

XYLEM INC.

Q2 2014 EARNINGS RELEASE

JULY 29, 2014



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

This document contains information that may constitute “forward-looking statements.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target” and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking.

These forward-looking statements include, but are not limited to, statements about the 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, and any discussion of future operating or financial performance. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements.

Caution should be taken not to place undue reliance on any such forward-looking statements because they involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company’s historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

BUSINESS UPDATE

2nd Quarter Highlights

- Solid top line performance ... Growth across most regions; Mixed end market dynamics
- Volume & cost actions drive significant Op Margin expansion & Earnings growth
- Operating improvements remain on track to deliver full year savings
- Increasing lower end of EPS guidance to reflect 1H Performance

2nd Quarter Financial Summary

- Orders of \$1,031M, up 2%, Organic* up 1%
- Revenue of \$1,005M, up 5%, Organic* up 4%
- Operating Margin* of 12.4%, up 220 bps; Strong incremental margin performance
- Earnings Per Share* \$0.48 up 33%
- Free Cash Flow* \$50M ... Conversion 37%

STRONG 2nd QUARTER PERFORMANCE

CEO UPDATE

2014 Goals

- Deliver on our financial commitments
- Optimize integrated front end to accelerate growth
- Reignite the Xylem Management System
- Rebalance portfolio and product investments
- Develop stronger global sourcing and Lean/Six Sigma capability

2nd Quarter Update

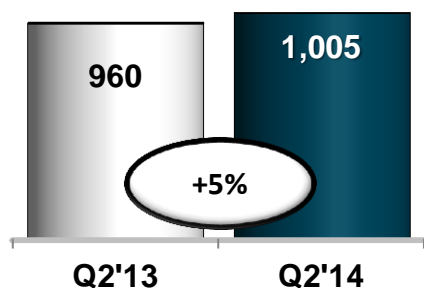
- On track to deliver 2014 commitments
- Investing in Customer Relationship Management tool to enable front end
- Continuing to evaluate and execute against cost savings initiatives
- UK Valves divestiture; Reactivating M&A pipeline

FOCUSED ON ACHIEVING OUR OBJECTIVES

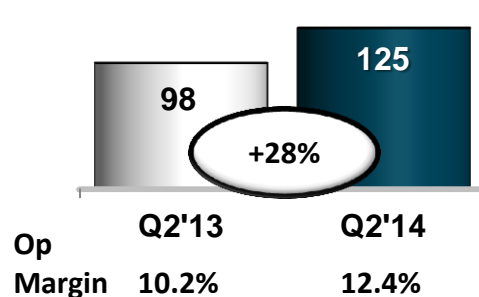
Q2'14 XYLEM PERFORMANCE

(Dollars, in Millions, except EPS)

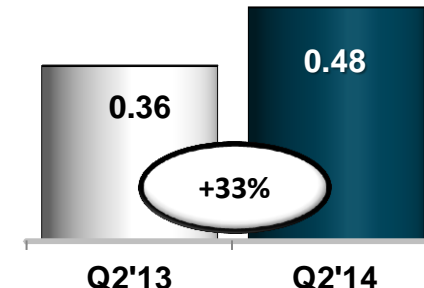
REVENUE



OPERATING INCOME*



EPS*



Org. Revenue Growth* +4%

Key Organic Growth Drivers

+ Public Utility	+7%
+ Industrial	+5%
- Commercial	-3%

Organic Growth by Region

+ Emerging	+11%
+ Europe	+3%
+ U.S.	+1%

Key Performance Drivers

+ Core Operations	+2.4%
+ Vol/Price/Mix	+0.5%
+ Cost Reductions	+3.9%
- Cost Inflation	-2.0%
- FX	-0.2%

**60% Incremental Margin
Driven by Volume Growth
& Cost Reductions**

Key Performance Drivers

+ Core Operations	+\$0.13
+ Vol/Price/Mix	+\$0.05
+ Rest. Savings	+\$0.05
- FX	-\$0.01

