

XYLEM INC.

Q1 2015 EARNINGS RELEASE

APRIL 30, 2015



xylem
Let's Solve Water

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: economic, 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.

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.

BUSINESS UPDATE

1st Quarter Highlights

- Stable market conditions / healthy project pipeline / building long-term Backlog
- Continue to deliver strong operational performance
- Strengthening organizational capabilities
- On track to deliver operational performance ... adjusting '15 guidance for FX translation

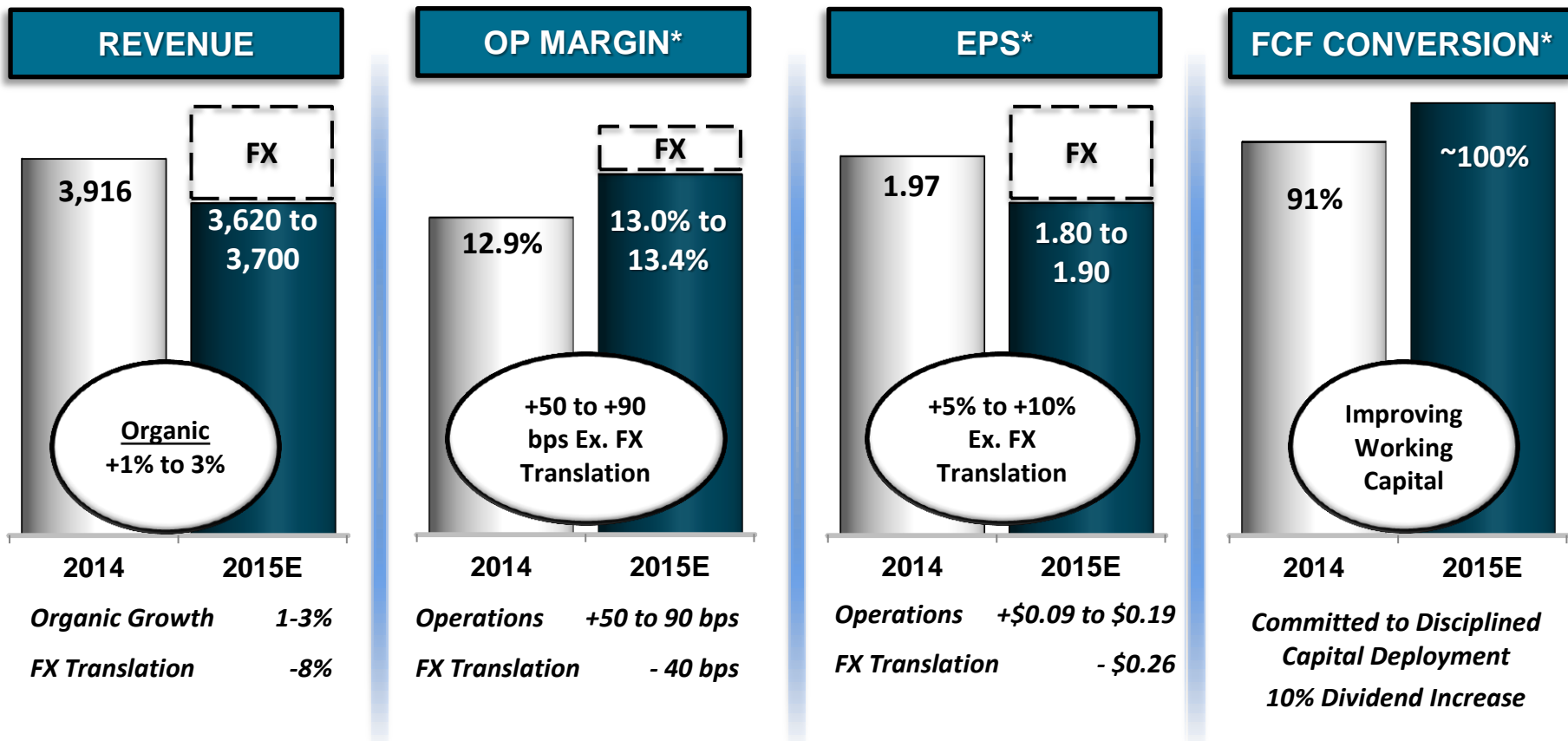
1st Quarter Financial Summary

- Orders of \$915M, Backlog up 10% YOY ex. FX translation
- Revenue of \$837M, organic* growth of 1% ... in line with guidance
- Operating Margin* of 10.8%, up 60 bps ex. FX translation (20 bps)
- Earnings Per Share* of \$0.33, up 9% ex. FX translation (\$0.04)
- Free Cash Flow* of \$2M, up \$5M, with increased Capex investment
- Returned \$76M in capital to shareowners via dividend and share repurchases

