

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): November 1, 2012

XYLEM INC.

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction
of incorporation)

001-35229
(Commission
File Number)

45-2080495
(IRS Employer
Identification No.)

**1133 Westchester Avenue, Suite N200
White Plains, New York 10604**
(Address of principle executive offices, including zip code)

(914) 323-5700
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

Attached hereto as Exhibit 99.1 and incorporated herein by reference is the news release issued by Xylem Inc. on November 1, 2012, announcing the financial results for the quarter ended September 30, 2012. This information shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act.

Item 7.01 Regulation FD Disclosure

Attached hereto as Exhibit 99.2 and incorporated herein by reference are earnings slides posted on Xylem Inc.'s website on November 1, 2012, summarizing Xylem Inc.'s financial results for the quarter ended September 30, 2012. This information is furnished pursuant to Item 7.01 Regulation FD Disclosure. This information shall not be deemed filed for purposes of Section 18 of the Exchange Act or incorporated by reference into any filing under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	News Release issued by Xylem Inc. on November 1, 2012.
99.2	Slides summarizing third quarter financial results posted by Xylem Inc. on November 1, 2012.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

XYLEM INC.

Date: November 1, 2012

By: /s/ Michael T. Speetzen
Michael T. Speetzen
Senior Vice President and Chief Financial Officer
(Authorized Officer of Registrant)

EXHIBIT INDEX

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FOR IMMEDIATE RELEASE

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Xylem Inc. reports third quarter 2012 results

Third quarter adjusted net income was \$83 million or \$0.44 per share; \$72 million or \$0.38 per share as reported

Third quarter revenue up 3 percent in constant currencies to \$931 million; down 1 percent as reported on negative impact of currency translation; emerging market revenue up 9 percent in constant currencies

Gross margin climbs 130 basis points to 40.2 percent as Customer Excellence and cost reduction initiatives drive profitability; adjusted operating margin was 12.9 percent

Company completes second acquisition in 2012 with the purchase of Heartland Pump, bolstering industrial dewatering portfolio

WHITE PLAINS, N.Y., November 1, 2012 – Xylem Inc. (NYSE: XYL), a leading global water technology company focused on solving the world's most challenging water issues, today reported third quarter revenue of \$931 million, up 3 percent on a constant currency basis, down 1 percent as reported from the third quarter 2011. Third quarter net income was \$72 million or \$0.38 per share, down \$0.04 per share from the same period last year. Adjusting for one-time separation costs resulting from the Xylem spinoff from ITT Corporation on October 31, 2011, and special items, net income was \$83 million or \$0.44 per share, down \$0.01 per share over the third quarter 2011 on a normalized basis.*

“As we mark our first anniversary as a stand-alone water company, our performance showcases both the strength of our global portfolio, with 9 percent constant currency revenue growth in the emerging markets, and our strategic focus on margin expansion through the execution of our Customer Excellence sales initiative and cost discipline,” said Gretchen McClain, President and Chief Executive Officer of Xylem. “We’re also seeing the benefit of our investments in acquisitions. Just last week we completed the purchase of Heartland Pump, which expands our

* The 2011 normalized earnings per share reflect adjustments (including interest expense, stand-alone costs, and special tax items) to our GAAP results to better illustrate year-over-year performance. The normalized earnings are intended to give a representation of our performance had Xylem been a stand-alone company in 2011.

U.S. reach in dewatering rental and service, and grows our presence in industrial markets. And our two other recent acquisitions, YSI and MJK Automation, both continue to perform well and help establish our Analytics business as a long-term growth platform.”

McClain said the company continues to move forward with restructuring and realignment initiatives, and now foresees approximately \$20 million in aggregated costs during 2012 to position the business for future growth. The company maintains its outlook for full-year 2012 revenue of \$3.8 billion, and has revised the mid-point of its 2012 earnings guidance to \$1.76 from \$1.77 per share to reflect the \$0.01 per share dilutive impact of the Heartland Pump acquisition.

Business Segment Results

Water Infrastructure

Xylem’s Water Infrastructure businesses provide equipment and services focused on the transport, treatment and testing of water and wastewater in the public utility and industrial markets.

- Third quarter 2012 segment revenue was \$595 million, up 7 percent in constant currencies, and up 2 percent as reported, with growth in public utility activity in all regions more than offsetting weakness in industrial.
- Third quarter adjusted segment operating margin was 15.0 percent. Stand-alone costs negatively impacted operating margin 50 basis points for the third quarter of 2012.

Applied Water

Xylem’s Applied Water businesses provide equipment and services in the residential and commercial building services, general industrial and agricultural markets.