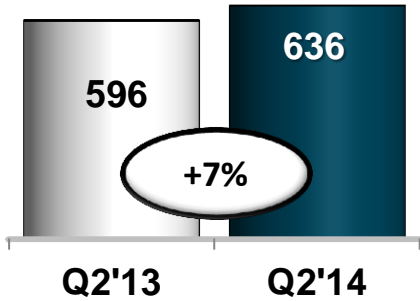
- Tax Rate 22.1%
- Share Count 184.5M

**VOLUME GROWTH & COST REDUCTIONS DRIVE
220 BPS MARGIN EXPANSION AND 33% EARNINGS GROWTH**

Q2'14 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* +7%

By Application

- + Transport +6%
- + Treatment +15%
- + Test +5%

By Regions

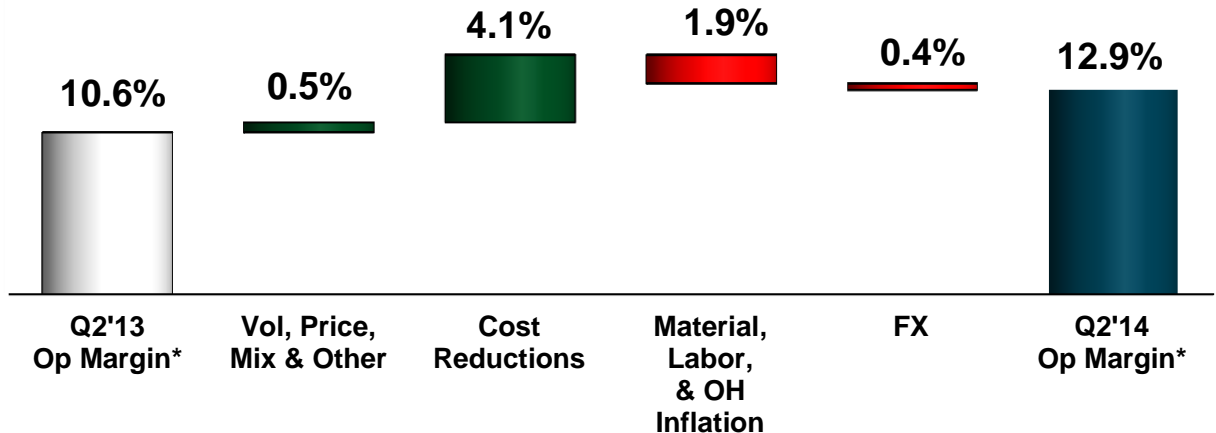
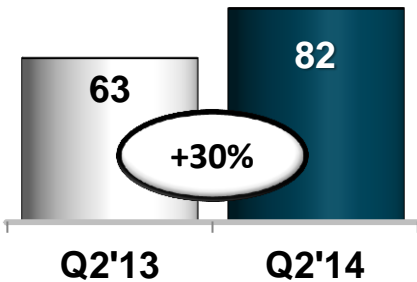
- + Emerging +16%
- + Europe +5%
- + U.S. +5%

Highlights

- + Transport driven by Public Utility infrastructure investment across most regions; Dewatering up in U.S. (hydraulic fracturing and equipment sales)
- + Treatment up double digits primarily due to Emerging Market strength and timing of project deliveries
- + Test up in both U.S. and European markets

OPERATING INCOME*

(Dollars, In Millions)

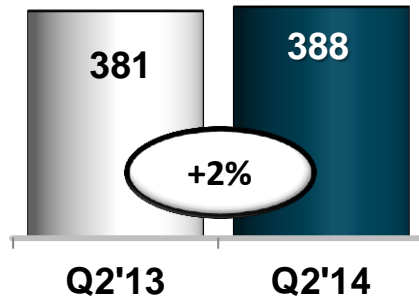


STRONG OPERATING PERFORMANCE ... OP MARGIN UP 230 BPS FUELED BY 7% ORGANIC GROWTH & EXECUTION OF COST REDUCTION INITIATIVES

