

XYLEM INC.

INVESTOR PRESENTATION

2015 ELECTRICAL PRODUCTS GROUP CONFERENCE

MAY 19, 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.

TODAY'S AGENDA

- **Company Overview**
- **2015 Outlook / 1Q Results**
- **CEO Update**

XYLEM OVERVIEW

Why invest in Xylem?

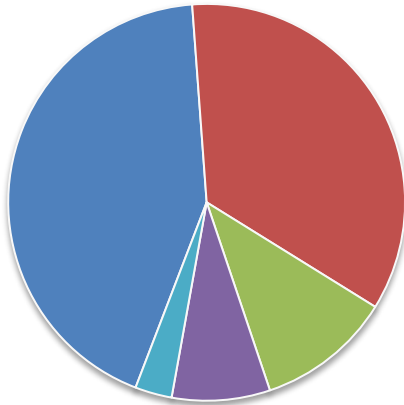
- **Focused Water Play**
- **Leading Market Positions in Highly Fragmented Industry**
- **Fortress Brands & World Class Distribution**
- **Diverse Geographic & End Market Exposure**
- **~40% Recurring Revenue Driven from Large Installed Base**
- **Strong Financial Position & Cash Flow Generation**



STRONG FOUNDATION & FUNDAMENTALS WITH OPPORTUNITY TO OUTPERFORM

XYLEM'S REVENUE PROFILE

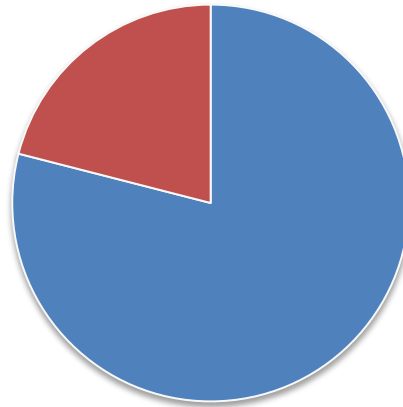
**2014 REVENUE
BY END MARKET**



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

*Macro Trends Fuel Long-Term
Growth within Cyclical Markets*

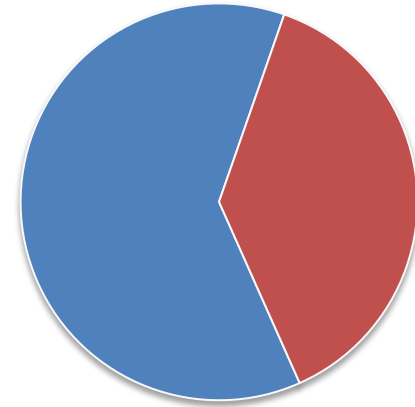
**2014 REVENUE
BY REGION**



Developed	79%
Emerging	21%

*Large Developed Market
Installed Base & Increasing
Penetration into Faster
Growth Regions*

**2014 REVENUE
BY SEGMENT**



Water Infrastructure	62%
Applied Water	38%

*Providing Highly Engineered Water
& Waste Water Technologies &
Services*

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

SEGMENT OVERVIEW

WATER INFRASTRUCTURE

Served Market Size: \$20B

2014 Revenues: \$2.4B

2014 Op Margin*: 14.3%

Products include:

- Water and Waste Water Pumps
- Dewatering Pumps and Services
- Filtration, Biological and Disinfection Technologies
- Water & Environment Analytics

End Markets served:

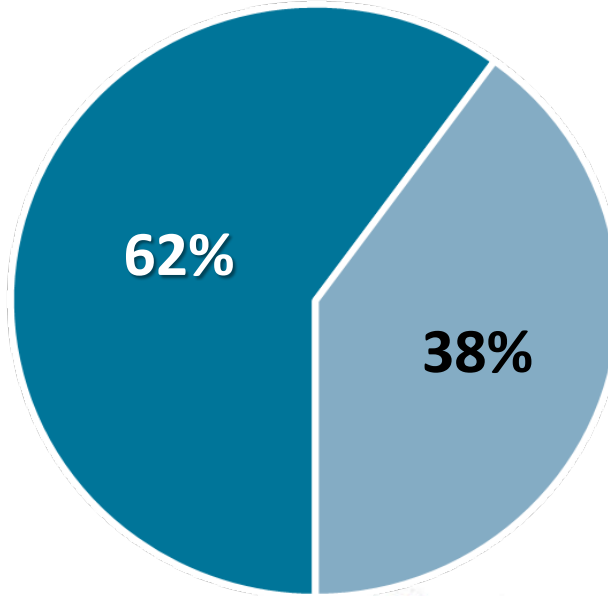
- Public Utility
- Industrial

Growth Drivers:

