

XYLEM INC.

Q4 2013 EARNINGS RELEASE

FEBRUARY 4, 2014

Revised Appendix Slide 17 to Reflect \$130M of Share Repurchases

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, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

BUSINESS UPDATE

4th Quarter Business Highlights

- Achieved Record 4Q Revenue & EPS* Performance
- Solid Execution Against Growth & Operating Initiatives
- Continued to Advance Organizational Effectiveness
- Disciplined Capital Deployment

4th Quarter Financial Summary

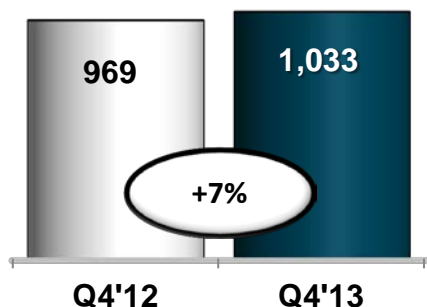
- Revenue of \$1.03B up 7%, Organic* Revenue & Orders up 5%
- Operating Margin* of 14% (Up 60 Bps), With Strong Incremental Performance
- Earnings Per Share* \$0.56 Up 19%
- 4Q Free Cash Flow* of \$126M ... Full Year Free Cash Flow of \$198M, 87% Conversion

STRONG 2H FINISH IN 2013 ... LOOKING TO BUILD MOMENTUM THROUGH 2014

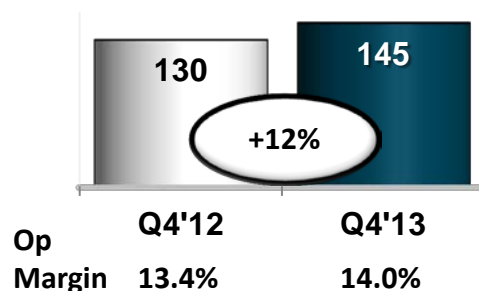
Q4'13 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

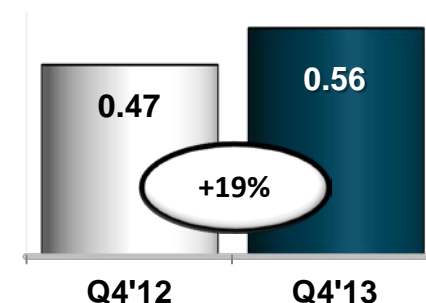
REVENUE



OPERATING INCOME*



EPS*



Org. Revenue Growth* +5%

Key Organic Growth Drivers

+ Industrial	+6%
+ Public Utility	+7%
- Commercial	-5%

Organic Growth by Region

+ US	+6%
+ Europe	+4%
+ Emerging	+5%

Key Performance Drivers

+ Core Operations	+1.5%
- Price	-0.4%
- FX/Acquisitions	-0.5%
- Euro HQ/1x	-0.4%

**38% Incremental Margin
Ex. FX/Acquisitions Driven by
Volume & Cost Reductions ...
Price a Significant Headwind**

Key Performance Drivers

+ Core Operations	+\$0.09
+ Rest. Savings	+\$0.05
- FX	-\$0.01
+ Euro. Realign.	+\$0.01