Q2'14 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* -1%

By Application

- Bldg Svcs -2%
- + Ind'l Water 2%
- = Irrigation Flat

By Regions

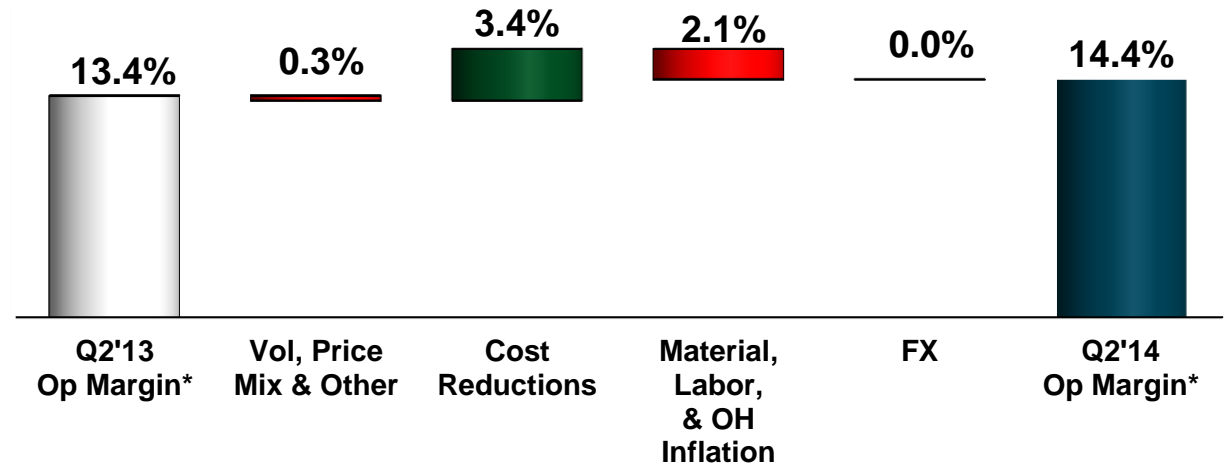
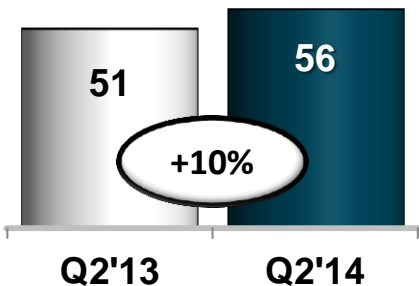
- U.S. -2%
- Europe -1%
- + Emerging +2%

Highlights

- U.S. Commercial Building Services down mid-single digits primarily due to continued Institutional Building market weakness
- Southern European Residential weakness persists
- + U.S. Residential was up low single digits against double digit PY growth
- + Emerging Market strength driven by continued growth in China

OPERATING INCOME*

(Dollars, In Millions)

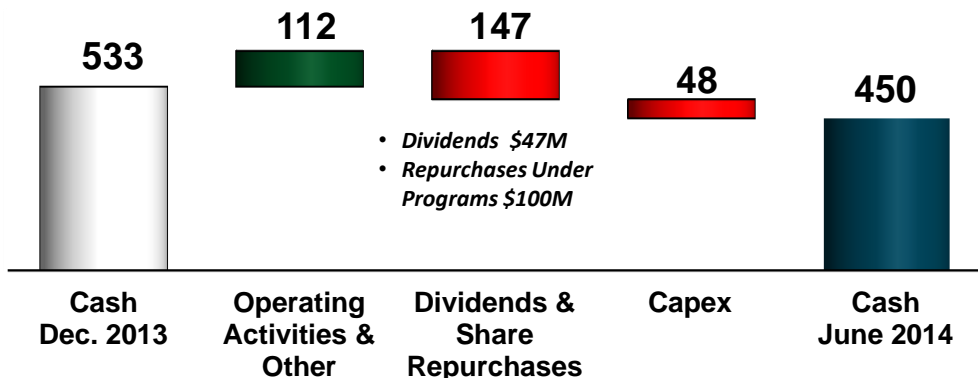


COST REDUCTIONS DRIVE 100 BPS OPERATING MARGIN IMPROVEMENT

XYLEM FINANCIAL POSITION

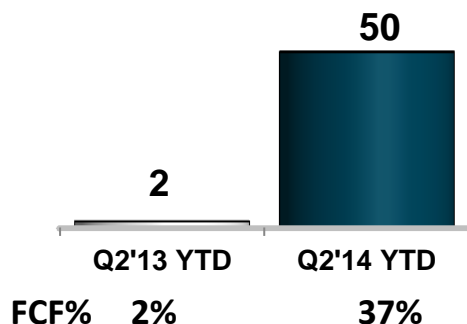
(Dollars, In Millions)

CASH DRIVERS



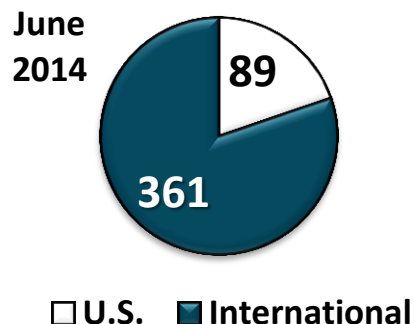
FREE CASH FLOW *

(Dollars, In Millions)



CASH BALANCE (GEOGRAPHIC)

