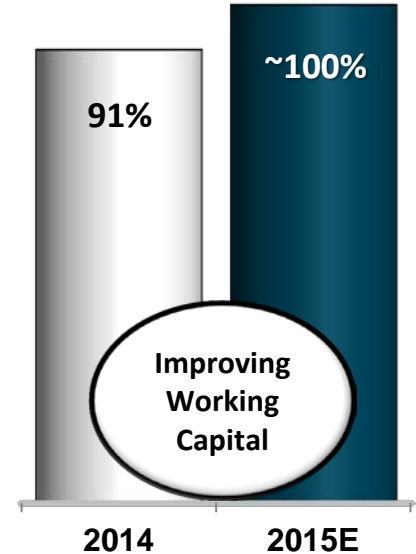
EPS*



Operations +\$0.08 to +\$0.13

FX Translation - \$0.23

FCF CONVERSION*



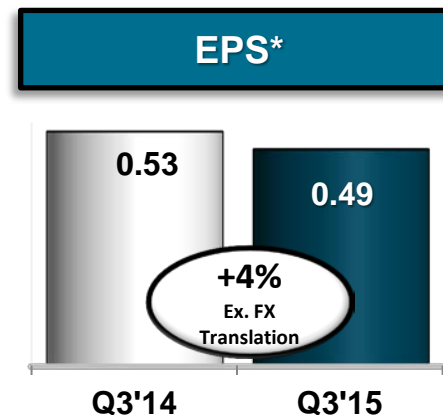
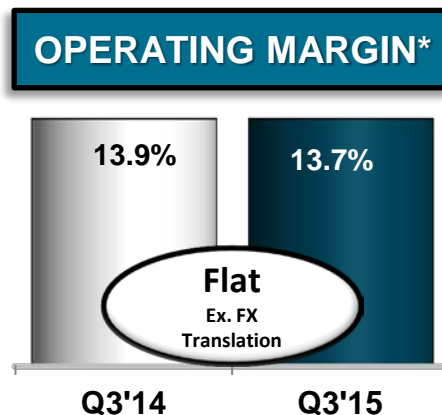
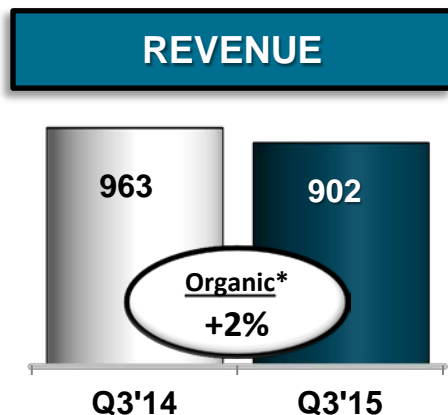
Committed to Disciplined Capital Deployment

*10% Dividend Increase
\$125M Shares Repurchased (YTD)*

FOCUSED ON EXECUTION & DRIVING PRODUCTIVITY

Q3'15 XYLEM PERFORMANCE

(Dollars In Millions, except EPS)



Key Organic Growth Drivers

+ Public Utility	+5%
+ Industrial	+1%
+ Residential	+6%
+ Commercial	+1%
- Agriculture	-7%

Organic Growth by Region

+ Emerging	+9%
+ W. Europe	+3%
+ Australia	+16%
- Canada	-11%
- U.S.	-1%

Key Performance Drivers

+ Operations	Flat
+ Cost Reductions	+3.2%
- Vol/Price/Mix	-0.5%
- Inflation	-2.3%
- Investment/Other	-0.4%
- FX Translation	-0.2%

**Growth & Cost Discipline
Fund Key Investments and
Offset Unfavorable Mix & FX
Transaction Impacts**

Key Performance Drivers

+ Operations	+\$0.02
+ Cost Reductions	+\$0.13
- Inflation	-\$0.09
- Vol/Price/Mix/Other	-\$0.02
- FX Translation	-\$0.06

Other Information:

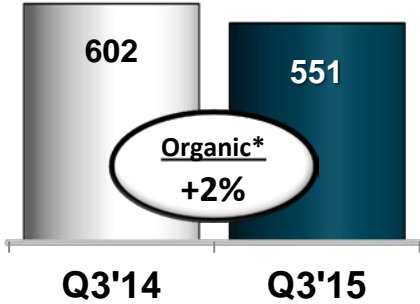
• Tax Rate	20.4%
• Share Count	181.6M

PUBLIC UTILITY GROWTH ACCELERATES ... STABLE EMERGING MARKET GROWTH

Q3'15 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars In Millions)