- Third quarter 2012 segment revenue was \$350 million, down 2 percent in constant currencies, and 5 percent as reported, reflecting comparison to a particularly strong third quarter 2011, and ongoing weakness in commercial building services.
- Third quarter adjusted segment operating margin was 12.6 percent. Stand-alone costs negatively impacted operating margin 60 basis points for the third quarter of 2012.

More detail available

Supplemental information on Xylem’s third quarter earnings and reconciliations for certain non-GAAP items is posted at investors.xyleminc.com.

About Xylem

Xylem (NYSE: XYL) is a leading global water technology provider, enabling customers to transport, treat, test and efficiently use water in public utility, residential and commercial building services, industrial and agricultural settings. The company does business in more than 150 countries through a number of market-leading product brands, and its people bring broad

applications expertise with a strong focus on finding local solutions to the world's most challenging water and wastewater problems. Launched in 2011 from the spinoff of the water-related businesses of ITT Corporation, Xylem is headquartered in White Plains, N.Y., with 2011 annual revenues of \$3.8 billion and 12,500 employees worldwide. In 2012, Xylem was named to the Dow Jones Sustainability World Index for advancing sustainable business practices and solutions worldwide.

The name Xylem is derived from classical Greek and is the tissue that transports water in plants, highlighting the engineering efficiency of our water-centric business by linking it with the best water transportation of all — that which occurs in nature. For more information, please visit us at www.xyleminc.com.

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 separation of Xylem Inc. (the “Company”) from ITT Corporation, the terms and the effect of the separation, the nature and impact of the separation, capitalization of the Company, 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, sales, 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 in our Annual Report on Form 10-K, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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XYLEM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED INCOME STATEMENTS (Unaudited)

(in millions, except per share data)

For the periods ended September 30,	Three Months		Nine Months	
	2012	2011	2012	2011
Revenue	\$ 931	\$ 939	\$ 2,822	\$2,800
Cost of revenue	557	574	1,702	1,719
Gross profit	374	365	1,120	1,081
Selling, general and administrative expenses	231	215	682	643
Research and development expenses	24	23	80	73
Restructuring and asset impairment charges, net	4	2	4	2
Separation costs	4	46	15	67
Operating income	111	79	339	296
Interest expense	14	1	41	2
Other non-operating income, net	3	4	1	5
Income before taxes	100	82	299	299
Income tax expense	28	5	75	72
Net income	\$ 72	\$ 77	\$ 224	\$ 227
Earnings per share:				
Basic	\$ 0.39	\$ 0.42	\$ 1.20	\$ 1.23
Diluted	\$ 0.38	\$ 0.42	\$ 1.20	\$ 1.23
Weighted average number of shares:				
Basic	185.9	184.6	185.7	184.6
Diluted	186.3	184.6	186.2	184.6
Dividends declared per share	\$0.1012	\$ —	\$0.3036	\$ —

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in millions, except per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 424	\$ 318
Receivables, less allowances for discounts and doubtful accounts of \$33 and \$37 in 2012 and 2011, respectively	801	756
Inventories, net	467	426
Prepaid and other current assets	106	97
Deferred income tax assets	36	45
Total current assets	1,834	1,642
Property, plant and equipment, net	464	463
Goodwill	1,621	1,610
Other intangible assets, net	485	505
Other non-current assets	192	173
Total assets	\$ 4,596	\$ 4,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 316	\$ 322
Accrued and other current liabilities	456	490
Short-term borrowings and current maturities of long-term debt	13	5
Total current liabilities	785	817
Long-term debt	1,199	1,201
Accrued postretirement benefits	319	316
Deferred income tax liability	170	165
Other non-current accrued liabilities	69	67
Total liabilities	2,542	2,566
Commitments and contingencies		
Stockholders' equity:		
Common Stock – authorized 750.0 shares, par value \$0.01 per share:		
Issued 186.0 shares and 184.6 shares in 2012 and 2011, respectively	2	2
Capital in excess of par value	1,699	1,663
Retained earnings	206	40
Treasury stock – at cost 0.2 shares and 0 shares in 2012 and 2011, respectively	(6)	—
Accumulated other comprehensive income	153	122
Total stockholders' equity	2,054	1,827
Total liabilities and stockholders' equity	\$ 4,596	\$ 4,393

XYLEM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (Unaudited)

(in millions)