- Water Scarcity
- Population Growth
- Urbanization
- Aging Infrastructure
- Regulation/Environmental Protection

Segment Split

(3rd Party Revenue)



APPLIED WATER

Served Market Size: \$15B

2014 Revenues: \$1.5B

2014 Op Margin*: 14.0%

Products include:

- HVAC Pumps, Heat Exchangers
- Pressure Boosters
- Fire Protection
- Groundwater & Surface Pumps

End Markets served:

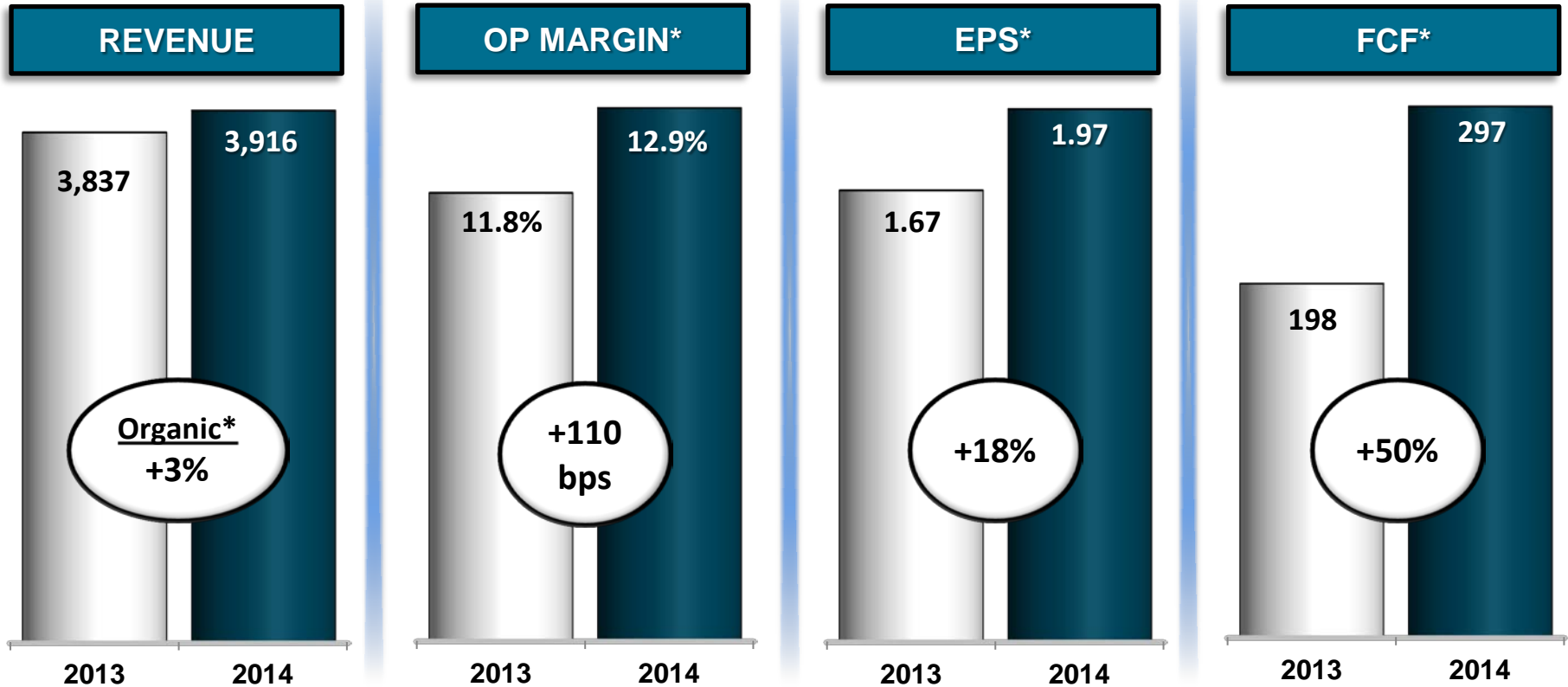
- Industrial
- Commercial / Residential
- Agriculture

Growth Drivers:

- Water Scarcity
- Population Growth
- Urbanization
- Aging Infrastructure
- Regulation/Environmental Protection

2014 FINANCIAL SUMMARY

(Dollars, In Millions, except EPS)