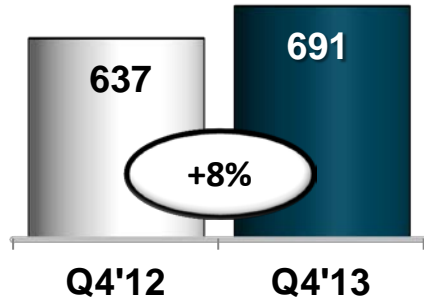
- Tax Rate 21%
- Share Count 185.6M

RECORD REVENUE & EPS PERFORMANCE

Q4'13 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* +6%

By Application

- + Transport +9%
- + Test +3%
- = Treatment Flat

By Regions

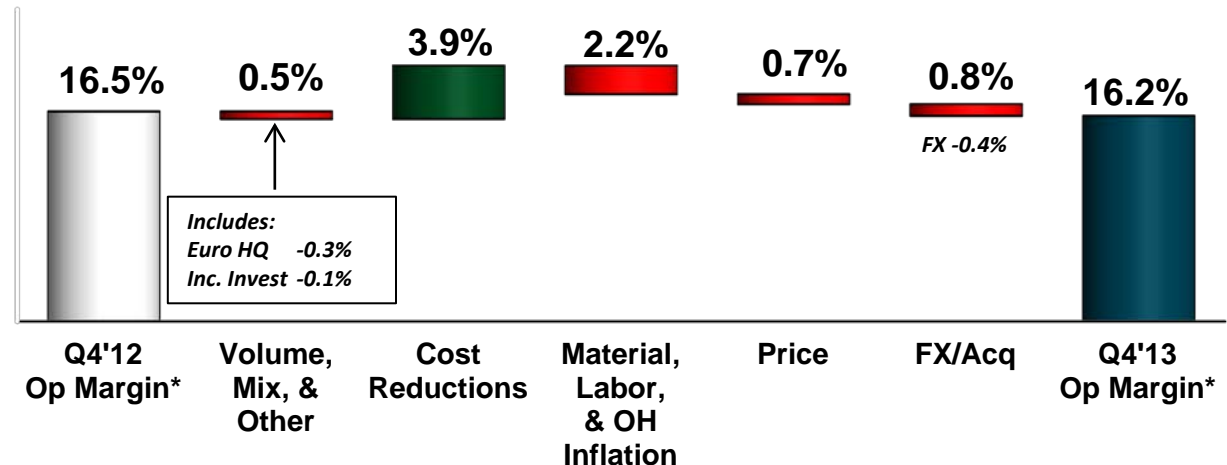
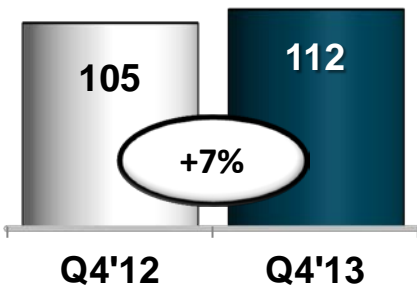
- + Europe +5%
- + U.S. +10%
- + Emerging +6%

Highlights

- + U.S. & European Public Utility Transport up driven by modest market improvement and Q4'12 compare
- + Industrial up driven by U.S. Dewatering (Construction, Nat. Gas Fracking) and Sustainable Water Infrastructure Initiatives (Aquaculture)
- + Latin America & Asia Pac projects deliveries
- + Test up driven by Europe
- = Treatment flat, timing of project recovery uncertain

OPERATING INCOME*

(Dollars, In Millions)

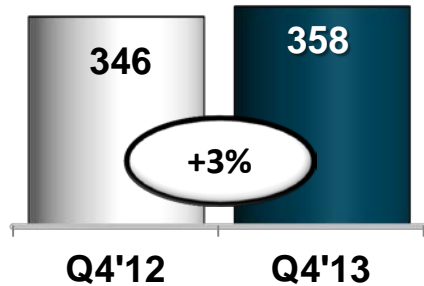


SOLID TOP LINE PERFORMANCE ... OP MARGINS DAMPENED BY PRICE, FX & ACQ

Q4'13 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* +2%

By Application

- + Ind'l Water +8%
- + Irrigation +14%
- Bldg Svcs -4%

By Regions

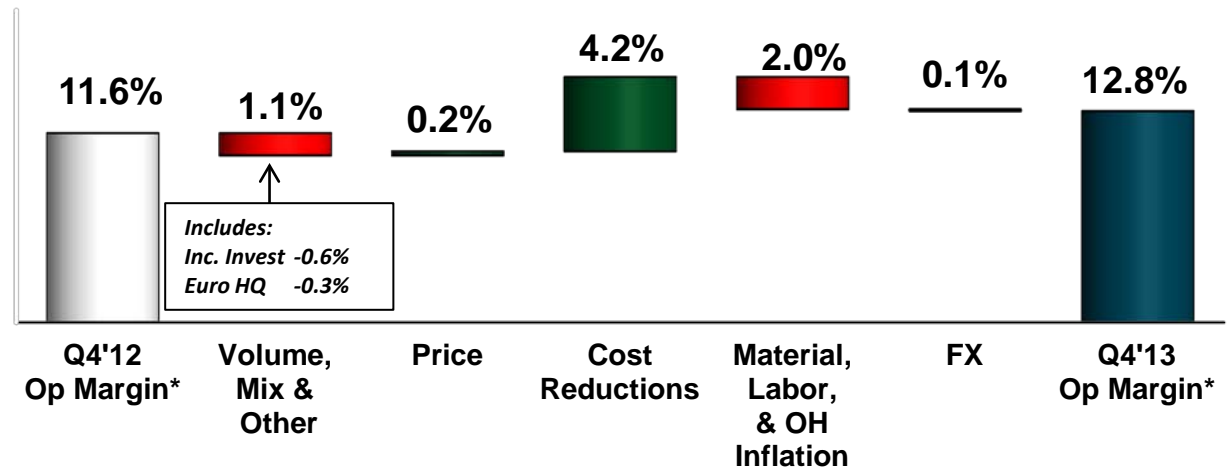
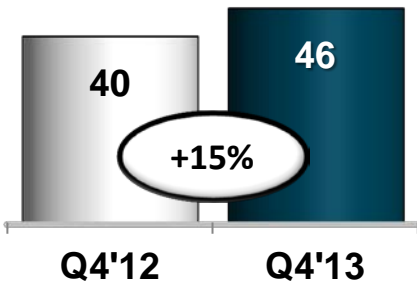
- + U.S. +2%
- + Europe +4%
- + Emerging +1%