SOLID START, ON TRACK TO DELIVER ON 2015 COMMITMENTS

2015 OUTLOOK

(Dollars In Millions, except EPS)

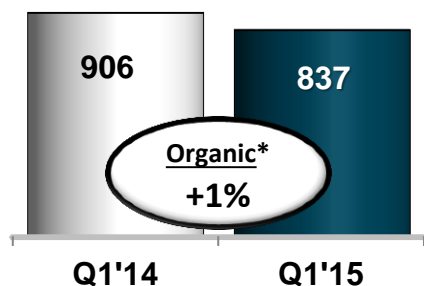


**NO CHANGE IN OPERATIONAL OUTLOOK ...
UPDATING GUIDANCE TO REFLECT INCREMENTAL FX HEADWIND**

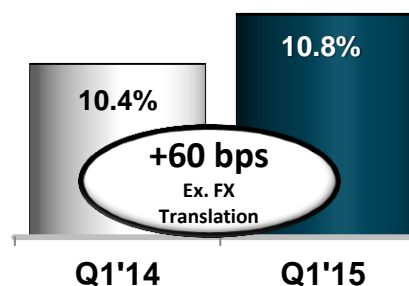
Q1'15 XYLEM PERFORMANCE

(Dollars In Millions, except EPS)

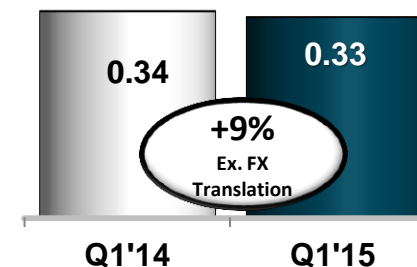
REVENUE



OPERATING MARGIN*



EPS*



Key Organic Growth Drivers

+ Commercial	+9%
+ Public Utility	+2%
+ Residential	+2%
- Industrial	-1%
- Agriculture	-13%

Organic Growth by Region

+ Emerging	+9%
+ U.S.	+2%
= W. Europe	Flat
- Canada/Australia	-12%

Key Performance Drivers

+ Operations	+0.6%
+ Cost Reductions	+2.7%
= Vol/Price/Mix	Neutral
- Cost Inflation	- 1.9%
- Divestiture/Pension	-0.2%
- FX Translation	- 0.2%

Continuous Improvement & Business Simplification Focus Drives Op Margin Expansion

Key Performance Drivers

+ Operations	+\$0.03
+ Cost Reductions	+\$0.10
+ Vol/Price/Mix/Other	+\$0.01
- Inflation	-\$0.07
- Divestiture/Pension	-\$0.01
- FX Translation	-\$0.04

Other Information:

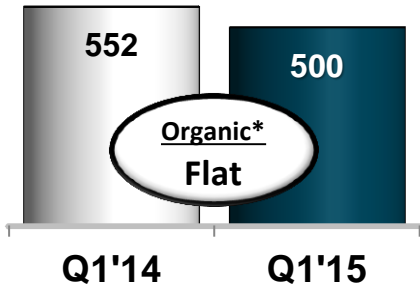
• Tax Rate	21.1%
• Share Count	183.1M

STRONG EXECUTION DRIVES OP MARGIN EXPANSION & EPS GROWTH

Q1'15 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars In Millions)