Organic Growth

By Application

- = Transport Flat
- + Treatment +10%
- + Test +2%

By Regions

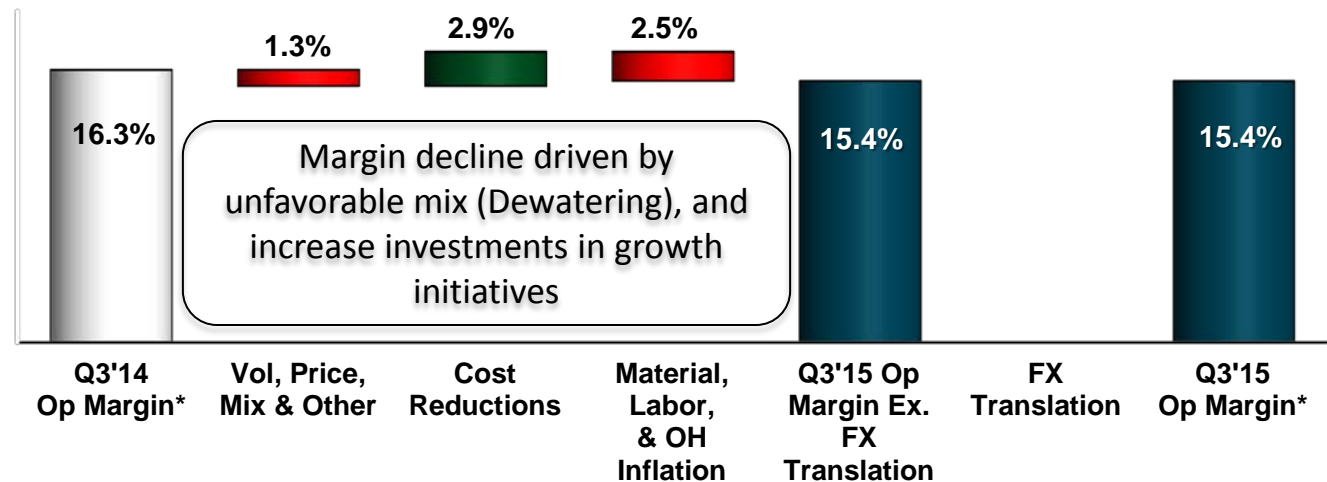
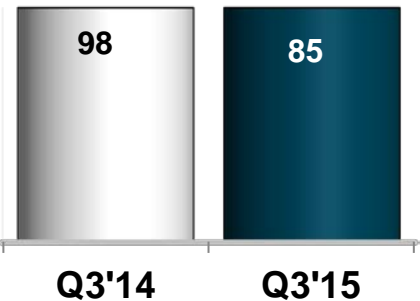
- + Emerging +9%
- + Australia +19%
- + W. Europe +4%
- U.S. / CAN - 6%

Highlights

- + Public Utility up 5% driven by improving market conditions and share gains in the U.S. and Europe coupled with continued investment (project deliveries) in Emerging Markets
- Industrial down 1% primarily driven by continued headwinds in Oil & Gas

OPERATING INCOME*

(Dollars In Millions)

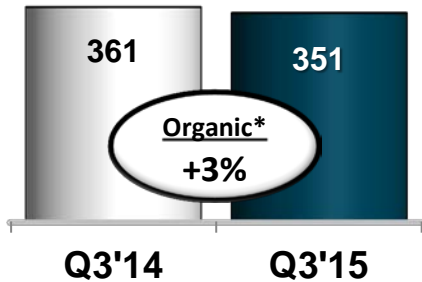


SOLID PERFORMANCE DESPITE NEAR-TERM OIL & GAS / MARGIN HEADWINDS

Q3'15 APPLIED WATER PERFORMANCE

REVENUE

(Dollars In Millions)



Organic Growth

By Application

- + Bldg Svcs +3%
- + Ind'l Water +6%
- Irrigation -7%

By Regions

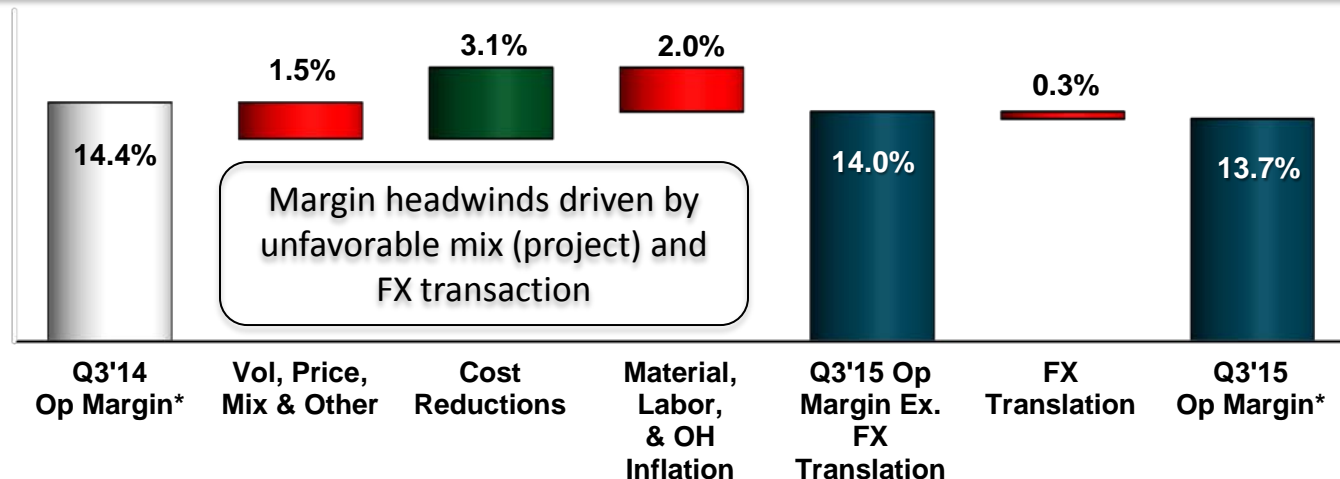
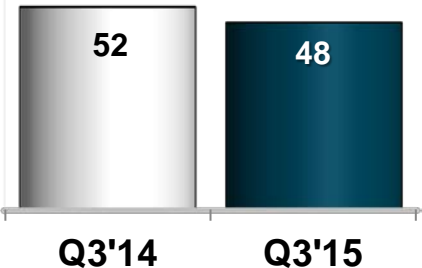
- + Emerging +7%
- + Canada +21%
- + U.S. +1%
- + W. Europe +1%