For the nine months ended September 30,	2012	2011
Operating Activities		
Net income	\$224	\$ 227
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103	104
Share-based compensation	16	7
Non-cash separation costs	—	8
Restructuring and asset impairment charges	4	2
Payments for restructuring	—	(7)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(33)	(58)
Changes in inventories	(33)	(40)
Changes in accounts payable	(7)	(31)
Changes in accrued liabilities	(30)	14
Changes in accrued taxes	1	4
Net changes in other assets and liabilities	(14)	18
Other, net	(1)	4
Net Cash - Operating activities	230	252
Investing Activities		
Capital expenditures	(81)	(79)
Acquisitions, net of cash required	(12)	(309)
Proceeds from the sale of property, plant and equipment	4	9
Other, net	—	2
Net Cash - Investing activities	(89)	(377)
Financing Activities		
Net transfer to former parent	(9)	(1,012)
Issuance of short-term debt	12	5
Issuance of senior notes, net of discount	—	1,189
Principal payments of debt and capital lease obligations	(6)	—
Purchase of common stock	(4)	—
Proceeds from exercise of employee stock options	22	—
Dividends paid	(56)	—
Net Cash - Financing activities	(41)	182
Effect of exchange rate changes on cash	6	(4)
Net change in cash and cash equivalents	106	53
Cash and cash equivalents at beginning of year	318	131
Cash and cash equivalents at end of year	\$424	\$ 184
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 38	\$ —
Income taxes (net of refunds received)	\$ 76	\$ 37

Xylem Inc. Non-GAAP Measures

Management views key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, working capital, and backlog, among others. In addition, we consider certain measures to be useful to management and investors evaluating our operating performance for the periods presented, and provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operations as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

“Organic revenue” and “Organic orders” defined as revenue and orders, respectively, excluding the impact of 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.

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

	<u>(As Reported - GAAP)</u>				<u>(As Adjusted - Organic)</u>					<u>Constant</u>
	(A)		(B)	% Change 2012 v. 2011	(C)	(D)	(E)	(F) = B+C+D+E	(G) = F/A	<u>(H) = (B + D) / A</u>
	<u>Orders</u> 2012	<u>Orders</u> 2011	Change v. 2011							
<u>Nine Months Ended September 30</u>										
Xylem Inc.	2,856	2,942	(86)	-2.9%	(88)	108	—	(66)	-2.2%	0.7%
Water infrastructure	1,819	1,865	(46)	-2.5%	(88)	82	—	(52)	-2.8%	1.9%
Applied Water	1,086	1,122	(36)	-3.2%	—	30	(8)	(14)	-1.2%	-0.5%
<u>Quarter Ended September 30, 2012</u>										
Xylem Inc.	882	966	(84)	-8.7%	(21)	39	—	(66)	-6.8%	-4.7%
Water infrastructure	564	621	(57)	-9.2%	(21)	29	—	(49)	-7.9%	-4.5%
Applied Water	334	358	(24)	-6.7%	—	12	(5)	(17)	-4.7%	-3.4%
<u>Quarter Ended June 30</u>										
Xylem Inc.	970	998	(28)	-2.8%	(30)	51	—	(7)	-0.7%	2.3%
Water infrastructure	617	632	(15)	-2.4%	(30)	40	—	(5)	-0.8%	4.0%
Applied Water	370	383	(13)	-3.4%	—	13	(2)	(2)	-0.5%	0.0%
<u>Quarter Ended March 31</u>										
Xylem Inc.	1,004	978	26	2.7%	(37)	18	—	7	0.7%	4.5%
Water infrastructure	638	612	26	4.2%	(37)	13	—	2	0.3%	6.4%
Applied Water	382	381	1	0.3%	—	5	(1)	5	1.3%	1.6%

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)

	<u>(As Reported - GAAP)</u>				<u>(As Adjusted - Organic)</u>					<u>Constant</u>
	(A)		(B)	% Change 2012 v. 2011	(C)	(D)	(E)	(F) = B+C+D+E	(G) = F/A	(H) = (B + D) / A
	<u>Revenue</u> 2012	<u>Revenue</u> 2011	Change 2012 v. 2011							
<u>Nine Months Ended September 30</u>										
Xylem Inc.	2,822	2,800	22	0.8%	(87)	101	—	36	1.3%	4.4%
Water infrastructure	1,788	1,737	51	2.9%	(87)	75	—	39	2.2%	7.3%
Applied Water	1,078	1,108	(30)	-2.7%	—	30	(3)	(3)	-0.3%	0.0%
<u>Quarter Ended September 30, 2012</u>										
Xylem Inc.	931	939	(8)	-0.9%	(21)	38	—	9	1.0%	3.2%
Water infrastructure	595	584	11	1.9%	(21)	28	—	18	3.1%	6.7%
Applied Water	350	368	(18)	-4.9%	—	12	(2)	(8)	-2.2%	-1.6%
<u>Quarter Ended June 30</u>										
Xylem Inc.	966	971	(5)	-0.5%	(32)	49	—	12	1.2%	4.5%
Water infrastructure	609	602	7	1.2%	(32)	37	(1)	11	1.8%	7.3%
Applied Water	373	385	(12)	-3.1%	—	13	(1)	—	0.0%	0.3%
<u>Quarter Ended March 31</u>										
Xylem Inc.	925	890	35	3.9%	(34)	14	—	15	1.7%	5.5%
Water infrastructure	584	551	33	6.0%	(34)	10	1	10	1.8%	7.8%
Applied Water	355	355	—	0.0%	—	5	—	5	1.4%	1.4%