Organic Growth

By Application

- + Treatment +3%
- = Transport Flat
- Test -3%

By Regions

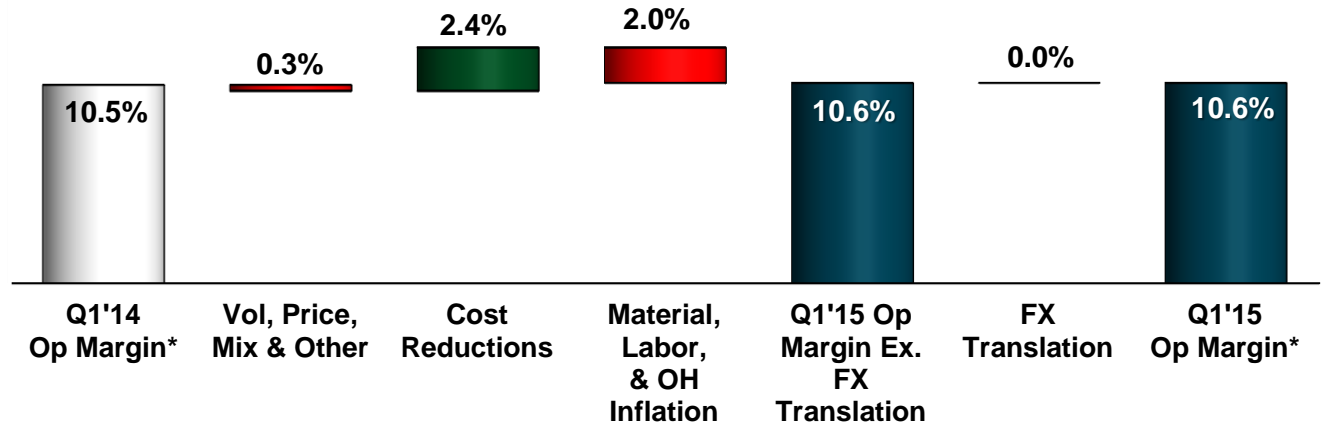
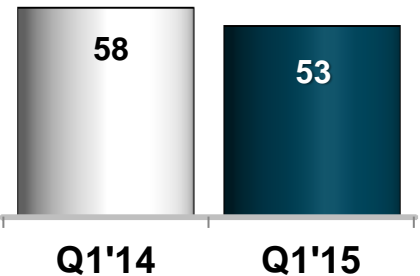
- + Emerging +10%
- + U.S. +1%
- CAN/AUS -14%
- W. Europe -1%

Highlights

- + Building backlog ... Organic* Order growth +4% ... key project wins (Canada \$16 Custom Pump project & Emerging Markets strength) more than offset O&G decline
- + Emerging Markets strength reflects continued development of Public Utility infrastructure
- Canada / Australia down due to lower Public Utility spend, lapping of PY projects, and O&G market weakness
- Test PY key account project shipment (\$3 Brazil)

OPERATING INCOME*

(Dollars In Millions)

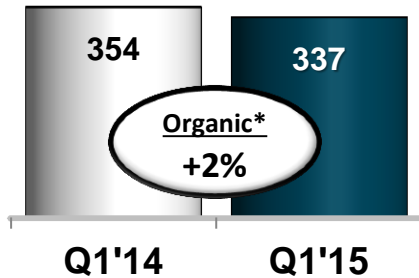


BUILDING PROJECT BACKLOG ... SOLID EXECUTION DRIVES OP MARGIN EXPANSION

Q1'15 APPLIED WATER PERFORMANCE

REVENUE

(Dollars In Millions)



Organic Growth

By Application

- + Bldg Svcs +6%
- Irrigation -13%
- Ind'l Water -1%

By Regions

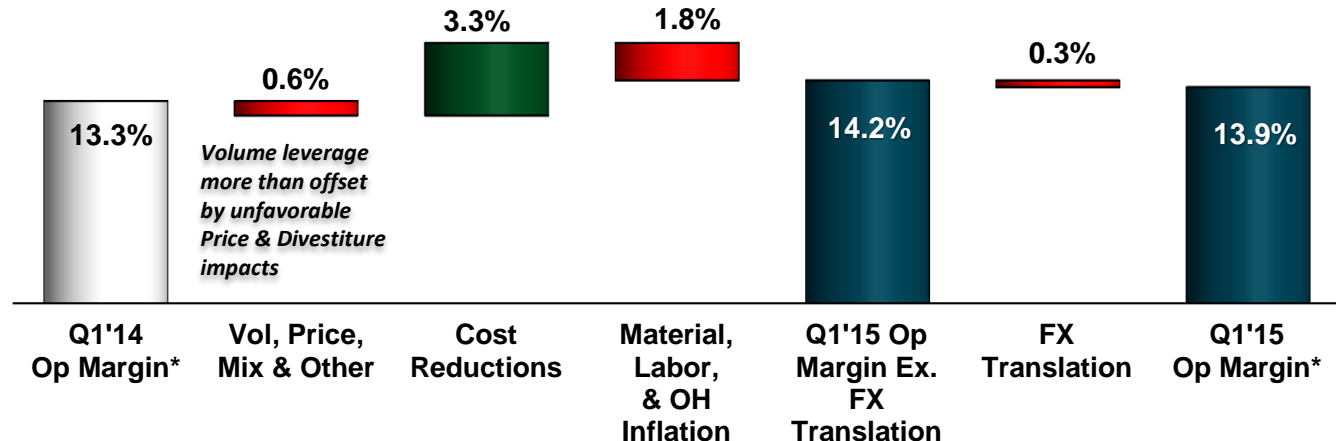
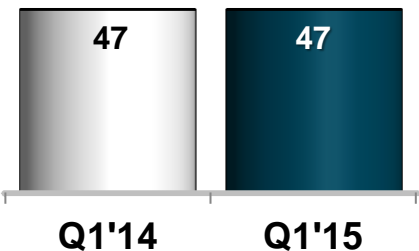
- + Emerging +7%
- + U.S. +2%
- = W. Europe Flat