Highlights

- + Emerging Market strength continues to drive growth ... China decelerating (Q3 +3%/YTD +16%)
- + Continue to see strength in key U.S. end markets (Residential, Commercial and Industrial), partially offset by weakness in Agriculture
- + Canada strength due to project timing and strength in Commercial building applications

OPERATING INCOME*

(Dollars In Millions)

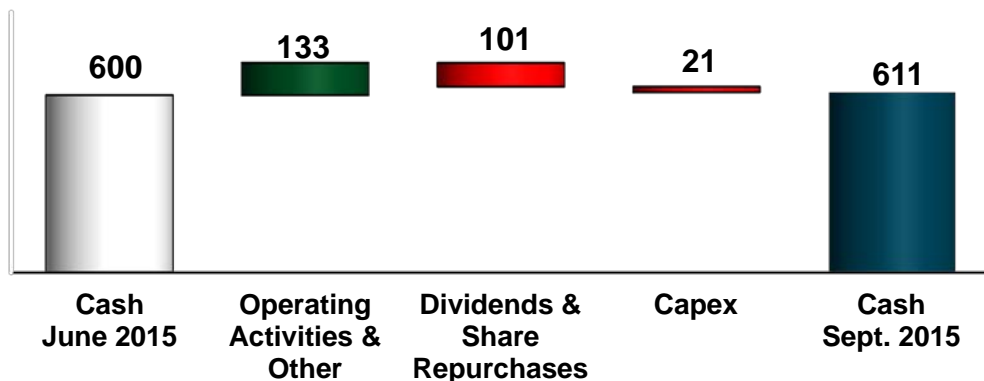


GROWTH ACROSS ALL MAJOR END MARKETS & REGIONS

XYLEM FINANCIAL POSITION

(Dollars In Millions)

CASH DRIVERS

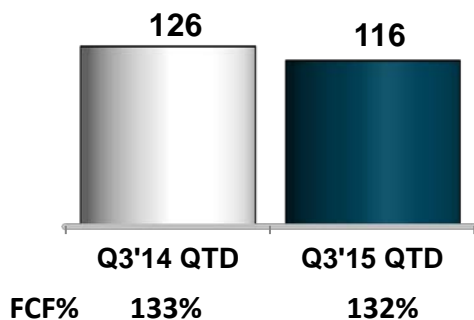


CAPITAL SUMMARY

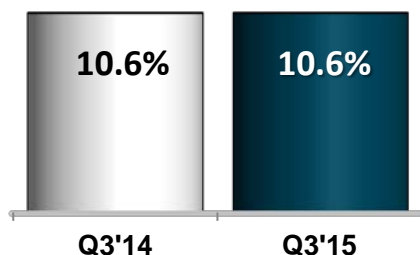
September 30, 2015

Cash	611
Debt	1,275
Net Debt	664
Shareholders' Equity	2,043
Net Capital	2,707
Net Debt to Net Capital	24.5%

FREE CASH FLOW*








ROIC**



- Strong cash position
- Investment grade credit (BBB / Baa2)
- Continued return of capital to shareholders
 - Dividends \$26 (3Q); \$77 (YTD)
 - Share repurchases \$75M (3Q); \$125 (YTD)
- Strong Free Cash Flow Performance

2015 ORGANIC REVENUE OUTLOOK

Key End Markets		Q3 YTD Actual	FY'15 Outlook	Outlook Update	Key Q4 Assumptions
 Industrial (44% of '14 Revenue)		Flat	Flat	=	<ul style="list-style-type: none"> Overall, flat year-over-year General Industrial growth offset by nearer-term O&G headwinds O&G down ~40% (<5% of Revenue)
 Public Utility (33% of '14 Revenue)		+3%	Up Low to Mid Single Digits	=	<ul style="list-style-type: none"> Up mid-single digits U.S. Public Utility growth driven by continued market recovery & share gains No significant project (delivery) delays
 Commercial (13% of '14 Revenue)		+5%	Up Mid Single Digits	↑	<ul style="list-style-type: none"> Up low-to-mid single digits Lapping tough 4Q'14 comparison Positive U.S. market outlook
 Residential (7% of '14 Revenue)		+2%	Up Low Single Digits	↑	<ul style="list-style-type: none"> Up low-to-mid single digits Growth in Europe driven by new product driven share gains Emerging Market growth continues
 Agriculture (3% of '14 Revenue)		-6%	Down Mid to High Single Digits	↓	<ul style="list-style-type: none"> Down mid-to-high single digits Tough U.S. YOY comparisons (+25%); Unfavorable weather impacts (Texas) partially offset by drought in California

**FAVORABLE PUBLIC UTILITY OUTLOOK, ACCELERATION IN KEY REGIONS ...
NEAR-TERM O&G HEADWIND MASKING RELATIVELY STABLE END MARKET EXPOSURE**

2015 OUTLOOK

(Dollars In Millions, Except per Share Data)	Full Year Financial Outlook		4Q'15 Financial Outlook
Revenue			
Xylem Consolidated	\$3.65 Billion	Organic Growth 1% to 2%	Organic Growth 1% to 3%
Water Infrastructure	\$2.23 Billion	Organic Growth 0% to 1%	Organic Growth 0% to 3%
Applied Water	\$1.42 Billion	Organic Growth 2% to 3%	Organic Growth 2% to 3%
Segment Margin *	~14.2%		~16.5%
Operating Margin *	~13.0%		~15.0%
EPS *	\$1.82 to \$1.87		\$0.57 to \$0.62
FCF Conversion	~100%		~120%
ROIC **	~11%		~11%
Guidance Assumptions:			
Operating Tax Rate *	~21%		~21%
Share Count	~182M		~181.5M
Restructuring & Realignment Costs	~\$20		~\$4