(Dollars, In Millions)



CAPITAL SUMMARY

June 30, 2014

(Dollars, In Millions)

Cash	450
Debt	1,242
Net Debt	792
Shareholders' Equity	2,245
Net Capital	3,037
Net Debt to Net Capital	26%

- Strong cash position
- Increased return to shareholders
 - Dividends of \$47M; up 10% per share
 - Share repurchases of \$100M
- Improved Free Cash Flow performance
 - Higher income & lower Capex spend
 - Higher Working Capital
 - Receivable increase due to timing of Q2 sales/project terms
 - Inventory build ahead of 2H ramp
 - Timing of annual bonus payments

2014 FINANCIAL GUIDANCE SUMMARY

(Dollars In Millions, Except per Share Data)	2014 Full Year Financial Outlook	Growth 2014E vs. 2013		
		<u>Total Growth</u>	<u>Organic</u>	<u>FX/Acq/Div</u>
Revenue				
Xylem Consolidated	\$3,900 to \$3,980	2% to 4%	2% to 4%	0%
Water Infrastructure	\$2,520 to \$2,560	3% to 4%	3% to 4%	0%
Applied Water	\$1,450 to \$1,470	Flat to 1%	Flat to 1%	0%
Segment Margin *	14.2% to 14.6%	+100 bps to +140 bps		
Operating Margin *	12.8% to 13.2%	+100 bps to +140 bps		
EPS *	\$1.90 to \$2.00	Up 14% to 20%		
Free Cash Flow Conversion	~100%			
Guidance Assumptions:				
Operating Tax Rate *	~21%	Unchanged from 2013		
Share Count	~185M	~\$130M for Share Repurchases in 2014		
Restructuring & Realignment Costs	~\$40 to \$50	'14 Rest. Savings ~\$17M; Realignment Cost \$10-\$15		

RAISING LOWER END OF EPS GUIDANCE

2014 GROWTH PROFILE

Xylem FY 2014
Organic Growth



Industrial

(45% of '13 Revenue)

- 1H up 3% ... 2H Outlook: Up LSD
- U.S. growth accelerates over the 2H
- Emerging Markets up; Europe stable

Up Low
Single Digit



Public Utility

(34% of '13 Revenue)

- 1H up 6% ... 2H Outlook: Flat to Up LSD
- Tougher 2H Comps; Project delivery timing
- 2015/2016 outlook: project pipeline growing, fundamentals improving

Up Low to
Mid Single
Digit



Commercial

(11% of '13 Revenue)

- 1H down 1%; 2H Outlook: Up LSD
- Overweight position to weak U.S. institutional building market continues to pressure overall performance

Flat



Residential

(7% of '13 Revenue)

- 1H up 2%; 2H Outlook: Flat to Down LSD
- U.S. housing recovery moderates
- Southern Europe weaker than expected through 1H; soft 2H outlook

Up Low
Single Digit



Agriculture

(3% of '13 Revenue)

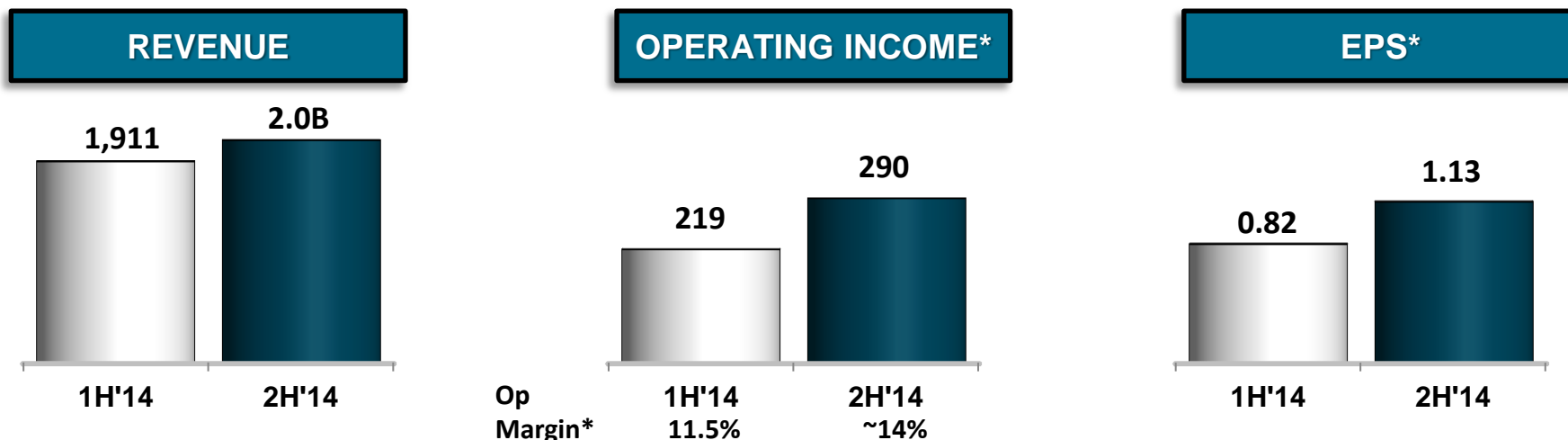
- 1H up 3%; 2H Outlook: Down LSD
- Tough year-over-year comparison following strong 2013 performance

