



**2016 ELECTRICAL PRODUCTS
GROUP CONFERENCE**

May 16, 2016

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. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include any statements that are not historical in nature, including any 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 successfully identify, complete and integrate acquisitions, 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, 2015, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

All forward-looking statements made herein are based on information currently available to the Company. 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.

XYLEM OVERVIEW



BUSINESS HIGHLIGHTS

- **Uniquely Positioned**
A Global Leader in Attractive Water Industry
- **Balanced Portfolio**
Diversified End & Geographic Market Mix
- **Attractive Growth Profile**
Organic & Inorganic Opportunities
- **Large Installed Base; ~40% Recurring Revenue**
Stability, Profitable Aftermarket Growth
- **Increasing Profitability**
Proven Track Record, Continued Focus
- **Strong Cash Flow Generation & Financial Position**
Funds Growth & Shareholder Returns

ABILITY TO DELIVER STRONG AND CONSISTENT FINANCIAL PERFORMANCE

XYLEM'S VALUE CREATION ROADMAP

OPTIMIZE OUR BUSINESS



Accelerate Profitable Growth

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



Drive Continuous Improvement

- 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

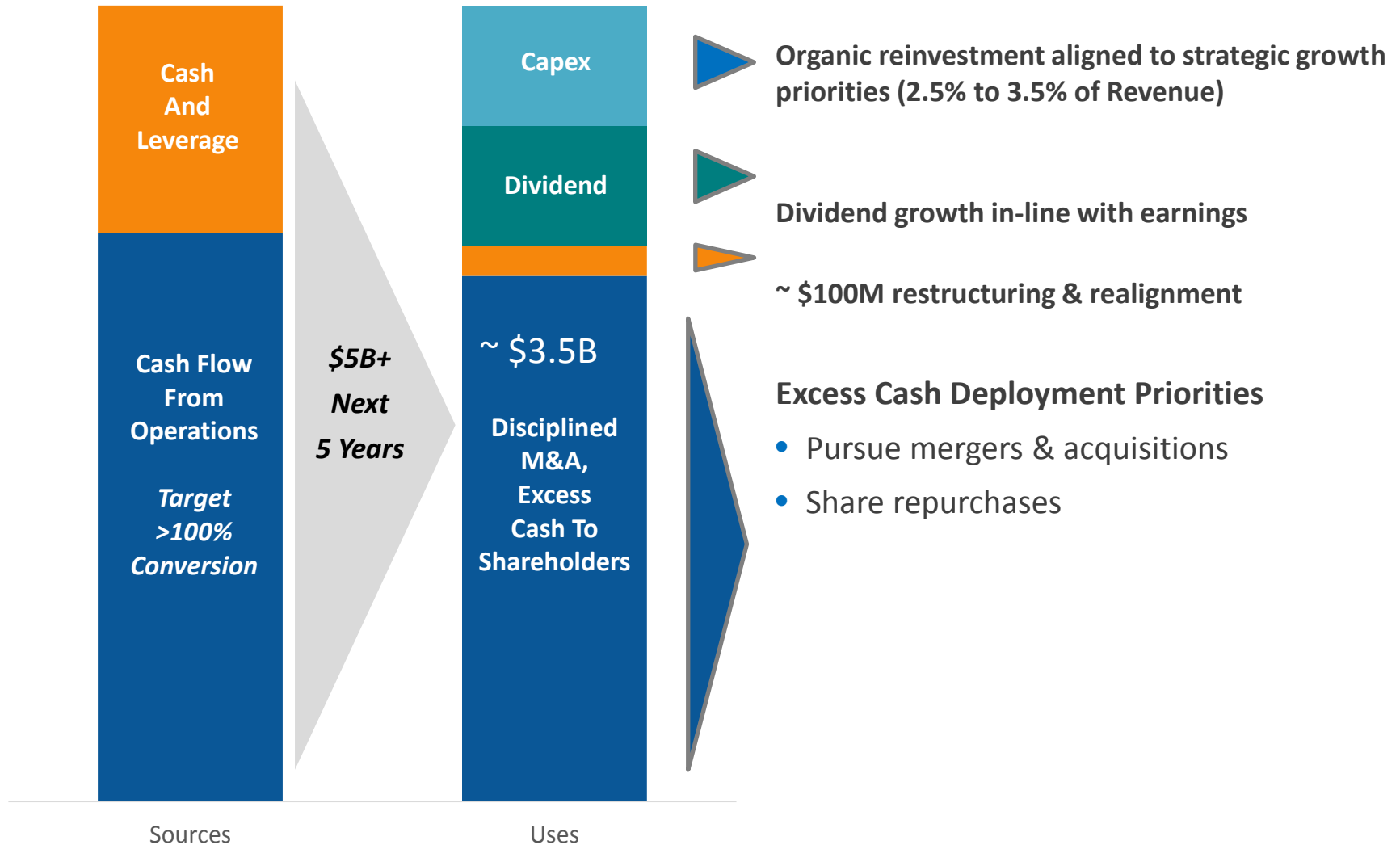


Return Capital to Shareholders

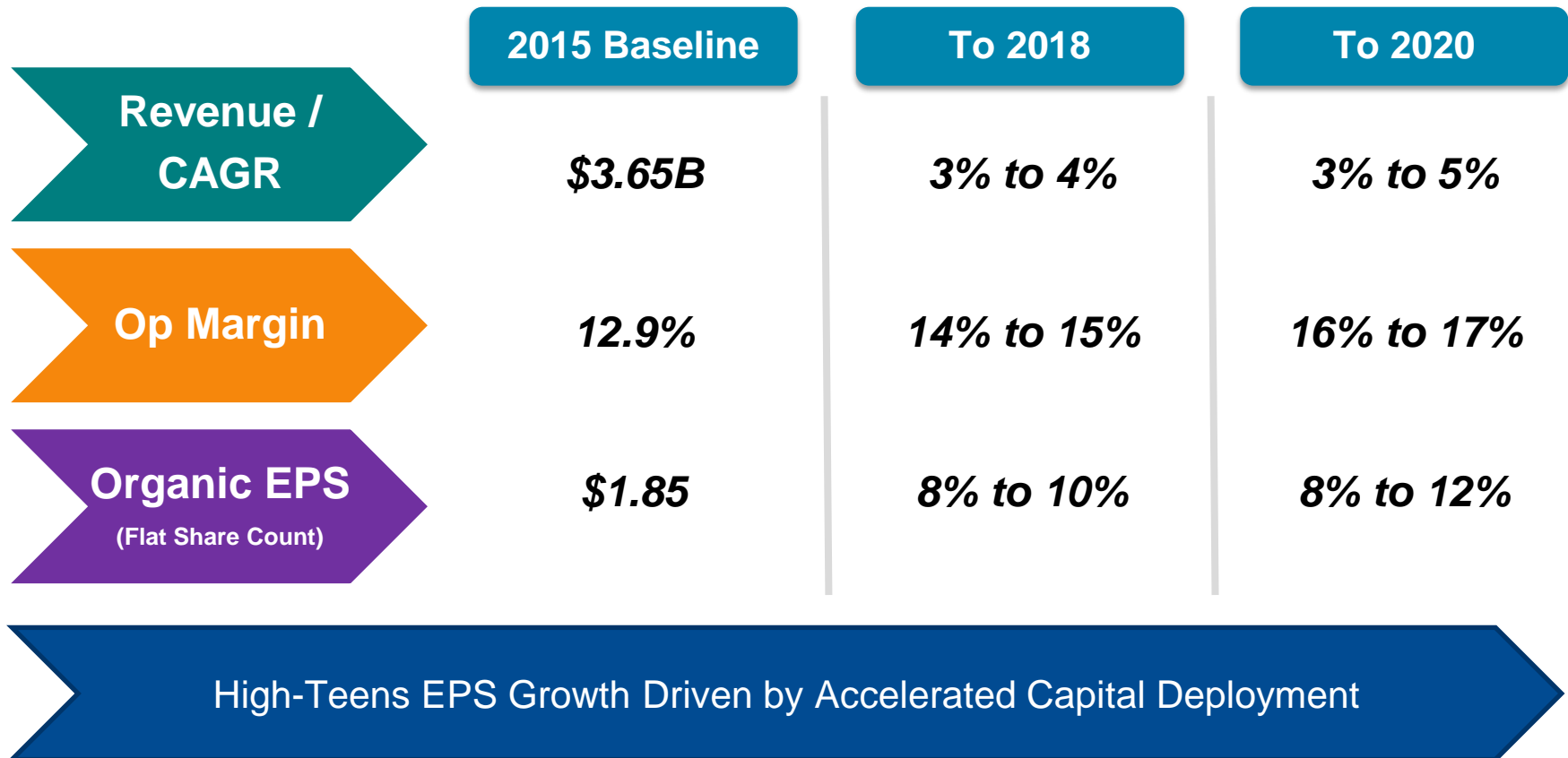
- Dividend Growth In-Line with Earnings
- Opportunistic Share Repurchases