SUMMARY

- **Solid top-line performance with improving market outlook**
 - Continue to see signs of an improving Public Utility market
 - Industrial weakness driven by nearer-term O&G headwinds
- **Continued focus on productivity and cost discipline to mitigate nearer-term mix headwinds**
- **Executing on our capital deployment strategy**
 - Returning capital via dividends and opportunistic share repurchases
 - Solid pipeline of M&A targets
- **On track to deliver on our full-year commitments**

Q3 2015 APPENDIX

NON-GAAP MEASURES

Management views key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, working capital, 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. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operations as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

“Organic revenue” and “Organic orders” defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for classification as a discontinued operation or insignificant portions of our business that we did not classify as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.

“Constant currency” defined as financial results adjusted for currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.

“EBITDA” defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **“Adjusted EBITDA”** reflects the adjustment to EBITDA to exclude restructuring and realignment costs, gain on sale of business and special charges.

“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS” defined as operating income, segment operating income and earnings per share, adjusted to exclude restructuring and realignment costs, gain on sale of businesses, special charges and tax-related special items, as applicable.

“Free Cash Flow” defined as net cash from operating activities, as reported in the Statement of Cash Flow, 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 flows does not consider non-discretionary cash payments, such as debt.

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

“Special charges” defined as costs incurred by the Company, such as legal and professional fees, associated with the Korea matters, as well as costs incurred for the contractual indemnification of tax obligations to ITT.

“Tax-related special items” defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts and other discrete tax adjustments.

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Reported vs. Organic & Constant Currency Orders
(\$ Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders 2015	Orders 2014	Change 2015 v. 2014	% Change 2015 v. 2014	Acquisitions / Divestitures	FX Contribution	Change Adj. 2015 v. 2014	% Change Adj. 2015 v. 2014	
<u>Nine Months Ended September 30</u>									
Xylem Inc.	2,798	3,051	(253)	-8%	10	257	14	0%	0%
Water Infrastructure	1,737	1,915	(178)	-9%	-	192	14	1%	1%
Applied Water	1,061	1,136	(75)	-7%	10	65	-	0%	-1%
<u>Quarter Ended September 30</u>									
Xylem Inc.	939	1,027	(88)	-9%	-	88	-	0%	0%
Water Infrastructure	590	664	(74)	-11%	-	68	(6)	-1%	-1%
Applied Water	349	363	(14)	-4%	-	20	6	2%	2%
<u>Quarter Ended June 30</u>									
Xylem Inc.	944	1,031	(87)	-8%	5	92	10	1%	0%
Water Infrastructure	585	654	(69)	-11%	-	69	-	0%	0%
Applied Water	359	377	(18)	-5%	5	24	11	3%	2%
<u>Quarter Ended March 31</u>									
Xylem Inc.	915	993	(78)	-8%	5	77	4	0%	0%
Water Infrastructure	562	597	(35)	-6%	-	55	20	3%	3%
Applied Water	353	396	(43)	-11%	5	21	(17)	-4%	-6%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation Reported vs. Organic & Constant Currency Revenue (\$ Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Contribution	Change	% Change	
	2015	2014	2015 v. 2014	2015 v. 2014	Divestitures		Adj. 2015 v. 2014	Adj. 2015 v. 2014	
<u>Nine Months Ended September 30</u>									
Xylem Inc.	2,659	2,874	(215)	-7%	11	243	39	1%	1%
Water Infrastructure	1,602	1,770	(168)	-9%	-	180	12	1%	1%
Applied Water	1,057	1,104	(47)	-4%	11	63	27	2%	1%
<u>Quarter Ended September 30</u>									
Xylem Inc.	902	963	(61)	-6%	-	81	20	2%	2%
Water Infrastructure	551	602	(51)	-8%	-	61	10	2%	2%
Applied Water	351	361	(10)	-3%	-	20	10	3%	3%
<u>Quarter Ended June 30</u>									
Xylem Inc.	920	1,005	(85)	-8%	6	89	10	1%	0%
Water Infrastructure	551	616	(65)	-11%	-	65	-	0%	0%
Applied Water	369	389	(20)	-5%	6	24	10	3%	1%
<u>Quarter Ended March 31</u>									
Xylem Inc.	837	906	(69)	-8%	5	73	9	1%	0%
Water Infrastructure	500	552	(52)	-9%	-	54	2	0%	0%
Applied Water	337	354	(17)	-5%	5	19	7	2%	1%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation Adjusted Operating Income (\$ Millions)