Flat

PUBLIC UTILITY OUTLOOK IMPROVING ... U.S. COMMERCIAL HEADWIND PERSISTS

2014 BUSINESS OUTLOOK (Mid-Point Illustration)

(Dollars, In Millions, Except per Share Data Unless Otherwise Noted)



Planning Assumptions

- 1H/2H Revenue split reflects typical seasonal profile
 - 3Q sequential decline of 2% to 3% reflects European holiday season, AWS 2Q Peak, and project shipment variability
- 2H Op Income reflects modest revenue growth YOY (tough comp), unfavorable mix & price, and increased investment
 - 3Q Op Margin improvement of 80 bps to 130 bps sequentially

2014 EPS (Mid-Point Illustration)	
PY EPS*	\$1.67
1H Performance	+0.20
2H Rest. Savings	+0.08
2H Vol/Mix/Price/Other	+0.03
2H Investment	-0.03
2014 EPS	\$1.95

SOLID 1H PERFORMANCE ... FOCUSED ON 2H EXECUTION

SUMMARY

- **Solid 1H Performance ... Raising lower end of full year EPS guidance**
- **Continue to see positive indicators & trends in some of our key markets**
- **Cost savings initiatives are on track, driving significant margin expansion**
- **Enhancing Global Sourcing capabilities**
- **Continuing to evaluate portfolio & investments, reactivating the M&A pipeline**

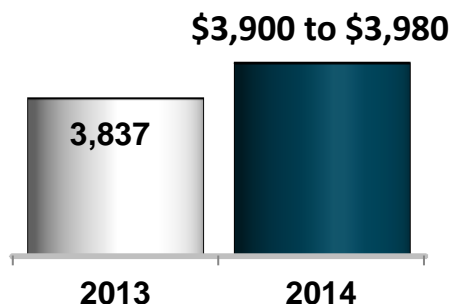
FOCUSED ON ACHIEVING OUR COMMITMENTS

APPENDIX

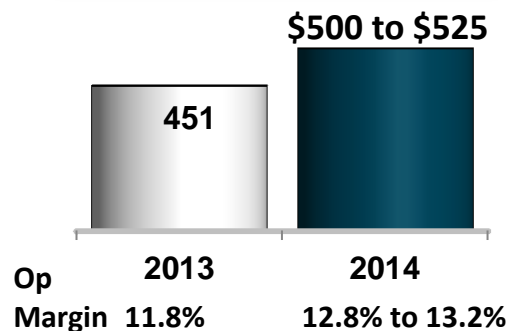
FY'14 XYLEM OUTLOOK

(Dollars, In Millions, except EPS)

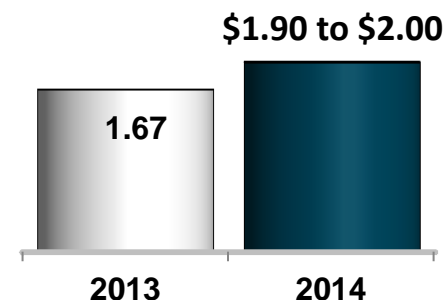
REVENUE



OPERATING INCOME*



EPS*



Highlights

- Revenue Growth 2% to 4%
- Organic Growth 2% to 4%
 - Water Infrastructure 3% to 4%
 - Applied Water Flat to 1%
- FX/Acquisition 0%

Volume Increase Partially Offset by Negative Mix/Price

Strong Incremental Margin Performance Driven by Restructuring Savings

- Partially offset by Price Headwind, & Mix
- Lean & Global Sourcing Offsets Cost Inflation
- Restructuring Savings of \$42M