Highlights

- + Continued Strength in U.S. Residential & Agriculture end markets
- + Northern European Industrial project activity
- U.S. Commercial down, timing of recovery remains uncertain
- Continued weak Residential & Commercial market conditions in Southern Europe

OPERATING INCOME*

(Dollars, In Millions)

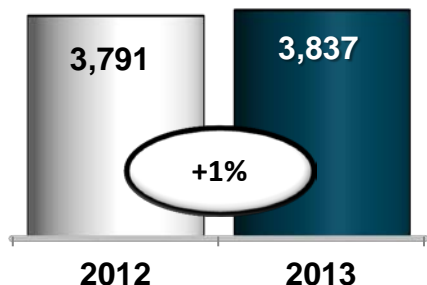


GROWTH & PRODUCTIVITY DRIVE 120 BPS MARGIN EXPANSION

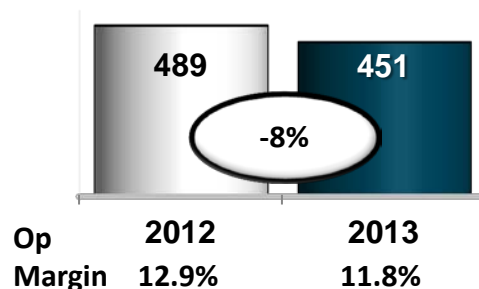
FY'13 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

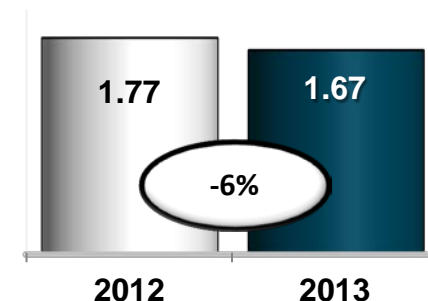
REVENUE



OPERATING INCOME*



EPS*



Org. Revenue Growth* -1%

Key Organic Growth Drivers

- Industrial	-2%
- Public Utility	-1%
+ Agriculture	+8%

Organic Growth by Region

- Europe	-2%
= U.S.	Flat
= Emerging	Flat

Key Performance Drivers

+ Core Operations	+0.0%
+ Price	+0.1%
- FX/Acquisitions	-0.8%
- Euro HQ/1x	-0.3%

Cost Reductions and 2H Revenue Growth Partially Offset 1H Volume Decline, Unfavorable Mix, Euro HQ/1x Spin Costs, and Increase in Growth Investments

Key Performance Drivers

- Core Operations	-\$0.06
+ Rest. Savings	+\$0.11
- FX/Acquisitions	-\$0.08
+ Euro. Realign.	+\$0.04

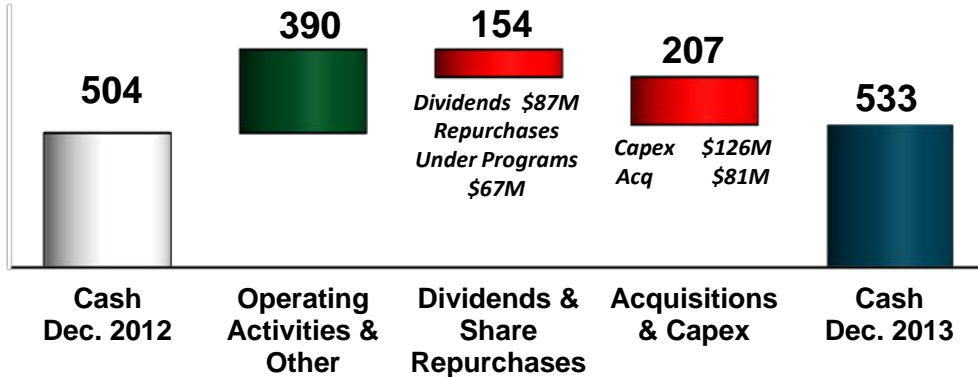
- Tax Rate 21%
- Share Count 186M

2H PERFORMANCE PROVIDES CONFIDENCE ENTERING INTO 2014

XYLEM FINANCIAL POSITION

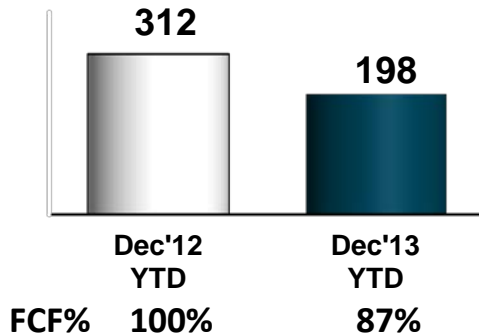
(Dollars, In Millions)