	Q1		Q2		Q3		YTD	
	2015	2014	2015	2014	2015	2014	2015	2014
Total Revenue								
• Total Xylem	837	906	920	1,005	902	963	2,659	2,874
• Water Infrastructure	500	552	551	616	551	602	1,602	1,770
• Applied Water	337	354	369	389	351	361	1,057	1,104
Operating Income								
• Total Xylem	83	76	104	116	120	130	307	322
• Water Infrastructure	47	46	65	76	83	95	195	217
• Applied Water	46	41	51	53	46	51	143	145
• Total Segments	93	87	116	129	129	146	338	362
Operating Margin								
• Total Xylem	9.9%	8.4%	11.3%	11.5%	13.3%	13.5%	11.5%	11.2%
• Water Infrastructure	9.4%	8.3%	11.8%	12.3%	15.1%	15.8%	12.2%	12.3%
• Applied Water	13.6%	11.6%	13.8%	13.6%	13.1%	14.1%	13.5%	13.1%
• Total Segments	11.1%	9.6%	12.6%	12.8%	14.3%	15.2%	12.7%	12.6%
Special Charges								
• Total Xylem	1	-	-	-	-	-	1	-
• Water Infrastructure	1	-	-	-	-	-	1	-
• Applied Water	-	-	-	-	-	-	-	-
• Total Segments	1	-	-	-	-	-	1	-
Restructuring & Realignment Costs								
• Total Xylem	6	18	6	9	4	4	16	31
• Water Infrastructure	5	12	4	5	2	3	11	20
• Applied Water	1	6	2	4	2	1	5	11
• Total Segments	6	18	6	9	4	4	16	31
Adjusted Operating Income*								
• Total Xylem	90	94	110	125	124	134	324	353
• Water Infrastructure	53	58	69	81	85	98	207	237
• Applied Water	47	47	53	57	48	52	148	156
• Total Segments	100	105	122	138	133	150	355	393
Adjusted Operating Margin*								
• Total Xylem	10.8%	10.4%	12.0%	12.4%	13.7%	13.9%	12.2%	12.3%
• Water Infrastructure	10.6%	10.5%	12.5%	13.1%	15.4%	16.3%	12.9%	13.4%
• Applied Water	13.9%	13.3%	14.4%	14.7%	13.7%	14.4%	14.0%	14.1%
• Total Segments	11.9%	11.6%	13.3%	13.7%	14.7%	15.6%	13.4%	13.7%

*Adjusted Operating Income excludes restructuring & realignment costs and special charges.

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
EBITDA and Adjusted EBITDA by Quarter
(\$ Millions)

	Q1	Q2	2015 Q3	Q4	Total
Pre-Tax Income	77	91	107		275
Interest Expense (Income), net	13	13	13		39
Depreciation	24	23	22		69
Amortization	11	11	11		33
Stock Compensation	4	4	3		11
EBITDA	129	142	156		427
Restructuring & Realignment	6	6	4		16
Gain on sale of business	(9)	-	-		(9)
Special Charges	2	1	2		5
Adjusted EBITDA	128	149	162		439
Revenue	837	920	902		2,659
Adjusted EBITDA Margin	15.3%	16.2%	18.0%		16.5%
	Q1	Q2	2014 Q3	Q4	Total
Pre-Tax Income	61	104	128	128	421
Interest Expense (Income), net	13	14	12	13	52
Depreciation	23	24	23	25	95
Amortization	13	12	12	10	47
Stock Compensation	4	5	5	4	18
EBITDA	114	159	180	180	633
Restructuring & Realignment	18	9	4	12	43
Gain on sale of business	-	-	(11)	-	(11)
Adjusted EBITDA	132	168	173	192	665
Revenue	906	1,005	963	1,042	3,916
Adjusted EBITDA Margin	14.6%	16.7%	18.0%	18.4%	17.0%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
EBITDA and Adjusted EBITDA by Quarter
Water Infrastructure
(\$ Millions)

	Q1	Q2	2015 Q3	Q4	Total
Pre-Tax Income	55	65	84		204
Interest Expense (Income), net	-	(1)	-		(1)
Depreciation	16	14	13		43
Amortization	9	9	9		27
Stock Compensation	1	-	1		2
EBITDA	81	87	107		275
Restructuring & Realignment	5	4	2		11
Gain on sale of business	(8)	-	-		(8)
Special Charges	1	-	-		1
Adjusted EBITDA	79	91	109		279
Revenue	500	551	551		1,602
Adjusted EBITDA Margin	15.8%	16.5%	19.8%		17.4%
	Q1	Q2	2014 Q3	Q4	Total
Pre-Tax Income	45	77	96	105	323
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	15	15	14	17	61
Amortization	10	10	10	9	39
Stock Compensation	1	1	-	-	2
EBITDA	71	103	119	131	424
Restructuring & Realignment	12	5	3	9	29
Adjusted EBITDA	83	108	122	140	453
Revenue	552	616	602	672	2,442
Adjusted EBITDA Margin	15.0%	17.5%	20.3%	20.8%	18.6%

Xylem Inc. Non-GAAP Reconciliation
EBITDA and Adjusted EBITDA by Quarter
Applied Water
(\$ Millions)

	Q1	Q2	2015 Q3	Q4	Total
Pre-Tax Income	46	51	47		144
Interest, net	-	-	-		-
Depreciation	5	5	7		17
Amortization	1	1	-		2
Stock Compensation	1	-	-		1
EBITDA	53	57	54		164
Restructuring & Realignment	1	2	2		5
Gain on sale of business	(1)	-	-		(1)
Adjusted EBITDA	53	59	56		168
Revenue	337	369	351		1,057
Adjusted EBITDA Margin	15.7%	16.0%	16.0%		15.9%
	Q1	Q2	2014 Q3	Q4	Total
Pre-Tax Income	42	53	61	48	204
Interest, net	-	-	-	-	-
Depreciation	5	5	6	5	21
Amortization	1	1	1	1	4
Stock Compensation	-	1	1	-	2
EBITDA	48	60	69	54	231
Restructuring & Realignment	6	4	1	2	13
Gain on sale of business	-	-	(11)	-	(11)
Adjusted EBITDA	54	64	59	56	233
Revenue	354	389	361	370	1,474
Adjusted EBITDA Margin	15.3%	16.5%	16.3%	15.1%	15.8%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Adjusted Diluted EPS
(\$ Millions, except per share amounts)