Highlights

EPS Growth 14% to 20%

Key Performance Drivers

- + Core Ops \$0.23 to \$0.33
- + 1x/Rest. Savings \$0.20
- Tax Rate ~21%
- Share Count ~185M

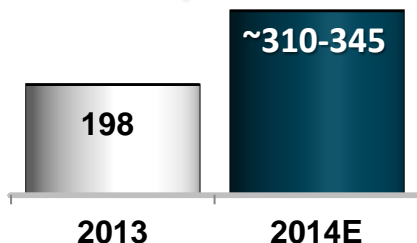
COST FOCUS EXPECTED TO DRIVE SOLID EARNINGS GROWTH ... MARKET RECOVERY FUELS UPSIDE

DISCIPLINED CAPITAL DEPLOYMENT

(Dollars, In Millions, except EPS)

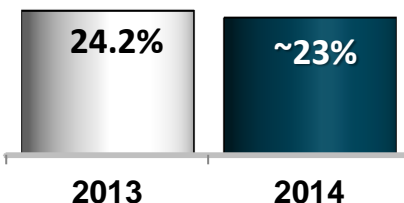
FREE CASH FLOW*

Higher Income, Working Cap Improvement, and Lower Capex Spend



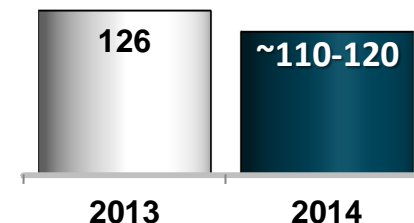
WORKING CAPITAL As % of Revenue**

Increased Focus on Inventory Management, and A/R & A/P Processes



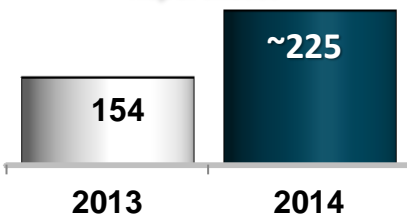
CAPEX

Approximately 3% of Revenue, Funds Growth & Maintenance



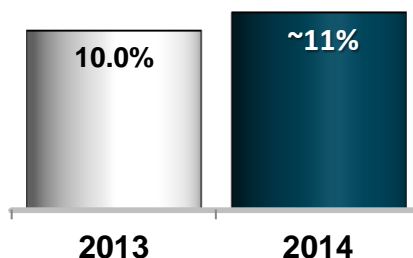
DIVIDENDS/SHARE REPURCHASES

Expected 10% Annual Dividend Increase, ~\$130M for Share Repurchases



ROIC***

Targeting 100 Bps Improvement



2014 Capital Deployment Strategy

- 1) Invest in Organic Growth Initiatives
- 2) Enhance Shareholder Returns
- 3) Cultivate and Acquire Bolt-On Acquisitions

EFFICIENT CAPITAL ALLOCATION TO DRIVE VALUE CREATION

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, intercompany transactions, 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 for non-recurring restructuring and realignment costs and special charges (where applicable).

“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS” defined as operating income, segment operating income and earnings per share, respectively, adjusted to exclude non-recurring restructuring and realignment costs, special charges (where applicable) and tax-related special items.

“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.

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)	(F) = B+C+D+E	(G) = F/A	(H) = (F - C) / A
	Orders 2014	Orders 2013	Change 2014 v. 2013	% Change 2014 v. 2013	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2014 v. 2013	% Change Adj. 2014 v. 2013	
<u>Six Months Ended June 30</u>										
Xylem Inc.	2,024	1,971	53	3%	(8)	(5)	-	40	2%	2%
Water infrastructure	1,293	1,248	45	4%	(8)	3	2	42	3%	4%
Applied Water	772	756	16	2%	-	(9)	(9)	(2)	0%	0%
<u>Quarter Ended June 30</u>										
Xylem Inc.	1,031	1,009	22	2%	(1)	(8)	-	13	1%	1%
Water infrastructure	674	647	27	4%	(1)	(3)	-	23	4%	4%
Applied Water	378	378	-	0%	-	(5)	(6)	(11)	-3%	-3%
<u>Quarter Ended March 31</u>										
Xylem Inc.	993	962	31	3%	(7)	3	-	27	3%	4%
Water infrastructure	619	601	18	3%	(7)	6	2	19	3%	4%
Applied Water	394	378	16	4%	-	(4)	(3)	9	2%	2%

Note: Due to rounding the sum of segment amounts may not agree to Xylem totals.