Highlights

- + U.S. Commercial strength due to strong execution against 4Q backlog; continued signs of a recovering Institutional market
- + Residential up in Europe due to new product launches, partially offset by weakness in the U.S. (weather)
- + Emerging Markets strength in Latin America & Middle East
- Irrigation & Industrial Water down due to softening market conditions & tough PY comparisons/project timing

OPERATING INCOME*

(Dollars In Millions)

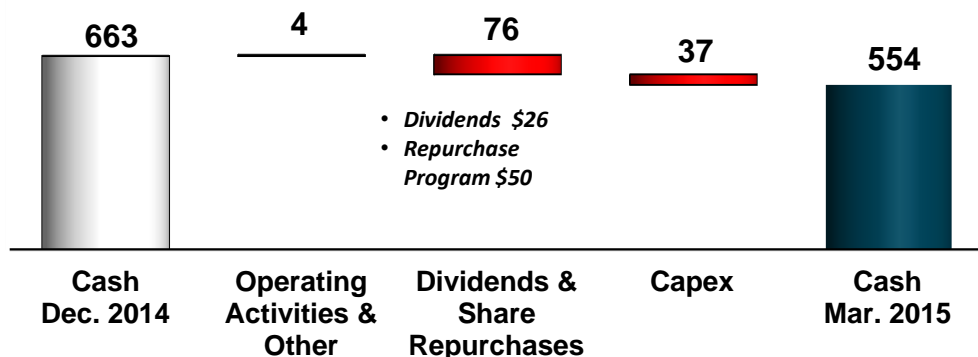


STRONG PERFORMANCE DRIVING OP MARGIN +90 bps Ex. FX

XYLEM FINANCIAL POSITION

(Dollars In Millions)

CASH DRIVERS

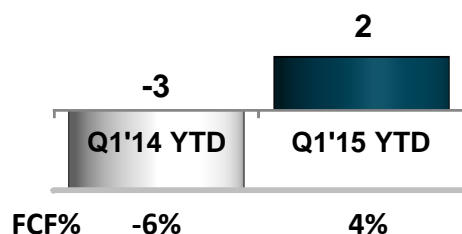


CAPITAL SUMMARY

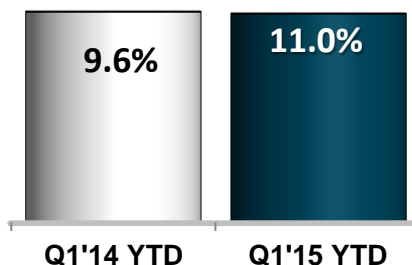
March 31, 2015

Cash	554
Debt	1,276
Net Debt	722
Shareholders' Equity	1,989
Net Capital	2,711
Net Debt to Net Capital	26.6%

FREE CASH FLOW *



ROIC**








- Strong cash position
- Investment grade credit (BBB / Baa2)
- \$76 return of capital to shareholders
 - Dividends of \$26; up 10% per share
 - Share repurchases of \$50
- Improved Working Capital performance drives increase in Free Cash Flow
 - Capex spend \$37, up \$12

2015 OUTLOOK

(Dollars In Millions, Except per Share Data)	2015 Full Year Financial Outlook	Growth 2015 vs. 2014
Revenue Xylem Consolidated Water Infrastructure Applied Water	\$3,620 to \$3,700 \$2,245 to \$2,295 \$1,375 to \$1,405	Organic growth 1% to 3% Organic growth 1% to 3% Organic growth 0% to 2%
Segment Margin * Operating Margin * EPS *	14.3% to 14.7% 13.0% to 13.4% \$1.80 to \$1.90	+50 bps to +90 bps, excluding FX translation +5% to +10%, excluding FX translation
Free Cash Flow Conversion ROIC ** Guidance Assumptions: Operating Tax Rate * Share Count	~100% ~ 11% ~21% ~183M	Working capital improvement; Capex of \$120 to \$130 ~ +50 bps, excluding FX translation Unfavorable regional mix vs. 2014
Restructuring & Realignment Costs	~\$20	\$20 of savings (\$18 carry-over from 2014 actions)