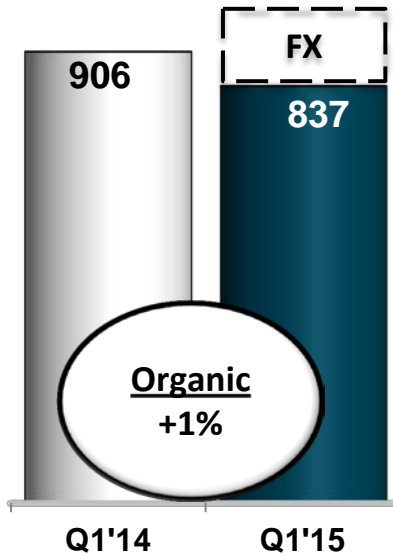


SOLID EXECUTION DELIVERED STRONG 2014 PERFORMANCE

Q1'15 XYLEM PERFORMANCE

(Dollars In Millions, except EPS)

REVENUE

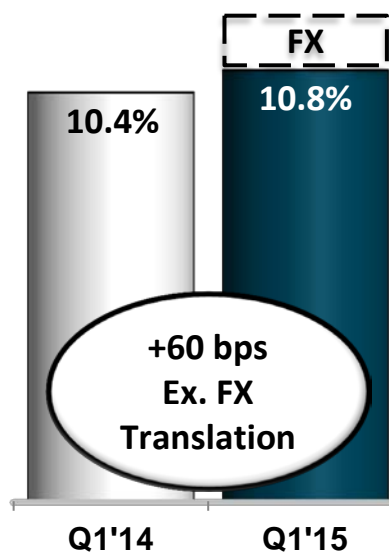


*Organic growth
in line with guidance*

FX Translation -8%

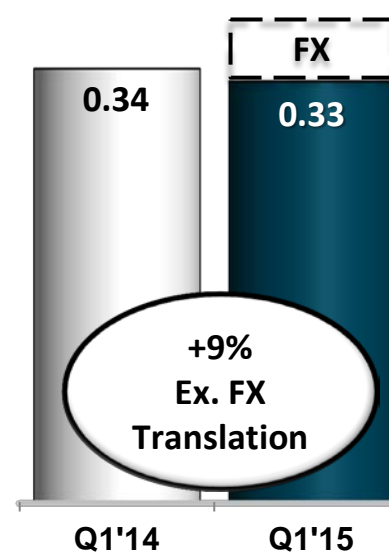
1 less day (YOY) -1%

OP MARGIN*



*Continuous Improvement &
Business Simplification Focus
Drives Op Margin Expansion*