CASH DRIVERS



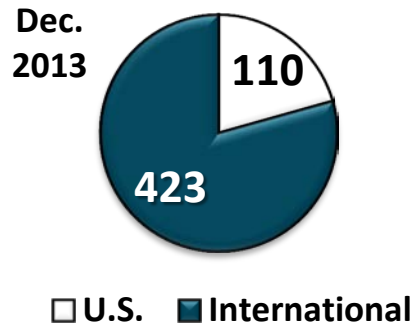
FREE CASH FLOW *

(Dollars, In Millions)



CASH BALANCE (GEOGRAPHIC)

(Dollars, In Millions)



CAPITAL SUMMARY

December 31, 2013 (Dollars, In Millions)

Cash	533
Debt	1,241
Net Debt	708
Shareholders' Equity	2,239
Net Capital	2,947
Net Debt to Net Capital	24%

- Strong Cash Position
- Enhanced Return of Capital to Shareholders by 83% ... \$154M in Dividends & Repurchases vs. \$84M in 2012
- Free Cash Flow Decline Driven by Lower Income, Higher Restructuring Payments, & Unfavorable Working Capital

2014 GUIDANCE SUMMARY

2014 Financial Targets

- Revenue \$3.90B to \$3.98B, Organic Revenue Growth 1% to 3%
- Operating Income* Range of \$490M to \$525M, Up 9% to 16%
- Op Margin* Range of 12.6% to 13.2% ... Up 80 to 140 Bps
- EPS* Range of \$1.85 to \$2.00 Up 11% to 20%
- Free Cash Flow Conversion of 100%; ROIC of ~11%, Up 100 Bps

Top 2014 Strategic Priorities

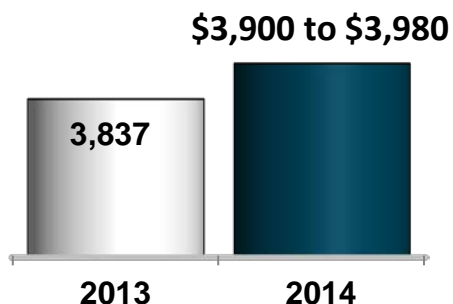
- Deliver on 2014 Financial Targets
- Optimize Integrated Front End Strategy to Accelerate Growth
- Advance Lean Six Sigma & Build Global Strategic Sourcing Capability
- Rebalance Portfolio and Product Investments
- Re-launch Xylem's Management System

FOCUSED & COMMITTED TO DELIVER IMPROVED PERFORMANCE

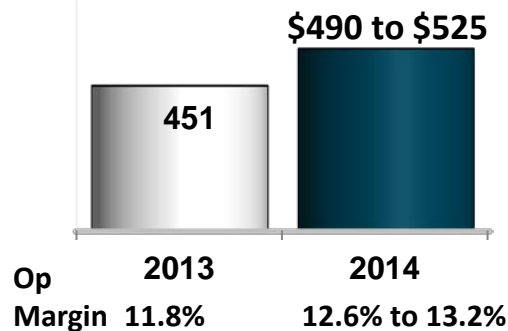
FY'14 XYLEM OUTLOOK

(Dollars, In Millions, except EPS)

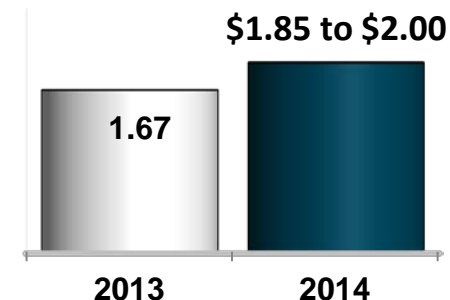
REVENUE



OPERATING INCOME*



EPS*



Highlights

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

1.5% to 3% Volume Increase Partially Offset by Negative Price (-0.5%)

Strong Incremental Margin Performance Driven by Restructuring Savings

- Partially offset by Price Headwind
- Lean & Global Sourcing Offsets Cost Inflation
- Restructuring Savings of \$35M

Highlights

EPS Growth 11% to 20%

Key Performance Drivers

- + Core Ops \$0.17 to \$0.32
- + 1x/Rest. Savings \$0.17
- + Acquisitions \$0.01
- Tax Rate ~21%
- Share Count ~185M

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

2014 GROWTH PROFILE

Xylem 2014
Organic Growth



Industrial

(45% of '13 Revenue)

- Improving Global Capex Environment
- Driving Market Share Gains
- Mining Headwinds Continue

Up Low
Single Digit



Public Utility

(34% of '13 Revenue)