STRONG OPERATIONAL PERFORMANCE

2015 OUTLOOK

Key End Markets		1Q'15 Actual	FY'15 Outlook	Outlook Update	FY'15 Assumptions
	Industrial (44% of '14 Revenue)	-1%	Up Low Single Digits	=	<ul style="list-style-type: none"> • Emerging Market growth moderates • U.S. strength (ex. O&G) • O&G down (but <5% of Revenue)
	Public Utility (33% of '14 Revenue)	+2%	Up Low Single Digits	=	<ul style="list-style-type: none"> • Emerging Market growth continues • Improving U.S. market • Europe stable
	Commercial (13% of '14 Revenue)	+9%	Up Low to Mid Single Digits	=	<ul style="list-style-type: none"> • U.S. (Institutional) slowly recovers • Emerging Market growth continues • Europe market softness
	Residential (7% of '14 Revenue)	+2%	Down Low Single Digits to Flat	=	<ul style="list-style-type: none"> • Weaker U.S. market conditions • European market softness, partially offset by new product launches
	Agriculture (3% of '14 Revenue)	-13%	Flat	=	<ul style="list-style-type: none"> • Emerging Market growth continues • Tough U.S. YOY comparisons • Europe market weakness

STABLE END MARKET CONDITIONS ... NO CHANGE IN OUTLOOK

2015 OUTLOOK

Foreign Exchange Transaction

- Hedge up to 75% of net cash flows on a rolling twelve-month basis for 7 largest currency exposures
- Hedge balance sheet mark-to-market on a monthly basis with currency forward instruments
- Include foreign currency transaction impacts as part of “Operational Performance”

Foreign Exchange Translation

- FY'15 Unfavorable YOY impact YOY: Revenue \$(320) / Op Income \$(59)
 - 1Q'15 Unfavorable YOY impact: Revenue \$(73) / Op income \$(10)
 - 2Q'15 Unfavorable YOY impact: Revenue \$(100) / Op income \$(18)

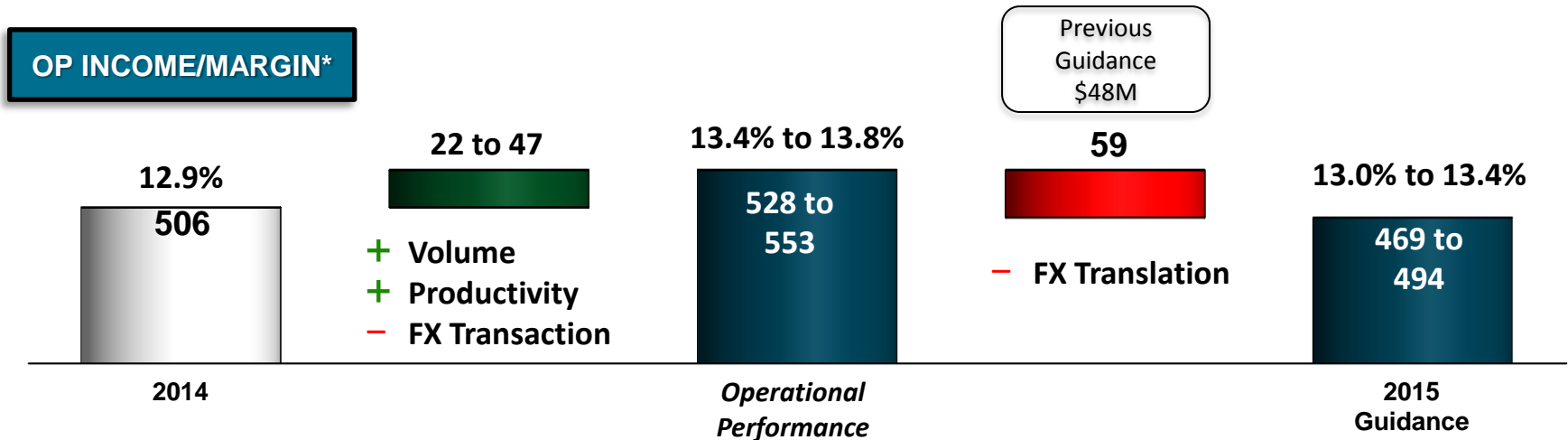
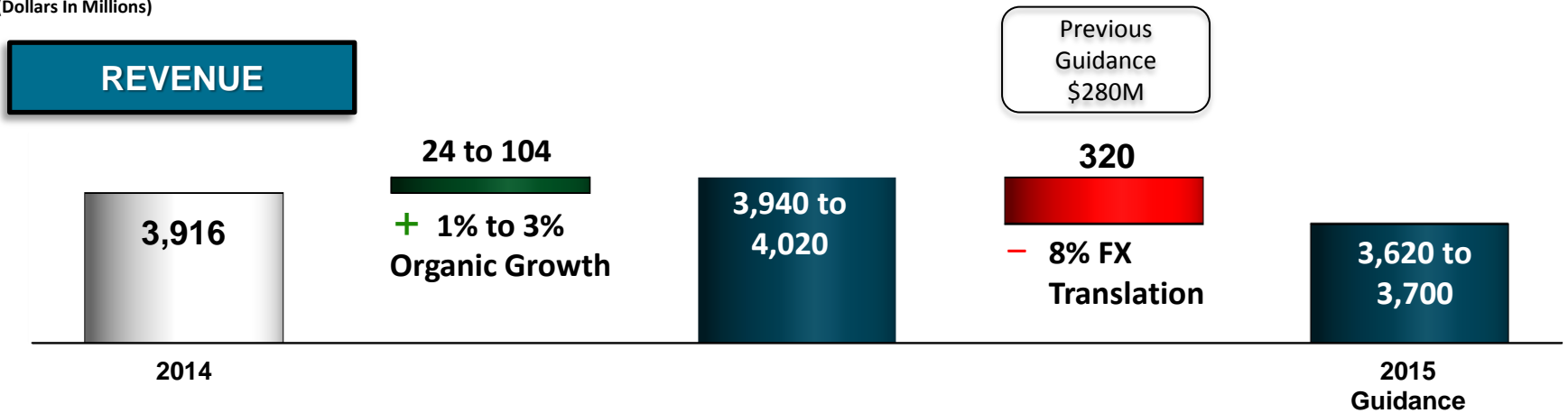
* Reflects impact on 2Q through 4Q results. Increase in rate would have inverse impact on results.