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

Xylem Inc. Non-GAAP Reconciliation
Adjusted Diluted EPS
For The Three and Nine Months Ended September 30, 2012 & 2011
(\$ Millions, except per share amounts)

	Q1 2012	Q2 2012	Q3 2012	YTD 2012
Net Income	63	89	72	224
Separation Costs, Net of Tax	4	4	3	11
Restructuring & Realignment, Net of Tax	—	—	4	4
Adjusted Net Income before Special Tax Items	67	93	79	239
Special Tax Items	—	(1)	4	3
Adjusted Net Income	67	92	83	242
Diluted Earnings per Share	\$ 0.34	\$ 0.48	\$ 0.38	\$ 1.20
Separation Costs per Share	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.06
Restructuring & Realignment Costs per Share	\$ 0.00	\$ 0.00	\$ 0.02	\$ 0.02
Adjusted Diluted EPS before Special Tax Items	\$ 0.36	\$ 0.50	\$ 0.42	\$ 1.28
Special Tax Items per Share	\$ 0.00	\$(0.01)	\$ 0.02	\$ 0.01
Adjusted Diluted EPS	\$ 0.36	\$ 0.49	\$ 0.44	\$ 1.29
	Q1 2011	Q2 2011	Q3 2011	YTD 2011
Net Income	78	72	77	227
Separation Costs, Net of Tax	2	27	25	54
Adjusted Net Income before Special Tax Items	80	99	102	281
Special Tax Items	—	4	(1)	3
Adjusted Net Income	80	103	101	284
Diluted Earnings per Share	\$ 0.42	\$ 0.39	\$ 0.42	\$ 1.23
Separation Costs per Share	\$ 0.01	\$ 0.15	\$ 0.13	\$ 0.29
Adjusted Diluted EPS before Special Tax Items	\$ 0.43	\$ 0.54	\$ 0.55	\$ 1.52
Special Tax Items per Share	\$ 0.00	\$ 0.02	\$(0.01)	\$ 0.01
Adjusted Diluted EPS	\$ 0.43	\$ 0.56	\$ 0.54	\$ 1.53

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

	Q3		YTD	
	'12	'11	'12	'11
Total Revenue				
• Total Xylem	931	939	2,822	2,800
• Water Infrastructure	595	584	1,788	1,737
• Applied Water	350	368	1,078	1,108
Operating Income				
• Total Xylem	111	79	339	296
• Water Infrastructure	85	87	253	245
• Applied Water	43	37	135	133
Operating Margin				
• Total Xylem	11.9%	8.4%	12.0%	10.6%
• Water Infrastructure	14.3%	14.9%	14.1%	14.1%
• Applied Water	12.3%	10.0%	12.5%	12.0%
Separation Costs				
• Total Xylem	4	46	15	67
• Water Infrastructure	—	8	3	10
• Applied Water	1	9	2	9
Restructuring & Realignment Costs				
• Total Xylem	5	—	5	—
• Water Infrastructure	4	—	4	—
• Applied Water	—	—	—	—
Adjusted Operating Income*				
• Total Xylem	120	125	359	363
• Water Infrastructure	89	95	260	255
• Applied Water	44	46	137	142
Adjusted Operating Margin*				
• Total Xylem	12.9%	13.3%	12.7%	13.0%
• Water Infrastructure	15.0%	16.3%	14.5%	14.7%
• Applied Water	12.6%	12.5%	12.7%	12.8%

* Adjusted Operating Income excludes non-recurring separation, restructuring & realignment costs

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

	Q3 2011					Q3 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	939		939		939	931		931
Operating Income	79	46 a	125	(8) c	111	111	9 a	120
Operating Margin	8.4%		13.3%		12.5%	11.9%		12.9%
Interest Expense	(1)		(1)	(13) d	(14)	(14)		(14)
Other Non-Operating Income (Expense)	4		4		4	3		3
Income before Taxes	82	46	128	(21)	107	100	9	109
Provision for Income Taxes	(5)	(22) b	(27)	4 e	(23)	(28)	2 b	(26)
Net Income	77	24	101	(17)	84	72	11	83
Diluted Shares	184.6				184.6	186.3		186.3
Diluted EPS	\$ 0.42	\$ 0.12	\$ 0.54	\$ (0.09)	\$ 0.45	\$ 0.38	\$ 0.06	\$ 0.44