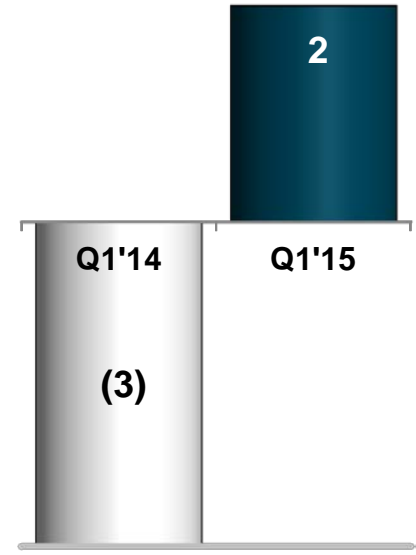
EPS*



FX Translation

- \$0.04

FCF*

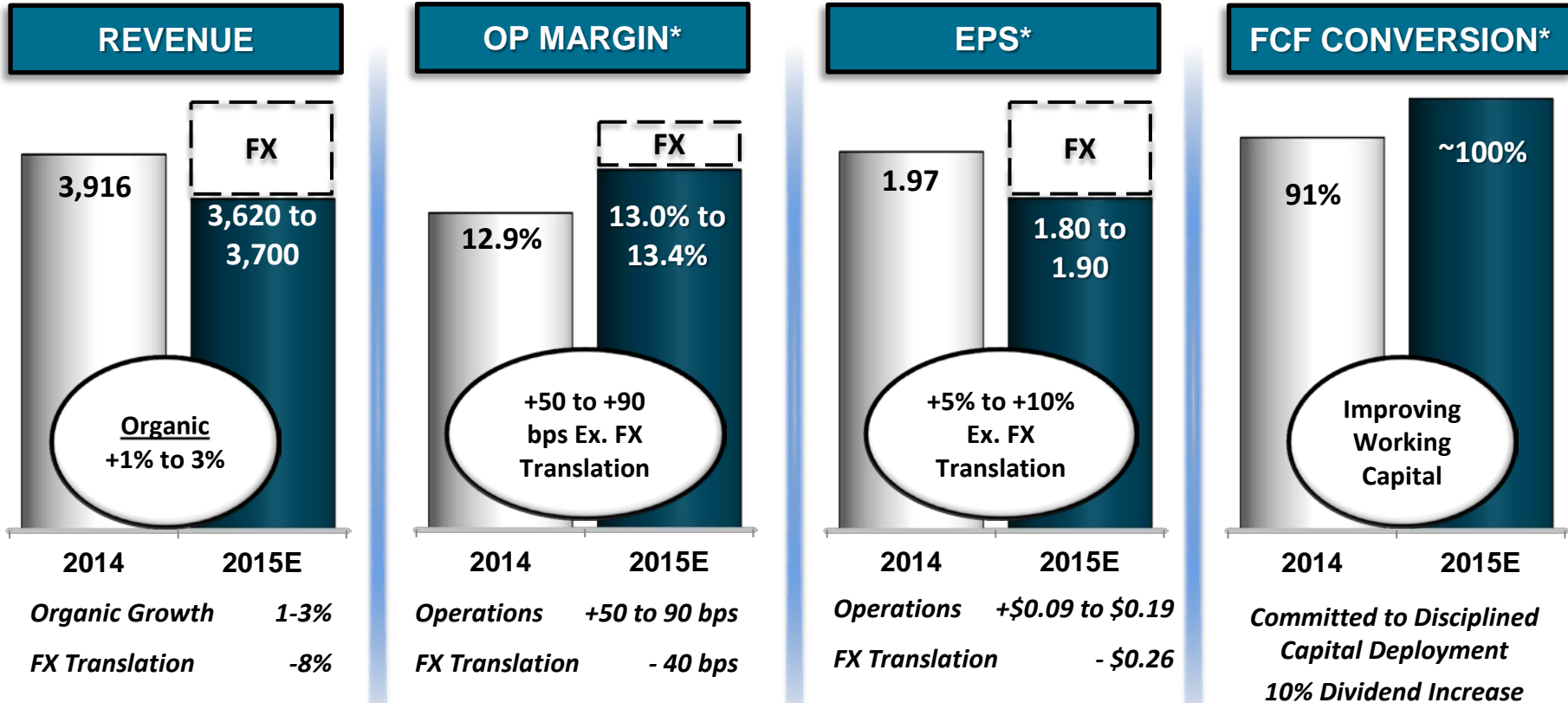


*Improved Working
Capital Performance
Increased Capex for
Growth Investments
\$76 Return of Capital via
dividends and share
repurchases*

SOLID START, ON TRACK TO DELIVER ON 2015 COMMITMENTS

2015 OUTLOOK (as of April 30th, 2015)

(Dollars In Millions, except EPS)



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

CEO UPDATE

Key Focus Areas

- **Maintaining Focus on Execution & Accountability**
- **Driving “One Xylem” Commercial Transformation**
- **Increasing Emerging Market Growth Investments**
- **Enhancing Organizational Capabilities**
- **Strategy & Capital Deployment**

OUR STRATEGIC FRAMEWORK



CLEAR STRATEGY TO LEAD AND GUIDE THE COMPANY FORWARD

SAVE THE DATE

XYLEM'S 2015 INVESTOR & ANALYST DAY

- **Date: September 24, 2015**
- **Location: New York City, NY**
- **Additional details to follow**
- **Planned Agenda:**
 - **Vision & Roadmap**
 - **Growth Strategy**
 - **Continuous Improvement**
 - **Capital Deployment**
 - **Long-Term Financial Objectives**

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Let's Solve Water

THANK YOU FOR YOUR INTEREST

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.

“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 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 and first quarter of 2015 for the contractual indemnification of federal tax obligations to ITT, costs associated with a legal judgment arising from a historical acquisition matter and legal and professional fees, associated with the Korea matters during the first quarter of 2015.

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	
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)

	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)

	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)

	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	<u>11</u>	<u>-</u>
Net Income, excluding gain on sale of business	<u>\$ 326</u>	<u>\$ 228</u>
Free Cash Flow Conversion	<u>91%</u>	<u>87%</u>

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)	(B)	(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>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	
	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.

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%		8.4%	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

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

b Special charges

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

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	<u>\$ 2</u>	<u>\$ (3)</u>
Net Income	64	49
Gain from sale of businesses	9	-
Net Income, excluding gain on sale of business	<u>\$ 55</u>	<u>\$ 49</u>
Free Cash Flow Conversion	<u>4%</u>	<u>-6%</u>

xylem

Let's Solve Water

NYSE: XYL

**Phil De Sousa, VP, Investor Relations
(914) 323-5930**

**Matt Latino, Manager, Investor Relations
(914) 323-5821**

**Dawn Powell, Investor Relations Coordinator
(914) 323-5931**

<http://investors.xylem.com>

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