Currency Exchange	2014 Average Rate	Prior Guidance Rate	1Q'15 Average Rate	1Q'15 Guidance Update	FY'15 Revenue Impact (YOY)	FY'15 Op Income Impact (YOY)	Revenue Impact of 5% Decrease*	EPS Impact of 5% Decrease*
Euro	1.33	1.12	1.14	1.07	~ \$(165)	~ \$(75)	~ \$(28)	~ \$(0.07)
SEK	0.145	0.121	0.121	0.115	~ \$(30)	~ \$20	~ \$(4)	~ \$0.01
GBP	1.65	1.50	1.52	1.49	~ \$(25)	~ \$(4)	~ \$(10)	N.M.
AUD	0.90	0.79	0.79	0.77	~ \$(20)		~ \$(5)	
CAD	0.91	0.81	0.81	0.82	~ \$(15)		~ \$(6)	
All Others	N/A	N/A	N/A	N/A	~ \$(65)		~ \$(23)	
Total					~ \$(320)	~ \$(59)		

FX TRANSLATION IMPACT UPDATE REFLECTS STRONGER USD

2015 OUTLOOK

(Dollars In Millions)



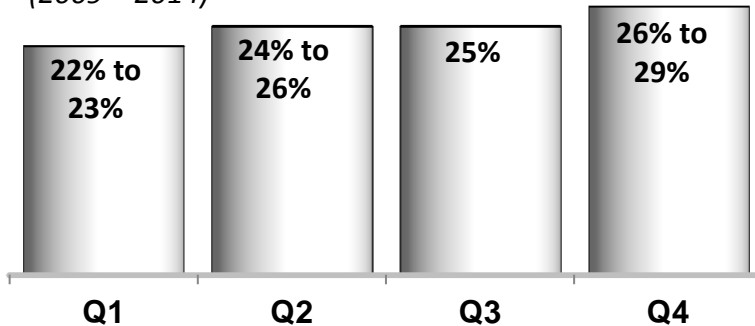
OPERATIONAL PERFORMANCE CONSISTENT WITH PREVIOUS GUIDANCE

Q2'15 OUTLOOK

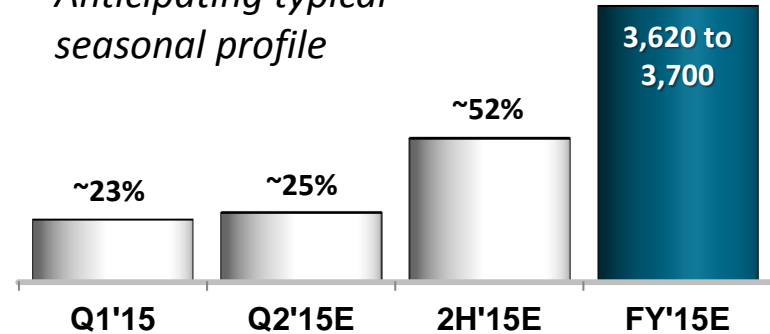
(Dollars In Millions)

HISTORIC REVENUE PROFILE

As a % of Full Year
(2009 – 2014)



Anticipating typical
seasonal profile



• 2Q'15 vs. Prior Year

- Organic Revenue growth of ~2%
- Op Margin flat to up 30 bps, ex. FX translation
- Unfavorable FX translation ... 2Q'14 Euro Average rate \$1.37
 - Revenue impact \$(100) ... Op Income / Margin impact of \$(18) and (60) bps