	Q3 2014			Q3 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	963		963	902		902
Operating Income	130	4 a	134	120	4 a	124
Operating Margin	13.5%		13.9%	13.3%		13.7%
Interest Expense	(14)		(14)	(13)		(13)
Other Non-Operating Income (Expense)	1		1	-	2 b	2
Gain from sale of business	11	(11)	-	-	-	-
Income before Taxes	128	(7)	121	107	6	113
Provision for Income Taxes	(22)	(2) c	(24)	(19)	(4) c	(23)
Net Income	106	(9)	97	88	2	90
Diluted Shares	183.4		183.4	181.6		181.6
Diluted EPS	\$ 0.58	\$ (0.05)	\$ 0.53	\$ 0.48	\$ 0.01	\$ 0.49
Currency translation impact on current year diluted EPS				\$ (0.06)		\$ (0.06)
Diluted EPS at Constant Currency				\$ 0.54		\$ 0.55

	Q3 YTD 2014			Q3 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	2,874		2,874	2,659		2,659
Operating Income	322	31 a	353	307	17 a	324
Operating Margin	11.2%		12.3%	11.5%		12.2%
Interest Expense	(41)		(41)	(41)		(41)
Other Non-Operating Income (Expense)	1		1	-	4 b	4
Gain from sale of businesses	11	(11)	-	9	(9)	0
Income before Taxes	293	20	313	275	12	287
Provision for Income Taxes	(52)	(13) c	(65)	(49)	(10) c	(59)
Net Income	241	7	248	226	2	228
Diluted Shares	184.6		184.6	182.3		182.3
Diluted EPS	\$ 1.31	\$ 0.04	\$ 1.35	\$ 1.24	\$ 0.01	\$ 1.25
Currency translation impact on current year diluted EPS				\$ (0.17)		\$ (0.17)
Diluted EPS at Constant Currency				\$ 1.41		\$ 1.42

a Restructuring & realignment costs in 2014 and 2015 and special charges in 2015

b Special charges

c Net tax impact of restructuring & realignment costs and special charges, and tax-related special items

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Net Cash - Operating Activities vs. Free Cash Flow
(\$ Millions)

	Q1		Q2		Q3		Nine Months Ended	
	2015	2014	2015	2014	2015	2014	2015	2014
Net Cash - Operating Activities	\$ 39	\$ 22	\$ 84	\$ 76	\$ 137	\$ 155	\$ 260	\$ 253
Capital Expenditures	(37)	(25)	(20)	(23)	(21)	(29)	(78)	(77)
Free Cash Flow	<u>\$ 2</u>	<u>\$ (3)</u>	<u>\$ 64</u>	<u>\$ 53</u>	<u>\$ 116</u>	<u>\$ 126</u>	<u>\$ 182</u>	<u>\$ 176</u>
Net Income	64	49	74	86	88	106	226	241
Gain from sale of businesses	9	-	-	-	-	11	9	11
Net Income, excluding gain on sale of businesses	<u>\$ 55</u>	<u>\$ 49</u>	<u>\$ 74</u>	<u>\$ 86</u>	<u>\$ 88</u>	<u>\$ 95</u>	<u>\$ 217</u>	<u>\$ 230</u>
Free Cash Flow Conversion	<u>4%</u>	<u>-6%</u>	<u>86%</u>	<u>62%</u>	<u>132%</u>	<u>133%</u>	<u>84%</u>	<u>77%</u>

HISTORICAL FINANCIAL APPENDIX

Xylem Inc. Non-GAAP Measures

Management views key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, working capital, 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. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operations as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

“Organic revenue” and “Organic orders” defined as revenue and orders, respectively, excluding the impact of foreign currency fluctuations and contributions from acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for classification as a discontinued operation or insignificant portions of our business that we did not classify as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.

“Constant currency” defined as financial results adjusted for currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.

“EBITDA” defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **“Adjusted EBITDA”** reflects the adjustment to EBITDA to exclude non-recurring restructuring and realignment costs, gain on sale of business and special charges.

“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS” defined as operating income, segment operating income and earnings per share, adjusted to exclude non-recurring separation costs associated with the Xylem spin-off from ITT Corporation, non-recurring restructuring and realignment costs, gain on sale of business, special charges and tax-related special items, as applicable.

“Free Cash Flow” defined as net cash from operating activities, as reported in the Statement of Cash Flow, 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 flows does not consider non-discretionary cash payments, such as debt.

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

“Special charges” defined as costs incurred by the Company associated with the settlement of legal proceedings with Xylem Group LLC and certain costs incurred for the change in chief executive officer made during the third quarter of 2013, as well as costs incurred in the fourth quarter of 2013 for the contractual indemnification of federal tax obligations to ITT and costs associated with a legal judgment arising from a historical acquisition matter.