- Stable OPEX Market
- Capital Projects Stabilizing

Up Low
Single Digit



Commercial

(11% of '13 Revenue)

- New Product Launches
- Uncertain Timing of Market Recovery (U.S. & Europe)

Up Low
Single Digit



Residential

(7% of '13 Revenue)

- U.S. Recovery Moderates
- Europe Stabilizes

Up Low
Single Digit



Agriculture

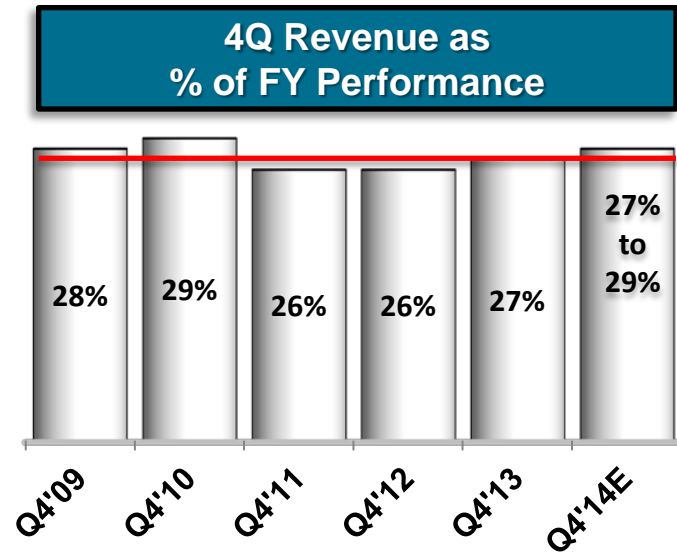
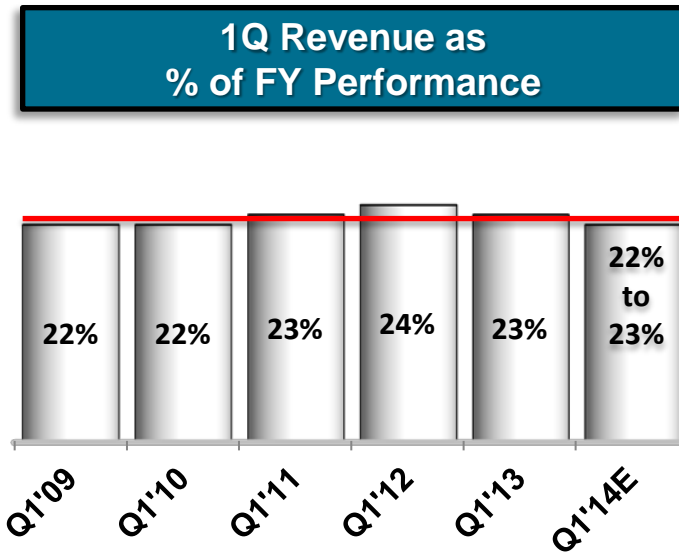
(3% of '13 Revenue)

- Tough Year-over-Year Comparison following strong 2012 & 2013 performance

Flat to Up
Low Single
Digit

SIGNS OF STABILIZATION IN CRITICAL END & GEOGRAPHIC MARKETS

2014 REVENUE PROFILE

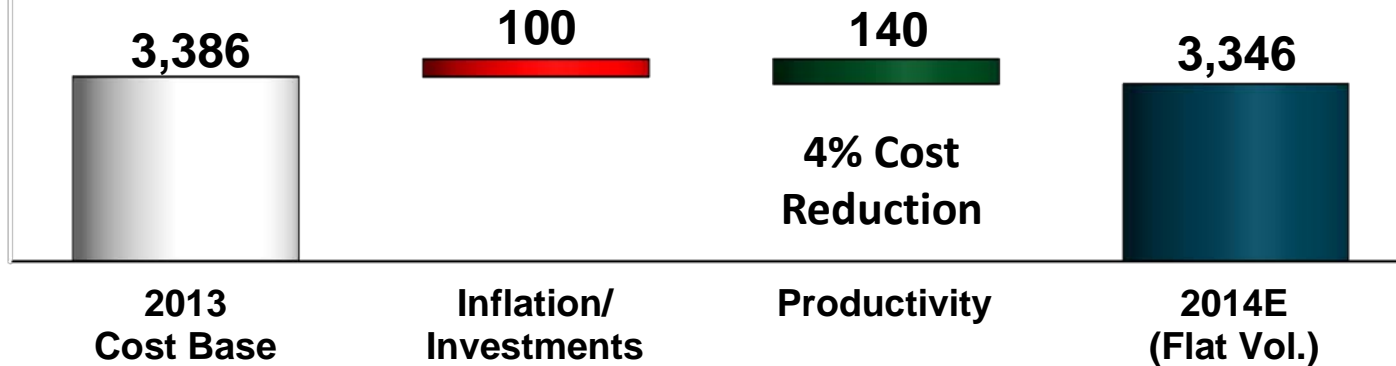


- Expect 1Q'14 Revenue in the Range of 22% to 23% of Full Year Performance
 - 1Q'14 Shippable Backlog ~\$365M or ~40% of 1Q Revenue (Same as Prior Year)
 - Organic Flat to Up 2%, Tough Comp (Super Storm Sandy, Dewatering Projects), Continued Slow Recovery in Commercial and Government Spend
- 4Q Revenue Historically in the Range of 26% to 29% ... Expect 4Q'14E At the Higher End