• 2Q'15 vs. 1Q'15

- Revenue growth of ~10%
- Incremental margin of ~25%
 - Unfavorable mix (Emerging Market project deliveries, lower Dewatering rental)
 - Normalized corporate run rate costs of \$14

BALANCED 2Q OUTLOOK ... FX HEADWIND DRIVES YOY DECLINES

SUMMARY

- **Continue to make progress on long-term strategic initiatives**
- **Remain squarely focused on our Top 2015 Priorities**
 - ❑ **Advance focused emerging market growth strategy**
 - ❑ **Develop industry vertical marketing capabilities**
 - ❑ **Develop business simplification roadmap**
 - ❑ **Improve working capital performance**
 - ❑ **Actively pursue M&A**
- **Strong 1Q execution, off to a good start in 2015**
- **No change in our fundamental outlook**

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 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 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.

NON-GAAP MEASURES

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	<u>Orders</u> 2015	<u>Orders</u> 2014	<u>Change</u> 2015 v. 2014	<u>% Change</u> 2015 v. 2014	<u>Acquisitions /</u> <u>Divestitures</u>	<u>FX Contribution</u>	<u>Change</u> Adj. 2015 v. 2014	<u>% Change</u> Adj. 2015 v. 2014	
Quarter Ended March 31									
Xylem Inc.	915	993	(78)	-8%	5	77	4	0%	0%
Water infrastructure	562	597	(35)	-6%	-	56	21	4%	4%
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 /	Change	% Change		
	2015	2014	2015 v. 2014	2015 v. 2014	Divestitures	Adj. 2015 v. 2014	Adj. 2015 v. 2014		
Quarter Ended March 31									
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
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		
	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%	
Quarter Ended December 31										
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%	
Quarter Ended September 30										
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%	
Quarter Ended June 30										
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%	
Quarter Ended March 31										
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
Adjusted Operating Income
(\$ Millions)

	Q1	
	2015	2014
Total Revenue		
• Total Xylem	837	906
• Water Infrastructure	500	552
• Applied Water	337	354
Operating Income		
• Total Xylem	83	76
• Water Infrastructure	47	46
• Applied Water	46	41
• Total Segments	93	87
Operating Margin		
• Total Xylem	9.9%	8.4%
• Water Infrastructure	9.4%	8.3%
• Applied Water	13.6%	11.6%
• Total Segments	11.1%	9.6%
Special Charges		
• Total Xylem	1	-
• Water Infrastructure	1	-
• Applied Water	-	-
• Total Segments	1	-
Restructuring & Realignment Costs		
• Total Xylem	6	18
• Water Infrastructure	5	12
• Applied Water	1	6
• Total Segments	6	18
Adjusted Operating Income*		
• Total Xylem	90	94
• Water Infrastructure	53	58
• Applied Water	47	47
• Total Segments	100	105
Adjusted Operating Margin*		
• Total Xylem	10.8%	10.4%
• Water Infrastructure	10.6%	10.5%
• Applied Water	13.9%	13.3%
• Total Segments	11.9%	11.6%

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

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

	2015				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	77				
Interest Expense (Income), net	13				
Depreciation	24				
Amortization	11				
Stock Compensation	4				
EBITDA	129				
Restructuring & Realignment	6				
Gain on sale of business	(9)				
Special Charges	2				
Adjusted EBITDA	128				
Revenue	837				
Adjusted EBITDA Margin	15.3%				
	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)

	2015		2014		
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	55	77	96	105	323
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	16	15	14	17	61
Amortization	9	10	10	9	39
Stock Compensation	1	1	-	-	2
EBITDA	81	103	119	131	424
Restructuring & Realignment	5	5	3	9	29
Gain on sale of business	(8)				
Special Charges	1				
Adjusted EBITDA	79	108	122	140	453
Revenue	500	616	602	672	2,442
Adjusted EBITDA Margin	15.8%	17.5%	20.3%	20.8%	18.6%

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

	2015		2014		
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	46	53	61	48	204
Interest, net	-	-	-	-	-
Depreciation	5	5	6	5	21
Amortization	1	1	1	1	4
Stock Compensation	1	1	1	-	2
EBITDA	53	60	69	54	231
Restructuring & Realignment	1	4	1	2	13
Gain on sale of business	(1)	-	(11)	-	(11)
Adjusted EBITDA	53	64	59	56	233
Revenue	337	389	361	370	1,447
Adjusted EBITDA Margin	15.7%	16.5%	16.3%	15.1%	15.8%