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)	(F) = B+C+D+E	(G) = F/A	(H) = (F - C) / A
	Revenue	Revenue	Change 2014 v. 2013	% Change 2014 v. 2013	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2014 v. 2013	% Change Adj. 2014 v. 2013	
2014	2013									
<u>Six Months Ended June 30</u>										
Xylem Inc.	1,911	1,839	72	4%	(6)	(3)	-	63	3%	4%
Water infrastructure	1,204	1,147	57	5%	(6)	5	3	59	5%	6%
Applied Water	743	726	17	2%	-	(9)	(4)	4	1%	1%
<u>Quarter Ended June 30</u>										
Xylem Inc.	1,005	960	45	5%	(1)	(7)	-	37	4%	4%
Water infrastructure	636	596	40	7%	(1)	(2)	2	39	7%	7%
Applied Water	388	381	7	2%	-	(6)	(3)	(2)	-1%	-1%
<u>Quarter Ended March 31</u>										
Xylem Inc.	906	879	27	3%	(5)	4	-	26	3%	4%
Water infrastructure	568	551	17	3%	(5)	7	1	20	4%	5%
Applied Water	355	345	10	3%	-	(3)	(1)	6	2%	2%

Note: Due to rounding the sum of segment amounts may not agree to Xylem totals.

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

	Q1		Q2		YTD	
	2014	2013	2014	2013	2014	2013
Total Revenue						
• Total Xylem	906	879	1,005	960	1,911	1,839
• Water Infrastructure	568	551	636	596	1,204	1,147
• Applied Water	355	345	388	381	743	726
Operating Income						
• Total Xylem	76	66	116	70	192	136
• Water Infrastructure	46	42	77	41	123	83
• Applied Water	41	40	52	45	93	85
Operating Margin						
• Total Xylem	8.4%	7.5%	11.5%	7.3%	10.0%	7.4%
• Water Infrastructure	8.1%	7.6%	12.1%	6.9%	10.2%	7.2%
• Applied Water	11.5%	11.6%	13.4%	11.8%	12.5%	11.7%
Restructuring & Realignment Costs						
• Total Xylem	18	12	9	28	27	40
• Water Infrastructure	12	10	5	22	17	32
• Applied Water	6	2	4	6	10	8
Adjusted Operating Income*						
• Total Xylem	94	78	125	98	219	176
• Water Infrastructure	58	52	82	63	140	115
• Applied Water	47	42	56	51	103	93
Adjusted Operating Margin*						
• Total Xylem	10.4%	8.9%	12.4%	10.2%	11.5%	9.6%
• Water Infrastructure	10.2%	9.4%	12.9%	10.6%	11.6%	10.0%
• Applied Water	13.2%	12.2%	14.4%	13.4%	13.9%	12.8%

*Adjusted Operating Income excludes restructuring & realignment costs.

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

	Q2 2013			Q2 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	960		960	1,005		1,005
Operating Income	70	28 a	98	116	9 a	125
Operating Margin	7.3%		10.2%	11.5%		12.4%
Interest Expense	(14)		(14)	(13)		(13)
Other Non-Operating Income (Expense)	1		1	1		1
Income before Taxes	57	28	85	104	9	113
Provision for Income Taxes	(11)	(8) b	(19)	(18)	(7) b	(25)
Net Income	46	20	66	86	2	88
Diluted Shares	186.1		186.1	184.5		184.5
Diluted EPS	\$ 0.25	\$ 0.11	\$ 0.36	\$ 0.47	\$ 0.01	\$ 0.48

	Q2 YTD 2013			Q2 YTD 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,839		1,839	1,911		1,911
Operating Income	136	40 a	176	192	27 a	219
Operating Margin	7.4%		9.6%	10.0%		11.5%
Interest Expense	(27)		(27)	(27)		(27)
Other Non-Operating Income (Expense)	(1)		(1)	-		-
Income before Taxes	108	40	148	165	27	192
Provision for Income Taxes	(21)	(11) b	(32)	(30)	(11) b	(41)
Net Income	87	29	116	135	16	151
Diluted Shares	186.3		186.3	185.1		185.1
Diluted EPS	\$ 0.47	\$ 0.15	\$ 0.62	\$ 0.73	\$ 0.09	\$ 0.82

a Restructuring & realignment costs

b Net tax impact of restructuring & realignment costs and special tax items

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

	Six Months Ended	
	2014	2013
Net Cash - Operating Activities	\$ 98	\$ 62
Capital Expenditures	(48)	(60)
Free Cash Flow	<u>\$ 50</u>	<u>\$ 2</u>
Net Income	<u>\$ 135</u>	<u>\$ 87</u>
Free Cash Flow Conversion	<u>37%</u>	<u>2%</u>