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Reported vs. Organic & Constant Currency Revenue
(\$ Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)	(B)	(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A		
	Revenue 2014	Revenue 2013	Change 2014 v. 2013	% Change 2014 v. 2013	Acquisitions / Divestitures	FX Contribution	Change Adj. 2014 v. 2013	% Change Adj. 2014 v. 2013	
<u>Year Ended December 31</u>									
Xylem Inc.	3,916	3,837	79	2%	6	49	134	3%	3%
Water Infrastructure	2,442	2,384	58	2%	(6)	47	99	4%	4%
Applied Water	1,474	1,453	21	1%	12	2	35	2%	2%
<u>Quarter Ended December 31</u>									
Xylem Inc.	1,042	1,033	9	1%	5	50	64	6%	6%
Water Infrastructure	672	673	(1)	0%	-	39	38	6%	6%
Applied Water	370	360	10	3%	5	11	26	7%	6%
<u>Quarter Ended September 30</u>									
Xylem Inc.	963	965	(2)	0%	7	2	7	1%	0%
Water Infrastructure	602	602	-	0%	-	1	1	0%	0%
Applied Water	361	363	(2)	-1%	7	-	5	1%	-1%
<u>Quarter Ended June 30</u>									
Xylem Inc.	1,005	960	45	5%	(1)	(7)	37	4%	4%
Water Infrastructure	616	577	39	7%	(1)	2	40	7%	7%
Applied Water	389	383	6	2%	-	(7)	(1)	0%	0%
<u>Quarter Ended March 31</u>									
Xylem Inc.	906	879	27	3%	(5)	4	26	3%	4%
Water Infrastructure	552	532	20	4%	(5)	5	20	4%	5%
Applied Water	354	347	7	2%	-	(2)	5	1%	1%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Reast - Reported vs. Organic & Constant Currency Revenue
(\$ Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue 2013	Revenue 2012	Change 2013 v. 2012	% Change 2013 v. 2012	Acquisitions / Divestitures	FX Contribution	Change Adj. 2013 v. 2012	% Change Adj. 2013 v. 2012			
<u>Year Ended December 31</u>											
Xylem Inc.	3,837	3,791	46	1%	(82)	(3)	(39)	-1%	1%		
Water Infrastructure	2,384	2,349	35	1%	(82)	4	(43)	-2%	2%		
Applied Water	1,453	1,442	11	1%	-	(7)	4	0%	0%		
<u>Quarter Ended December 31</u>											
Xylem Inc.	1,033	969	64	7%	(15)	(1)	48	5%	7%		
Water Infrastructure	673	620	53	9%	(15)	2	40	6%	9%		
Applied Water	360	349	11	3%	-	(3)	8	2%	2%		
<u>Quarter Ended September 30</u>											
Xylem Inc.	965	931	34	4%	(21)	-	13	1%	4%		
Water Infrastructure	602	576	26	5%	(21)	3	8	1%	5%		
Applied Water	363	355	8	2%	-	(3)	5	1%	1%		
<u>Quarter Ended June 30</u>											
Xylem Inc.	960	966	(6)	-1%	(23)	(4)	(33)	-3%	-1%		
Water Infrastructure	577	587	(10)	-2%	(23)	(3)	(36)	-6%	-2%		
Applied Water	383	379	4	1%	-	(1)	3	1%	1%		
<u>Quarter Ended March 31</u>											
Xylem Inc.	879	925	(46)	-5%	(23)	2	(67)	-7%	-5%		
Water Infrastructure	532	566	(34)	-6%	(23)	2	(55)	-10%	-6%		
Applied Water	347	359	(12)	-3%	-	-	(12)	-3%	-3%		

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation Adjusted Operating Income (\$ Millions)

	Full Year		
	2014	2013	2012
Total Revenue			
• Total Xylem	3,916	3,837	3,791
• Water Infrastructure	2,442	2,384	2,349
• Applied Water	1,474	1,453	1,442
Operating Income			
• Total Xylem	463	363	443
• Water Infrastructure	321	263	334
• Applied Water	193	175	178
• Total Segments	514	438	512
Operating Margin			
• Total Xylem	11.8%	9.5%	11.7%
• Water Infrastructure	13.1%	11.0%	14.2%
• Applied Water	13.1%	12.0%	12.3%
• Total Segments	13.1%	11.4%	13.5%
Separation Costs			
• Total Xylem	-	-	22
• Water Infrastructure	-	-	4
• Applied Water	-	-	2
Special Charges			
• Total Xylem	-	24	-
• Water Infrastructure	-	4	-
• Applied Water	-	-	-
• Total Segments	-	4	-
Restructuring & Realignment Costs			
• Total Xylem	43	64	24
• Water Infrastructure	29	48	19
• Applied Water	13	16	5
• Total Segments	42	64	24
Adjusted Operating Income*			
• Total Xylem	506	451	489
• Water Infrastructure	350	315	357
• Applied Water	206	191	185
• Total Segments	556	506	542
Adjusted Operating Margin*			
• Total Xylem	12.9%	11.8%	12.9%
• Water Infrastructure	14.3%	13.2%	15.2%
• Applied Water	14.0%	13.1%	12.8%
• Total Segments	14.2%	13.2%	14.3%

*Adjusted Operating Income excludes restructuring & realignment costs and special charges in 2014 and 2013, and excludes restructuring & realignment costs and non-recurring separation costs in 2012.

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Adjusted Diluted EPS
(\$ Millions, except per share amounts)

	Q4 2013			Q4 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,033		1,033	1,042		1,042
Operating Income	129	16 a	145	141	12 d	153
Operating Margin	12.5%		14.0%	13.5%		14.7%
Interest Expense	(14)		(14)	(13)		(13)
Other Non-Operating Income (Expense)	(8)	8 b	-	-		-
Gain on sale of business	-		-	-		-
Income before Taxes	107	24	131	128	12	140
Provision for Income Taxes	(39)	11 c	(28)	(32)	6 c	(26)
Net Income	68	35	103	96	18	114
Diluted Shares	185.6		185.6	183.3		183.3
Diluted EPS	\$ 0.37	\$ 0.19	\$ 0.56	\$ 0.52	\$ 0.10	\$ 0.62