NON-GAAP MEASURES

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

	Q1		Q2		Q3		Q4		YTD	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Total Revenue										
• Total Xylem	906	879	1,005	960	963	965	1,042	1,033	3,916	3,837
• Water Infrastructure	552	532	616	577	602	602	672	673	2,442	2,384
• Applied Water	354	347	389	383	361	363	370	360	1,474	1,453
Operating Income										
• Total Xylem	76	66	116	70	130	98	141	129	463	363
• Water Infrastructure	46	39	76	40	95	85	104	99	321	263
• Applied Water	41	43	53	46	51	43	48	43	193	175
• Total Segments	87	82	129	86	146	128	152	142	514	438
Operating Margin										
• Total Xylem	8.4%	7.5%	11.5%	7.3%	13.5%	10.2%	13.5%	12.5%	11.8%	9.5%
• Water Infrastructure	8.3%	7.3%	12.3%	6.9%	15.8%	14.1%	15.5%	14.7%	13.1%	11.0%
• Applied Water	11.6%	12.4%	13.6%	12.0%	14.1%	11.8%	13.0%	11.9%	13.1%	12.0%
• Total Segments	9.6%	9.3%	12.8%	9.0%	15.2%	13.3%	14.6%	13.7%	13.1%	11.4%
Special Charges										
• Total Xylem	-	-	-	-	-	20	-	4	-	24
• Water Infrastructure	-	-	-	-	-	-	-	4	-	4
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Total Segments	-	-	-	-	-	-	-	4	-	4
Restructuring & Realignment Costs										
• Total Xylem	18	12	9	28	4	12	12	12	43	64
• Water Infrastructure	12	10	5	22	3	8	9	8	29	48
• Applied Water	6	2	4	6	1	4	2	4	13	16
• Total Segments	18	12	9	28	4	12	11	12	42	64
Adjusted Operating Income*										
• Total Xylem	94	78	125	98	134	130	153	145	506	451
• Water Infrastructure	58	49	81	62	98	93	113	111	350	315
• Applied Water	47	45	57	52	52	47	50	47	206	191
• Total Segments	105	94	138	114	150	140	163	158	556	506
Adjusted Operating Margin*										
• Total Xylem	10.4%	8.9%	12.4%	10.2%	13.9%	13.5%	14.7%	14.0%	12.9%	11.8%
• Water Infrastructure	10.5%	9.2%	13.1%	10.7%	16.3%	15.4%	16.8%	16.5%	14.3%	13.2%
• Applied Water	13.3%	13.0%	14.7%	13.6%	14.4%	12.9%	13.5%	13.1%	14.0%	13.1%
• Total Segments	11.6%	10.7%	13.7%	11.9%	15.6%	14.5%	15.6%	15.3%	14.2%	13.2%

*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)

	Q1 2014			Q1 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	906		906	837		837
Operating Income	76	18 a	94	83	7 a	90
Operating Margin	8.4%		10.4%	9.9%		10.8%
Interest Expense	(14)		(14)	(14)		(14)
Other Non-Operating Income (Expense)	(1)		(1)	(1)	1 b	-
Gain from sale of businesses	-		-	9	(9)	0
Income before Taxes	61	18	79	77	(1)	76
Provision for Income Taxes	(12)	(4) c	(16)	(13)	(3) c	(16)
Net Income	49	14	63	64	(4)	60
Diluted Shares	185.8		185.8	183.1		183.1
Diluted EPS	\$ 0.27	\$ 0.07	\$ 0.34	\$ 0.35	\$ (0.02)	\$ 0.33
Currency translation impact on current year diluted EPS				\$ (0.04)		\$ (0.04)
Diluted EPS at Constant Currency				\$ 0.39		\$ 0.37

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 special tax items

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
 Net Cash - Operating Activities vs. Free Cash Flow
 (\$ Millions)

	Three Months Ended	
	2015	2014
Net Cash - Operating Activities	\$ 39	\$ 22
Capital Expenditures	(37)	(25)
Free Cash Flow	\$ 2	\$ (3)
Net Income	64	49
Gain from sale of businesses	9	-
Net Income, excluding gain on sale of business	\$ 55	\$ 49
Free Cash Flow Conversion	4%	-6%

NON-GAAP MEASURES

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

	Year Ended	
	2014	2013
Net Cash - Operating Activities	\$ 416	\$ 324
Capital Expenditures	(119)	(126)
Free Cash Flow	<u>\$ 297</u>	<u>\$ 198</u>
Net Income	337	228
Gain on Sale of Business	11	-
Net Income, excluding gain on sale of business	<u>\$ 326</u>	<u>\$ 228</u>
Free Cash Flow Conversion	<u>91%</u>	<u>87%</u>

xylem

Let's Solve Water

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