- a One time separation, restructuring & realignment costs
- b Tax impact of one time separation costs and special tax items
- c Incremental stand alone costs incurred in 2012
- d Incremental interest expense on long-term debt entered into in conjunction with the spin
- e Tax impact of incremental interest expense and stand alone costs incurred in 2012

Xylem Inc. Non-GAAP Reconciliation
Net Cash - Operating Activities vs. Free Cash Flow
For The Nine Months Ended September 30, 2012 & 2011
(\$ Millions)

	Nine Months Ended	
	2012	2011
Net Cash - Operating Activities	230	252
Capital Expenditures	(81)	(79)
Free Cash Flow, including separation costs	149	173
Cash Paid for Separation Costs (incl. Capex)	22	62
Free Cash Flow, excluding separation costs	171	235
Net Income	224	227
Separation Costs, net of tax (incl. tax friction)	11	54
Adjusted Net Income	235	281
Free Cash Flow Conversion	73%	84%

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

<u>2012 Guidance</u>	<u>FY '11</u>						<u>Illustration of Mid Point Guidance</u>				
	<u>As Reported</u>	<u>Adjustments</u>	<u>Adjusted</u>	<u>Adjustments</u>	<u>Normalized</u>	<u>As Projected</u>	<u>Adjustments</u>	<u>Adjusted</u>			
Total Revenue	3,803		3,803		3,803	3,800		3,800			
Segment Operating Income	503	29	532	a	(10)	522	516	25	h,i	541	
Segment Operating Margin	13.2%		14.0%		13.7%	13.6%		14.2%			
Corporate Expense	108	(58)	50	b	18	e	68	68	(15)	h	53
Operating Income	395	87	482		(28)	454	448	40		488	
Operating Margin	10.4%		12.7%		11.9%	11.8%		12.8%			
Interest Expense	(17)		(17)		(39)	f	(56)	(54)		(54)	
Other Non-Operating Income (Expense)	5		5			5	(1)			(1)	
Income before Taxes	383	87	470		(67)	403	393	40		433	
Provision for Income Taxes	(104)	(8)	(112)	c	16	g	(96)	(99)	(7)	j	(106)
Net Income	279	79	358		(51)	307	294	33		327	
Diluted Shares	185.3					185.3	186.2			186.2	
Diluted EPS	\$ 1.50	\$ 0.43	\$ 1.93		\$ (0.27)	1.66	1.58	0.18		1.76	

- a One time separation costs incurred at the segment level
b One time separation costs incurred at the corporate level
c Net tax impact of above items, plus the addition of 2011 special tax items
d Incremental stand alone costs to be incurred in 2012 at the segment level (\$10M)
e Incremental stand alone costs to be incurred in 2012 at the corporate level (\$18M)
f Incremental interest expense on long-term debt to be incurred in 2012
g Tax impact of incremental interest expense and stand alone costs to be incurred in 2012
h Expected one time separation costs of \$5M and \$15M to be incurred at the segments and headquarters, respectively.
i Restructuring & realignment costs of \$20M to be incurred at the segments.
j Tax impact of one time separation, restructuring & realignment costs expected to be incurred in 2012 and tax special items realized through Q3 2012.

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Mid Point Guidance 2012E</u>
Revenue	<u>3,291</u>	<u>2,849</u>	<u>3,202</u>	<u>3,803</u>	<u>3,800</u>
Operating Income	<u>315</u>	<u>276</u>	<u>388</u>	<u>395</u>	<u>448</u>
Operating Margin	<u>9.6%</u>	<u>9.7%</u>	<u>12.1%</u>	<u>10.4%</u>	<u>11.8%</u>
Restructuring & Realignment	41	31	15	—	20
Separation Costs	—	—	—	87	20
Adjusted Operating Income	<u>356</u>	<u>307</u>	<u>403</u>	<u>482</u>	<u>488</u>
Adjusted Operating Margin	<u>10.8%</u>	<u>10.8%</u>	<u>12.6%</u>	<u>12.7%</u>	<u>12.8%</u>
Stand alone Costs	—	—	—	5	28
Adj. Operating Income, excl. Stand alone Costs	<u>356</u>	<u>307</u>	<u>403</u>	<u>487</u>	<u>516</u>
Adjusted Operating Margin, excl. Stand alone Costs	<u>10.8%</u>	<u>10.8%</u>	<u>12.6%</u>	<u>12.8%</u>	<u>13.6%</u>



Q3 2012 Earnings Release

November 1, 2012



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 separation of Xylem Inc. (the “Company”) from ITT Corporation, the terms and the effect of the separation, the nature and impact of the separation, capitalization of the Company, 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.