FOCUS ON EXECUTION & ACCOUNTABILITY

STRONG CASH FLOW AND CAPITAL STRUCTURE ENABLES BALANCED CAPITAL DEPLOYMENT



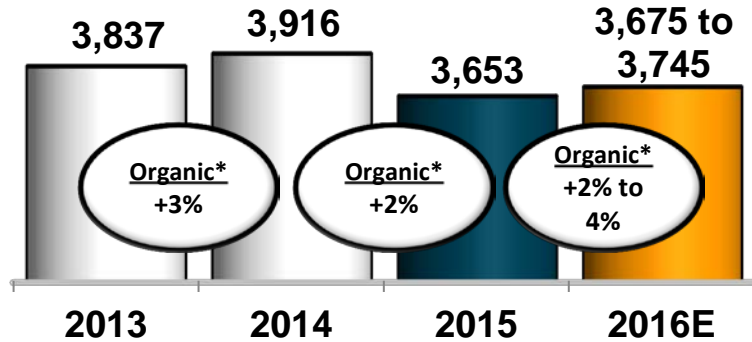
2020 TARGET ROADMAP → PACE ACCELERATES



FINANCIAL OVERVIEW

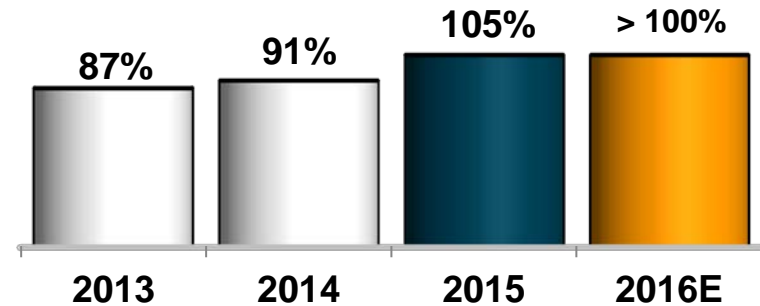
(Dollars, In Millions, except EPS & FCF)

REVENUE

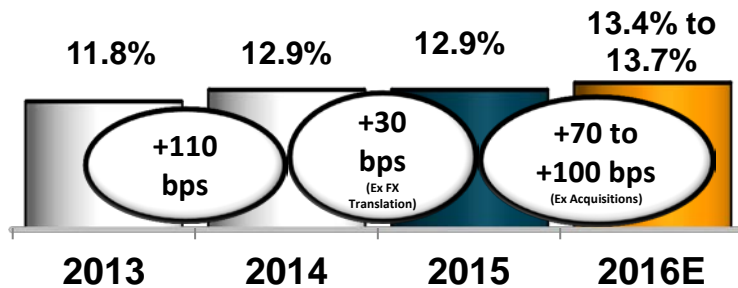


MID-POINT GUIDANCE ILLUSTRATION

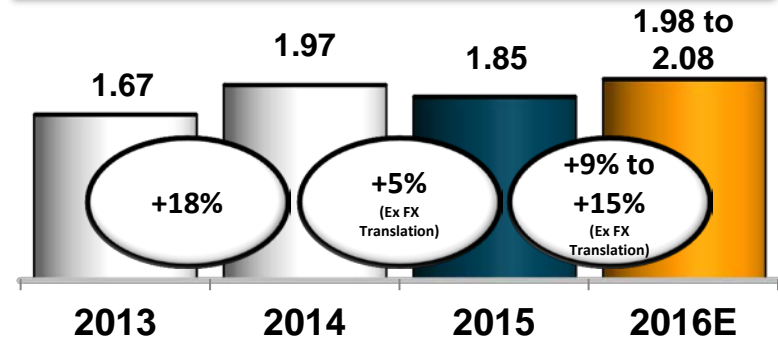
FREE CASH FLOW * CONVERSION



ADJ. OPERATING MARGIN *



ADJ. EPS *

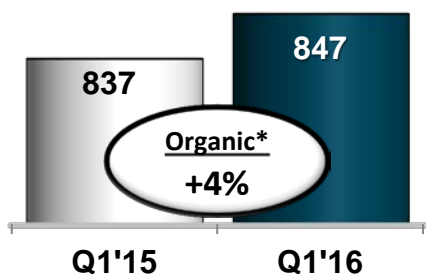


**SOLID FINANCIAL PERFORMANCE ...
TRACK RECORD OF BALANCING GROWTH & PRODUCTIVITY**

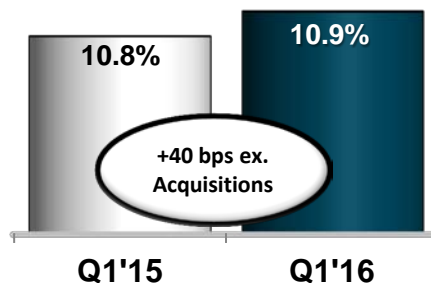
Q1'16 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