	Q4 YTD 2013			Q4 YTD 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,837		3,837	3,916		3,916
Operating Income	363	88 a	451	463	43 d	506
Operating Margin	9.5%		11.8%	11.8%		12.9%
Interest Expense	(55)		(55)	(54)		(54)
Other Non-Operating Income (Expense)	(10)	8 b	(2)	1		1
Gain on sale of business	-		-	11	(11)	-
Income before Taxes	298	96	394	421	32	453
Provision for Income Taxes	(70)	(13) c	(83)	(84)	(7) c	(91)
Net Income	228	83	311	337	25	362
Diluted Shares	186.0		186.0	184.2		184.2
Diluted EPS	\$ 1.22	\$ 0.45	\$ 1.67	\$ 1.83	\$ 0.14	\$ 1.97

- a Restructuring & realignment costs and special charges
- b Special charges
- c Net tax impact of restructuring & realignment costs, special charges and special tax items
- d Restructuring & realignment costs

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation
Adjusted Diluted EPS
(\$ Millions, except per share amounts)

	Q4 2012			Q4 2013		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	969		969	1,033		1,033
Operating Income	104	26 a	130	129	16 c	145
Operating Margin	10.7%		13.4%	12.5%		14.0%
Interest Expense	(14)		(14)	(14)		(14)
Other Non-Operating Income (Expense)	(1)		(1)	(8)	8 d	-
Income before Taxes	89	26	115	107	24	131
Provision for Income Taxes	(16)	(11) b	(27)	(39)	11 e	(28)
Net Income	73	15	88	68	35	103
Diluted Shares	186.5		186.5	185.6		185.6
Diluted EPS	\$ 0.39	\$ 0.08	\$ 0.47	\$ 0.37	\$ 0.19	\$ 0.56

	Q4 YTD 2012			Q4 YTD 2013		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,791		3,791	3,837		3,837
Operating Income	443	46 a	489	363	88 c	451
Operating Margin	11.7%		12.9%	9.5%		11.8%
Interest Expense	(55)		(55)	(55)		(55)
Other Non-Operating Income (Expense)	-		-	(10)	8 d	(2)
Income before Taxes	388	46	434	298	96	394
Provision for Income Taxes	(91)	(13) b	(104)	(70)	(13) e	(83)
Net Income	297	33	330	228	83	311
Diluted Shares	186.2		186.2	186.0		186.0
Diluted EPS	\$ 1.59	\$ 0.18	\$ 1.77	\$ 1.22	\$ 0.45	\$ 1.67

- a One time separation costs and restructuring & realignment costs
- b Net tax impact of separation costs, restructuring & realignment costs and special tax items
- c Restructuring & realignment costs and special charges
- d Special charges
- e Net tax impact of restructuring & realignment costs, special charges and special tax items

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation EBITDA and Adjusted EBITDA by Quarter (\$ Millions)

	2014				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	61	104	128	128	421
Interest Expense (Income), net	13	14	12	13	52
Depreciation	23	24	23	25	95
Amortization	13	12	12	10	47
Stock Compensation	4	5	5	4	18
EBITDA	114	159	180	180	633
Restructuring & Realignment	18	9	4	12	43
Gain on Sale of Business	-	-	(11)	-	(11)
Adjusted EBITDA	132	168	173	192	665
Revenue	906	1,005	963	1,042	3,916
Adjusted EBITDA Margin	14.6%	16.7%	18.0%	18.4%	17.0%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation					
EBITDA and Adjusted EBITDA by Quarter					
(\$ Millions)					
	2013				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	51	57	83	107	298
Interest Expense (Income), net	12	13	14	13	52
Depreciation	25	24	23	27	99
Amortization	12	13	13	12	50
Stock Compensation	6	6	9	6	27
EBITDA	106	113	142	165	526
Restructuring & Realignment	12	28	12	12	64
Special Charges	-	-	20	12	32
Adjusted EBITDA	118	141	174	189	622
Revenue	879	960	965	1,033	3,837
Adjusted EBITDA Margin	13.4%	14.7%	18.0%	18.3%	16.2%
	2012				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	84	115	100	89	388
Interest Expense (Income), net	13	13	12	13	51
Depreciation	23	21	24	26	94
Amortization	11	12	12	13	48
Stock Compensation	5	5	6	6	22
EBITDA	136	166	154	147	603
Separation Costs	5	6	4	7	22
Restructuring & Realignment	-	-	5	19	24
Adjusted EBITDA	141	172	163	173	649
Revenue	925	966	931	969	3,791
Adjusted EBITDA Margin	15.2%	17.8%	17.5%	17.9%	17.1%

NON-GAAP MEASURES

Xylem Inc. Non-GAAP Reconciliation Net Cash - Operating Activities vs. Free Cash Flow (\$ Millions)

	2014	Year Ended 2013	2012
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Cash - Operating Activities	\$ 416	\$ 324	\$ 396
Capital Expenditures	(119)	(126)	(112)
Cash Paid for Separation Costs (incl. Capex)	-	-	28
Free Cash Flow	<u>\$ 297</u>	<u>\$ 198</u>	<u>\$ 312</u>
Net Income	337	228	297
Separation Costs, net of tax (incl. tax friction)	-	-	16
Gain on Sale of Business	<u>11</u>	<u>-</u>	<u>-</u>
Net Income, excluding gain on sale of business and separation costs*	<u>\$ 326</u>	<u>\$ 228</u>	<u>\$ 313</u>
Free Cash Flow Conversion	<u>91%</u>	<u>87%</u>	<u>100%</u>

* Separation costs are not excluded in 2013

xylem

Let's Solve Water

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