Q3'12 Xylem Results

Financial Performance Summary		
Orders	\$882M	Book to Bill 0.95
Revenue	\$931M	+3% (Constant Currency Basis)*
Gross Margin	40.2%	+130 bps
Operating Margin *	12.9%	+50 bps Adjusted for Stand-Alone Costs
EPS *	\$0.44	Solid Performance from Core Operations & YSI

Solid Operating Performance, Despite Continued Market Challenges

Business Update

Advancing Our Strategic Position

- Executing Acquisition Strategy
 - MJK Integration into Analytics Platform Well Underway
 - Heartland Pump Acquisition ... Increases Geographic Reach of Dewatering Platform
- Selected to Dow Jones Sustainability Global and North America Indices

Deploying Innovative New Product Applications and Services

- U.S. Launch of the Sanitaire Bioloop Oxidation Ditch
- Launched Energy Efficient Lowara Ecocirc – Meeting New European Regulations
- Recognized by The Coca-Cola Company as Supplier of the Year

Continued Strong Execution

- Q3'12 Emerging Market Growth up 9% (Constant Currency Basis)
- Gross Margin >40% ... Record Performance
- Executing on Restructuring & Realignment Actions

Advancing Strategic Position & Increasing Profitability

Acquisition Overview

Heartland Pump Rental & Sales, Inc.

Overview

- Purchase Price \$29M
- '11 Rev \$33M
- 100 Employees
- 4 locations
- Industrial & Muni;
 - Mining
 - Energy
 - Disaster Recovery



Strategic Rationale

- Expands Geographic Reach
- Increases Rental Opportunities
- Leverage Xylem Portfolio
- Cost Synergies
- Capex Synergies

Revenue Mix

Sales
~60%

Rental
~40%

Expands Xylem's Dewatering Platform in Attractive U.S. Rental Markets

YTD Xylem Results

Financial Performance Summary		
Orders	\$2.9B	Book to Bill 1.01
Revenue	\$2.8B	+4% (Constant Currency Basis)*
Gross Margin	39.7%	+110 bps
Operating Margin *	12.7%	Includes Impact from Stand-Alone Costs -90bps
EPS *	\$1.29	Solid Performance from Core Operations & YSI
Free Cash Flow *	\$171M	73% Conversion ... Typical Seasonality

On Track to Deliver in 2012 ... Positioned for Long-Term Growth

Full Year Outlook

4th Quarter Execution Sets up 2013

- Executing on Restructuring & Realignment Actions
 - Accelerating Additional Actions in 2012
- Continued Disciplined Capital Deployment
 - Successful Integration of MJK & Heartland Acquisitions

2012 Guidance

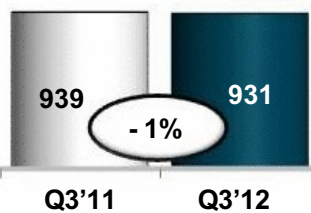
- Full Year Revenue ~\$3.8B; Organic Growth ~1%
- Delivering Solid Operating Margin Expansion
- EPS Mid Point of \$1.76* ... Includes Heartland Pump Acquisition Impact (\$0.01)
- Solid Free Cash Flow Conversion*
- Executing ~\$20M Total Restructuring & Realignment Actions

Solid Execution in 2012 ... Positioning for Long-Term Growth

Q3'12 Xylem Performance

Revenue

(Dollars, In Millions)



Q3 Growth

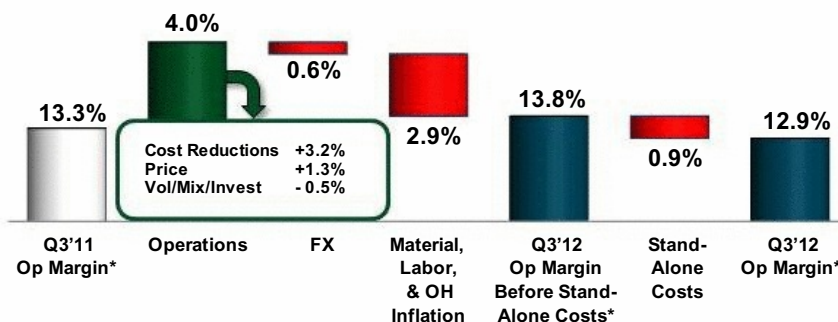
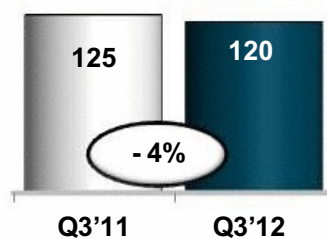
Organic	+1%
Acquisition	+2%
Constant Currency	+3%
FX	-4%
Total	-1%

Organic Performance

By End Market	By Geography
- Industrial	+ Europe
+ Public Utility	- U.S.
- Commercial	+ Emerging Markets
- Residential	
+ Agriculture	