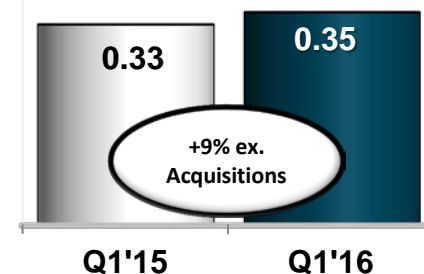
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Key Organic Growth Drivers

+ Public Utility	+12%
+ Commercial	+5%
= Industrial	Flat
- Residential	-5%
- Agriculture	-1%

Organic Growth by Region

+ W. Europe	+5%
+ U.S.	+4%
+ Emerging	+2%

Key Performance Drivers

- Organic revenue growth driven by Public Utility market strength, project timing and favorable weather
- Growth and cost reductions fund investments and offset inflation
 - Vol/price/mix/other expand Op Margin by 100 bps (EPS +\$0.05)
 - Cost reductions drive 260 bps Op Margin expansion (EPS +\$0.10)
 - Cost inflation reduces Op Margin by 190 bps (EPS -\$0.07)
 - Strategic investments reduce Op Margin by 130 bps (EPS -\$0.05)
- Hypack and Tideland acquisitions tracking to plan
- Other: Tax Rate 20.5% Share Count 179.3M

DRIVING PRODUCTIVITY TO ENABLE STRATEGIC GROWTH INVESTMENTS

INVESTMENT THESIS

WE EXPECT TO BENEFIT FROM A FAVORABLE MACRO OUTLOOK

Well positioned in key end markets with sustainable growth profiles



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



ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE

Strong cash flow generation and capital structure enables significant value creation



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 fluctuations in foreign currency translation 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 translation assumes no change in exchange rates from the prior period.

"Constant currency" defined as financial results adjusted for foreign 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 certain 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 initial acquisition related costs, legal and professional fees associated with the Korea matters, as well as costs incurred for the contractual indemnification of tax obligations to ITT, certain costs incurred during the third quarter of 2013 for the settlements of legal proceedings with Xylem Group LLC, as well as the change in chief executive officer and other special non-operating items.

"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 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	
	2016	2015	2016 v. 2015	2016 v. 2015	Divestitures		Adj. 2016 v. 2015	Adj. 2016 v. 2015	
Quarter Ended March 31									
Xylem Inc.	847	837	10	1%	(6)	27	31	4%	4%
Water Infrastructure	514	500	14	3%	(6)	21	29	6%	7%
Applied Water	333	337	(4)	-1%	-	6	2	1%	1%

	(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	
Year Ended December 31									
Xylem Inc.	3,653	3,916	(263)	-7%	10	313	60	2%	1%
Water Infrastructure	2,231	2,442	(211)	-9%	(1)	234	22	1%	1%
Applied Water	1,422	1,474	(52)	-4%	11	79	38	3%	2%

	(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	
	2014	2013	2014 v. 2013	2014 v. 2013	Divestitures		Adj. 2014 v. 2013	Adj. 2014 v. 2013	
Year Ended December 31									
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%

NON-GAAP MEASURES

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

	YTD		
	2015	2014	2013
Total Revenue			
• Total Xylem	3,653	3,916	3,837
• Water Infrastructure	2,231	2,442	2,384
• Applied Water	1,422	1,474	1,453
Operating Income			
• Total Xylem	449	463	363
• Water Infrastructure	303	321	263
• Applied Water	190	193	175
• Total Segments	493	514	438
Operating Margin			
• Total Xylem	12.3%	11.8%	9.5%
• Water Infrastructure	13.6%	13.1%	11.0%
• Applied Water	13.4%	13.1%	12.0%
• Total Segments	13.5%	13.1%	11.4%
Special Charges			
• Total Xylem	1	-	24
• Water Infrastructure	1	-	4
• Applied Water	-	-	-
• Total Segments	1	-	4
Restructuring & Realignment Costs			
• Total Xylem	20	43	64
• Water Infrastructure	13	29	48
• Applied Water	7	13	16
• Total Segments	20	42	64
Adjusted Operating Income*			
• Total Xylem	470	506	451
• Water Infrastructure	317	350	315
• Applied Water	197	206	191
• Total Segments	514	556	506
Adjusted Operating Margin*			
• Total Xylem	12.9%	12.9%	11.8%
• Water Infrastructure	14.2%	14.3%	13.2%
• Applied Water	13.9%	14.0%	13.1%
• Total Segments	14.1%	14.2%	13.2%