1Q TOP LINE IMPACTED BY SEASONALITY, MARKET CONDITIONS & PY COMPS

COST REDUCTION ACTIONS

(Illustration Based on Flat Volume)



Productivity Highlights

- + \$100M Benefit from Global Sourcing and Lean Six Sigma
- + \$35M Restructuring Savings:
 - + \$25M from '13 Actions (Carry Over)
 - + Accelerated vs. Original Expectations
 - + \$10M from Additional '14 Actions
- + \$4M 1x Spin Costs in '13

'12 – '13 Rest. Actions Summary

- Work Force Reduction of ~8%
- Closure of 24 Facilities
 - 18 Sales/Admin Offices
 - 6 Manufacturing Plants

2014 Restructuring Action Plans Developed & Expected to be Executed Primarily over the 1H'14 ... Savings Expected in 2H'14

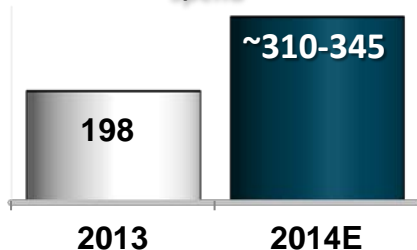
PRODUCTIVITY EXPECTED TO MORE THAN OFFSET INFLATION & INVESTMENT INCREASE

DISCIPLINED CAPITAL DEPLOYMENT

(Dollars, In Millions, except EPS)

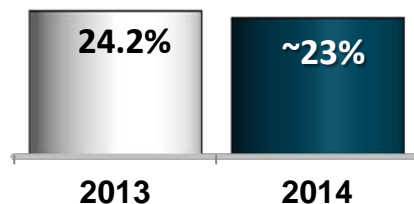
FREE CASH FLOW*

Higher Income, Working Cap Improvement, and Lower Capex Spend



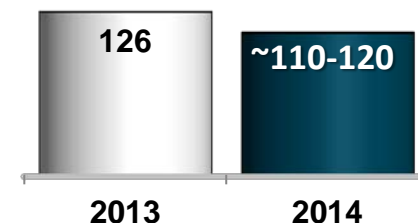
WORKING CAPITAL As % of Revenue**

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



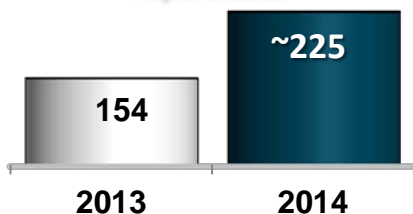
CAPEX

Approximately 3% of Revenue, Funds Growth & Maintenance



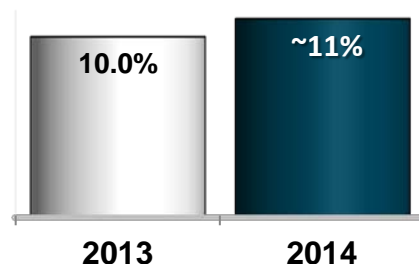
DIVIDENDS/SHARE REPURCHASES

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

* See appendix for non-GAAP reconciliations

** (AR+INV-AP-Cust Advances / Revenue (Adj. for Acquisitions))

*** Defined as Adj. Net. Operating Profit After Tax / Average Invested Capital

SUMMARY

- **Solid 4TH Quarter Performance ... Strong 2H Finish to 2013**
- **Execute on our 2014 Key Priorities & Deliver on our Financial Commitments**
 - **Revenue \$3.90B to \$3.98B, Organic Revenue Growth 1% to 3%**
 - **Operating Income* Range of \$490M to \$525M, Up 9% to 16%**
 - **Op Margin* Range of 12.6% to 13.2% ... Up 80 to 140 Bps**
 - **EPS* Range of \$1.85 to \$2.00 Up 11% to 20%**
 - **Free Cash Flow Conversion of 100%; ROIC of ~11%, Up 100 Bps**
- **Continue to Build Momentum, Improve Operating Performance, and Create Shareholder Value**