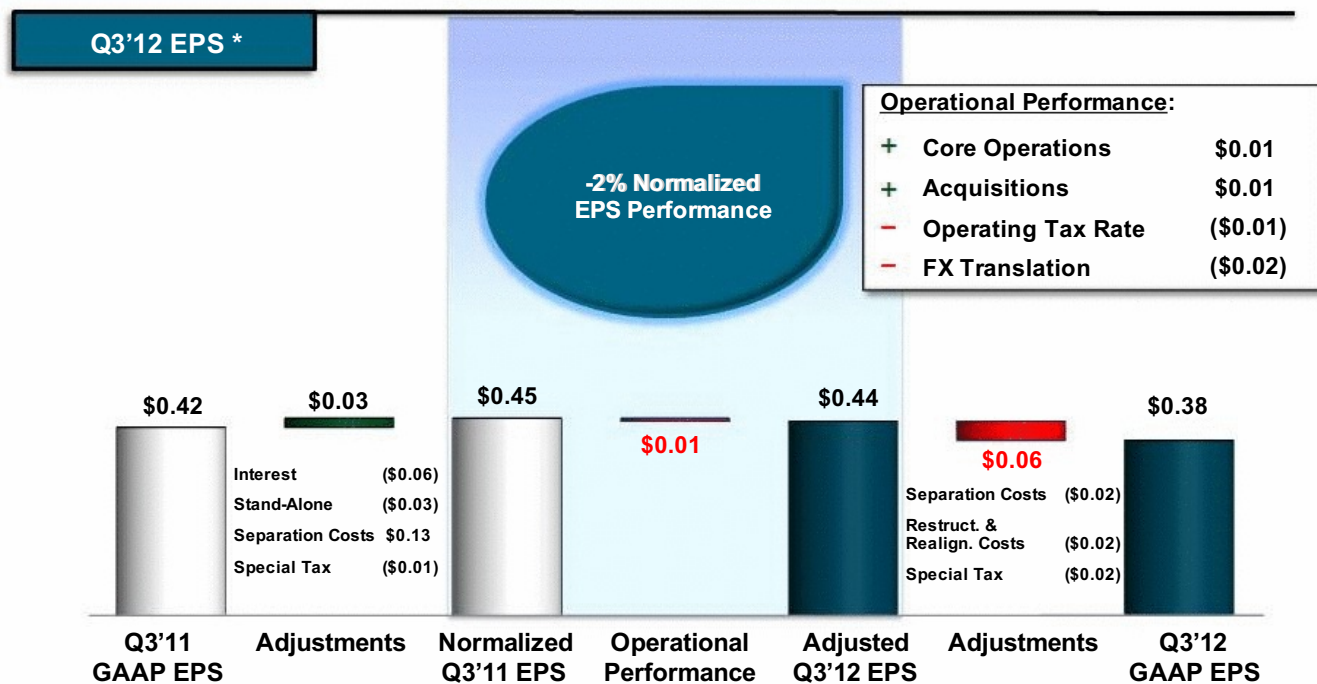
Operating Income *

(Dollars, In Millions)



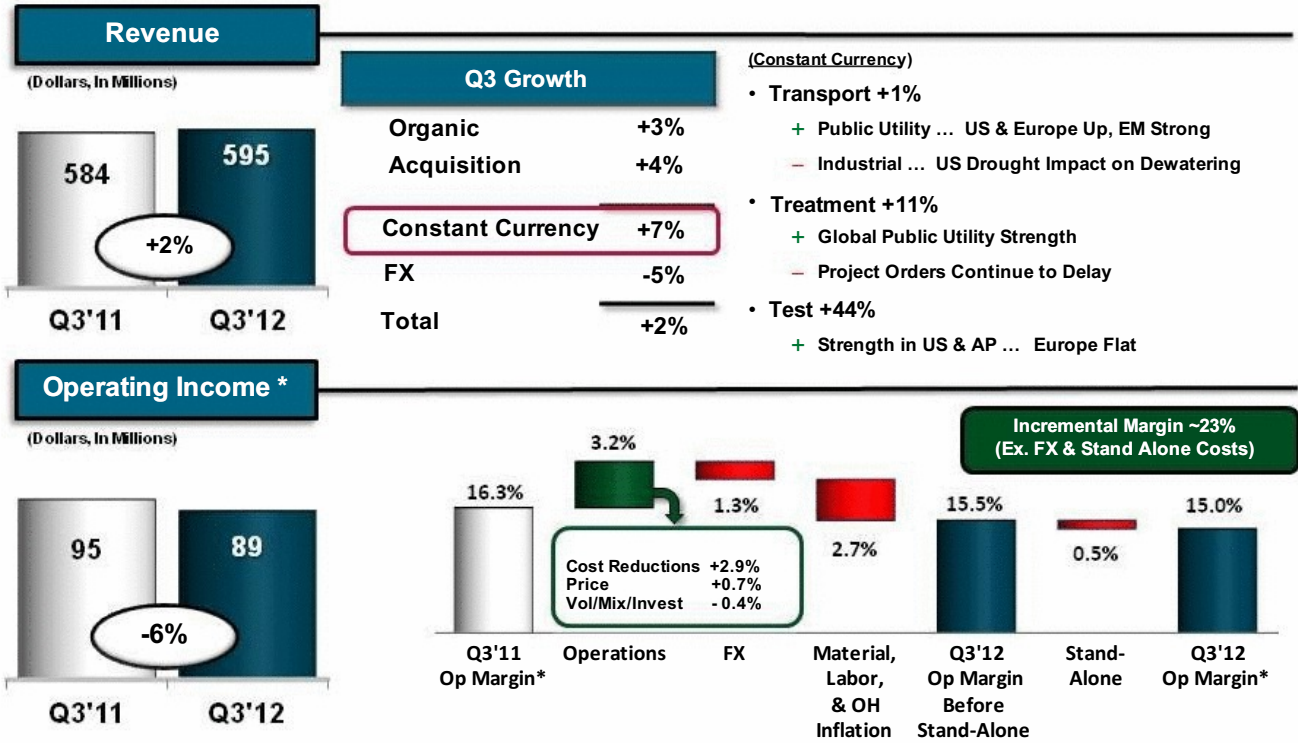
Op Margins +50 bps ... Cost Actions/Price Enable Investments for Growth