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

	2014	
	Q1	Q2
Pre-Tax Income	61	104
Interest Expense (Income), net	13	14
Depreciation	23	24
Amortization	13	12
Stock Compensation	4	5
EBITDA	114	159
Restructuring & Realignment	18	9
Adjusted EBITDA	132	168
Revenue	906	1,005
Adjusted EBITDA Margin	14.6%	16.7%

	2013	
	Q1	Q2
Pre-Tax Income	51	57
Interest Expense (Income), net	12	13
Depreciation	25	24
Amortization	12	13
Stock Compensation	6	6
EBITDA	106	113
Restructuring & Realignment	12	28
Special Charges	-	-
Adjusted EBITDA	118	141
Revenue	879	960
Adjusted EBITDA Margin	13.4%	14.7%

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

	2014	
	Q1	Q2
Pre-Tax Income	46	78
Interest Expense (Income), net	-	
Depreciation	17	17
Amortization	10	10
Stock Compensation	1	1
EBITDA	74	106
Restructuring & Realignment	12	5
Adjusted EBITDA	86	111
Revenue	568	636
Adjusted EBITDA Margin	15.1%	17.5%

	2013	
	Q1	Q2
Pre-Tax Income	42	43
Interest Expense (Income), net	-	(1)
Depreciation	19	17
Amortization	9	11
Stock Compensation	1	1
EBITDA	71	71
Restructuring & Realignment	10	22
Adjusted EBITDA	81	93
Revenue	551	596
Adjusted EBITDA Margin	14.7%	15.6%

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

	2014	
	Q1	Q2
Pre-Tax Income	41	52
Interest, net	-	
Depreciation	6	6
Amortization	1	1
Stock Compensation	-	1
EBITDA	48	60
Restructuring & Realignment	6	4
Adjusted EBITDA	54	64
Revenue	355	388
Adjusted EBITDA Margin	15.2%	16.5%

	2013	
	Q1	Q2
Pre-Tax Income	40	45
Interest, net	-	-
Depreciation	6	5
Amortization	2	1
Stock Compensation	1	-
EBITDA	49	51
Restructuring & Realignment	2	6
Adjusted EBITDA	51	57
Revenue	345	381
Adjusted EBITDA Margin	14.8%	15.0%

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

	FY <u>'13</u>
Total Revenue	
• Total Xylem	3,837
• Water Infrastructure	2,457
• Applied Water	1,444
Operating Income	
• Total Xylem	363
• Water Infrastructure	271
• Applied Water	167
Operating Margin	
• Total Xylem	9.5%
• Water Infrastructure	11.0%
• Applied Water	11.6%
Separation Costs	
• Total Xylem	-
• Water Infrastructure	-
• Applied Water	-
Special Charges	
• Total Xylem	24
• Water Infrastructure	4
• Applied Water	-
Restructuring & Realignment Costs	
• Total Xylem	64
• Water Infrastructure	48
• Applied Water	16
Adjusted Operating Income	
• Total Xylem	451
• Water Infrastructure	323
• Applied Water	183
Adjusted Operating Margin	
• Total Xylem	11.8%
• Water Infrastructure	13.1%
• Applied Water	12.7%

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

	Q4 YTD 2013		
	<u>As Reported</u>	<u>Adjustments</u>	<u>Adjusted</u>
Total Revenue	3,837		3,837
Operating Income	363	88	451
Operating Margin	9.5%		11.8%
Interest Expense	(55)		(55)
Other Non-Operating Income (Expense)	(10)	8	(2)
Income before Taxes	298	96	394
Provision for Income Taxes	(70)	(13)	(83)
Net Income	228	83	311
Diluted Shares	186.0		186.0
Diluted EPS	\$ 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

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

	Year Ended 2013
Net Cash - Operating Activities	\$ 324
Capital Expenditures	(126)
Free Cash Flow, including separation costs	198
Cash Paid for Separation Costs (incl. Capex)	-
Free Cash Flow	\$ 198
Net Income	\$ 228
Free Cash Flow Conversion	87%

xylem

Let's Solve Water

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