APPENDIX

2014 FINANCIAL GUIDANCE SUMMARY

(Dollars In Millions, Except per Share Data)	2014 Full Year Financial Outlook	Growth 2014E vs. 2013		
Revenue		<u>Total Growth</u>	<u>Organic</u>	<u>FX/Acquisition</u>
Xylem Consolidated	\$3,900 to \$3,980	2% to 4%	1% to 3%	1%
Water Infrastructure	\$2,500 to \$2,540	2% to 3%	2% to 3%	0%
Applied Water	\$1,470 to \$1,490	2% to 3%	1% to 2%	1%
Segment Margin *	14.1% to 14.6%	+90 bps to +140 bps		
Operating Margin *	12.6% to 13.2%	+80 bps to +140 bps		
EPS *	\$1.85 to \$2.00	Up 11% to 20%		
Free Cash Flow Conversion	~100%			
Guidance Assumptions:				
Operating Tax Rate	~21%	Unchanged from 2013		
Share Count	~185M	1Q: ~185.6M ... ~\$130M for Share Repurchases in 2014		
Restructuring & Realignment Costs	~\$40 to \$50	'14 Rest. Savings ~\$10M; Realignment Cost \$10-\$15		

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 separation costs associated with the Xylem spin-off from ITT Corporation as well as non-recurring restructuring and realignment costs.

"Adjusted Operating Income", "Adjusted Segment Operating Income", and "Adjusted EPS" defined as operating income and earnings per share, adjusted to exclude non-recurring separation costs associated with the Xylem spin-off from ITT Corporation, non-recurring restructuring and realignment costs and tax-related special items.

"Normalized EPS" defined as adjusted earnings per share, as well as adjustments to reflect the incremental current period amount of interest expense and stand alone costs in the prior comparable period.

"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 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 2013 v. 2012	% Change 2013 v. 2012	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2013 v. 2012	% Change Adj. 2013 v. 2012	
	2013	2012								
<u>Year Ended December 31</u>										
Xylem Inc.	3,837	3,791	46	1%	(82)	(3)	-	(39)	-1%	1%
Water infrastructure	2,457	2,425	32	1%	(82)	4	-	(46)	-2%	1%
Applied Water	1,444	1,424	20	1%	-	(9)	(6)	5	0%	0%
<u>Quarter Ended December 31</u>										
Xylem Inc.	1,033	969	64	7%	(15)	(1)	-	48	5%	7%
Water Infrastructure	691	637	54	8%	(15)	2	(1)	40	6%	9%
Applied Water	358	346	12	3%	-	(4)	(2)	6	2%	2%
<u>Quarter Ended September 30</u>										
Xylem Inc.	965	931	34	4%	(21)	-	-	13	1%	4%
Water infrastructure	619	595	24	4%	(21)	3	1	7	1%	5%
Applied Water	360	350	10	3%	-	(4)	-	6	2%	2%
<u>Quarter Ended June 30</u>										
Xylem Inc.	960	966	(6)	-1%	(23)	(4)	-	(33)	-3%	-1%
Water infrastructure	596	609	(13)	-2%	(23)	(2)	-	(38)	-6%	-2%
Applied Water	381	373	8	2%	-	(1)	(2)	5	1%	1%
<u>Quarter Ended March 31</u>										
Xylem Inc.	879	925	(46)	-5%	(23)	2	-	(67)	-7%	-5%
Water infrastructure	551	584	(33)	-6%	(23)	1	-	(55)	-9%	-5%
Applied Water	345	355	(10)	-3%	-	-	(2)	(12)	-3%	-3%

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 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 2013	Orders 2012	Change 2013 v. 2012	% Change 2013 v. 2012	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2013 v. 2012	% Change Adj. 2013 v. 2012				
<u>Year Ended December 31</u>													
Xylem Inc.	3,912	3,782	130	3%	(87)	-	-	43	1%	3%			
Water infrastructure	2,510	2,421	89	4%	(87)	6	(2)	6	0%	4%			
Applied Water	1,468	1,423	45	3%	-	(8)	1	38	3%	3%			
<u>Quarter Ended December 31</u>													
Xylem Inc.	986	926	60	6%	(16)	(1)	-	43	5%	6%			
Water infrastructure	645	602	43	7%	(16)	2	(2)	27	4%	7%			
Applied Water	357	337	20	6%	-	(4)	-	16	5%	5%			
<u>Quarter Ended September 30</u>													
Xylem Inc.	955	882	73	8%	(20)	1	-	54	6%	8%			
Water infrastructure	617	564	53	9%	(20)	3	-	36	6%	10%			
Applied Water	355	334	21	6%	-	(3)	1	19	6%	6%			
<u>Quarter Ended June 30</u>													
Xylem Inc.	1,009	970	39	4%	(25)	(2)	-	12	1%	4%			
Water infrastructure	647	617	30	5%	(25)	(1)	-	4	1%	5%			
Applied Water	378	370	8	2%	-	(1)	1	8	2%	2%			
<u>Quarter Ended March 31</u>													
Xylem Inc.	962	1,004	(42)	-4%	(26)	2	-	(66)	-7%	-4%			
Water infrastructure	601	638	(37)	-6%	(26)	2	-	(61)	-10%	-5%			
Applied Water	378	382	(4)	-1%	-	-	(1)	(5)	-1%	-1%			