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

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

	Q1	
	2016	2015
Total Revenue		
• Total Xylem	847	837
• Water Infrastructure	514	500
• Applied Water	333	337
Operating Income		
• Total Xylem	79	83
• Water Infrastructure	54	47
• Applied Water	39	46
• Total Segments	93	93
Operating Margin		
• Total Xylem	9.3%	9.9%
• Water Infrastructure	10.5%	9.4%
• Applied Water	11.7%	13.6%
• Total Segments	11.0%	11.1%
Special Charges		
• Total Xylem	4	1
• Water Infrastructure	4	1
• Applied Water	-	-
• Total Segments	4	1
Restructuring & Realignment Costs		
• Total Xylem	9	6
• Water Infrastructure	4	5
• Applied Water	3	1
• Total Segments	7	6
Adjusted Operating Income*		
• Total Xylem	92	90
• Water Infrastructure	62	53
• Applied Water	42	47
• Total Segments	104	100
Adjusted Operating Margin*		
• Total Xylem	10.9%	10.8%
• Water Infrastructure	12.1%	10.6%
• Applied Water	12.6%	13.9%
• Total Segments	12.3%	11.9%

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

NON-GAAP MEASURES

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

	Q4 YTD 2014			Q4 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,916		3,916	3,653		3,653
Operating Income	463	43 a	506	449	21 a	470
Operating Margin	11.8%		12.9%	12.3%		12.9%
Interest Expense	(54)		(54)	(55)		(55)
Other Non-Operating Income (Expense)	1		1	-	4 b	4
Gain from sale of businesses	11	(11)	-	9	(9)	0
Income before Taxes	421	32	453	403	16	419
Provision for Income Taxes	(84)	(7) c	(91)	(63)	(20) c	(83)
Net Income	337	25	362	340	(4)	336
Diluted Shares	184.2		184.2	181.7		181.7
Diluted EPS	\$ 1.83	\$ 0.14	\$ 1.97	\$ 1.87	\$ (0.02)	\$ 1.85
Year-over-year currency translation impact on current year diluted EPS				\$ (0.22)	\$ -	\$ (0.22)
Diluted EPS at Constant Currency				\$ 2.09	\$ (0.02)	\$ 2.07

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

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

	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

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

	Q1 2015			Q1 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	837		837	847		847
Operating Income	83	7 a	90	79	13 a	92
Operating Margin	9.9%		10.8%	9.3%		10.9%
Interest Expense	(14)		(14)	(14)		(14)
Other Non-Operating Income (Expense)	(1)	1 b	-	-		-
Gain from sale of business	9	(9)	-	-		-
Income before Taxes	77	(1)	76	65	13	78
Provision for Income Taxes	(13)	(3) c	(16)	1	(17) c	(16)
Net Income	64	(4)	60	66	(4)	62
Diluted Shares	183.1		183.1	179.3		179.3
Diluted EPS	\$ 0.35	\$ (0.02)	\$ 0.33	\$ 0.37	\$ (0.02)	\$ 0.35

a Restructuring & realignment costs and special charges

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)

	2015	Year Ended 2014	2013
Net Cash - Operating Activities	\$ 464	\$ 416	\$ 324
Capital Expenditures	(117)	(119)	(126)
Free Cash Flow	<u>\$ 347</u>	<u>\$ 297</u>	<u>\$ 198</u>
Net Income	340	337	228
Gain from sale of businesses	<u>9</u>	<u>11</u>	<u>-</u>
Net Income, excluding gain on sale of businesses	<u>\$ 331</u>	<u>\$ 326</u>	<u>\$ 228</u>
Free Cash Flow Conversion	<u>105%</u>	<u>91%</u>	<u>87%</u>

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

	Q1	
	2016	2015
Net Cash - Operating Activities	\$ 41	\$ 39
Capital Expenditures	(37)	(37)
Free Cash Flow	<u>\$ 4</u>	<u>\$ 2</u>
Net Income	66	64
Gain from sale of businesses	-	9
Net Income, excluding gain on sale of businesses	<u>\$ 66</u>	<u>\$ 55</u>
Free Cash Flow Conversion	<u>6%</u>	<u>4%</u>

xylem
Let's Solve Water