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

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

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

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

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

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

	Q4		YTD	
	'13	'12	'13	'12
Total Revenue				
• Total Xylem	1,033	969	3,837	3,791
• Water Infrastructure	691	637	2,457	2,425
• Applied Water	358	346	1,444	1,424
Operating Income				
• Total Xylem	129	104	363	443
• Water Infrastructure	100	89	271	342
• Applied Water	42	35	167	170
Operating Margin				
• Total Xylem	12.5%	10.7%	9.5%	11.7%
• Water Infrastructure	14.5%	14.0%	11.0%	14.1%
• Applied Water	11.7%	10.1%	11.6%	11.9%
Separation Costs				
• Total Xylem	-	7	-	22
• Water Infrastructure	-	1	-	4
• Applied Water	-	-	-	2
Special Charges				
• Total Xylem	4	-	24	-
• Water Infrastructure	4	-	4	-
• Applied Water	-	-	-	-
Restructuring & Realignment Costs				
• Total Xylem	12	19	64	24
• Water Infrastructure	8	15	48	19
• Applied Water	4	5	16	5
Adjusted Operating Income*				
• Total Xylem	145	130	451	489
• Water Infrastructure	112	105	323	365
• Applied Water	46	40	183	177
Adjusted Operating Margin*				
• Total Xylem	14.0%	13.4%	11.8%	12.9%
• Water Infrastructure	16.2%	16.5%	13.1%	15.1%
• Applied Water	12.8%	11.6%	12.7%	12.4%

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

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

	Year Ended	
	2013	2012
Net Cash - Operating Activities	\$ 324	\$ 396
Capital Expenditures	(126)	(112)
Free Cash Flow, including separation costs	<u>198</u>	<u>284</u>
Cash Paid for Separation Costs (incl. Capex)	-	28
Free Cash Flow, excluding separation costs*	<u>\$ 198</u>	<u>\$ 312</u>
Net Income	228	297
Separation Costs, net of tax (incl. tax friction)	<u>-</u>	<u>16</u>
Net Income, excluding separation costs*	<u>\$ 228</u>	<u>\$ 313</u>
Free Cash Flow Conversion	<u>87%</u>	<u>100%</u>

* Separation costs are not excluded in 2013

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

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

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

	2013				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	42	43	87	101	273
Interest Expense (Income), net	-	(1)	-	-	(1)
Depreciation	19	17	16	21	73
Amortization	9	11	11	11	42
Stock Compensation	1	1	1	1	4
EBITDA	71	71	115	134	391
Restructuring & Realignment	10	22	8	8	48
Adjusted EBITDA	81	93	123	142	439
Revenue	551	596	619	691	2,457
Adjusted EBITDA Margin	14.7%	15.6%	19.9%	20.5%	17.9%

	2012				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	75	93	86	88	342
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	16	15	17	20	68
Amortization	10	9	10	10	39
Stock Compensation	1	1	3	-	5
EBITDA	102	118	115	118	453
Separation Costs	2	1	-	1	4
Restructuring & Realignment	-	-	4	15	19
Adjusted EBITDA	104	119	119	134	476
Revenue	584	609	595	637	2,425
Adjusted EBITDA Margin	17.8%	19.5%	20.0%	21.0%	19.6%

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

	2013				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	40	45	40	43	168
Interest, net	-	-	-	-	-
Depreciation	6	5	6	6	23
Amortization	2	1	1	1	5
Stock Compensation	1	-	1	-	2
EBITDA	49	51	48	50	198
Restructuring & Realignment	2	6	4	4	16
Adjusted EBITDA	51	57	52	54	214
Revenue	345	381	360	358	1,444
Adjusted EBITDA Margin	14.8%	15.0%	14.4%	15.1%	14.8%

	2012				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	40	52	43	35	170
Interest, net	-	-	-	-	-
Depreciation	6	6	6	5	23
Amortization	1	1	1	2	5
Stock Compensation	1	-	2	(1)	2
EBITDA	48	59	52	41	200
Separation Costs	1	-	1	-	2
Restructuring & Realignment	-	-	-	5	5
Adjusted EBITDA	49	59	53	46	207
Revenue	355	373	350	346	1,424
Adjusted EBITDA Margin	13.8%	15.8%	15.1%	13.3%	14.5%