Q3'12 Xylem Performance



EPS Growth Negatively Impacted by FX and Taxes

Q3'12 Water Infrastructure Performance

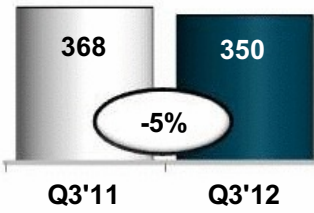


Revenue Up 7%* ... Operating Margin Impacted by Unfavorable Mix & FX

Q3'12 Applied Water Performance

Revenue

(Dollars, In Millions)



Q3 Growth

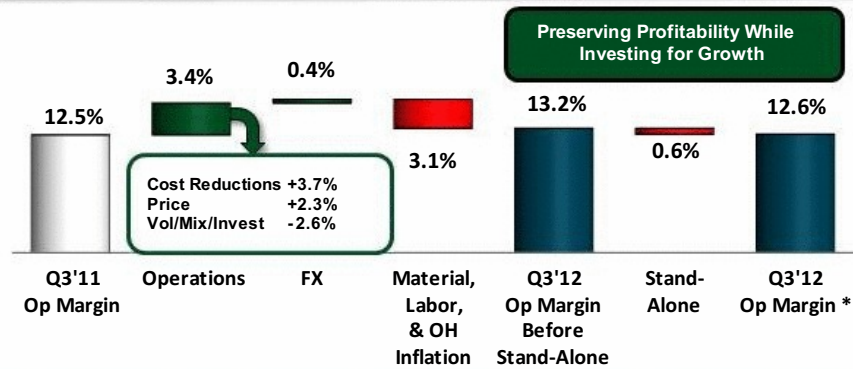
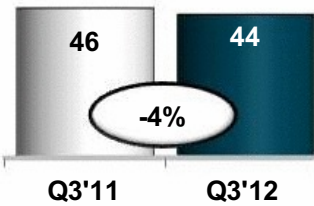
Organic	-2%
Acquisition	-%
Constant Currency	2%
FX	-3%
Total	-5%

(Constant Currency)

- Building Services -6%
 - Commercial ... Lag in Major Projects, Tough PY Comp
 - Residential ... Tough PY Comp (U.S. Up Double Digit)
- Industrial Water +1%
 - + Favorable Across Most Regions
 - U.S. & Europe showing signs of weakness
- Irrigation +9%
 - + Double Digit U.S. Growth, Europe Improving

Operating Income *

(Dollars, In Millions)

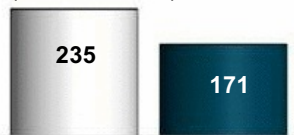


Price & Cost Reduction Initiatives Offset Challenging Market Conditions

Xylem Financial Position

Free Cash Flow *

(Dollars, In Millions)



FCF% 84% 73%

- Free Cash Flow \$171M
 - Higher Cash Taxes
 - Full Year of Interest
 - Stand-Alone Costs
- Capex > 1 Reinvestment Ratio

Working Capital

(Dollars, In Millions)



W/C%** 23.7% 24.8%

Capital Summary/Liquidity

September 30, 2012

(Dollars, In Millions)

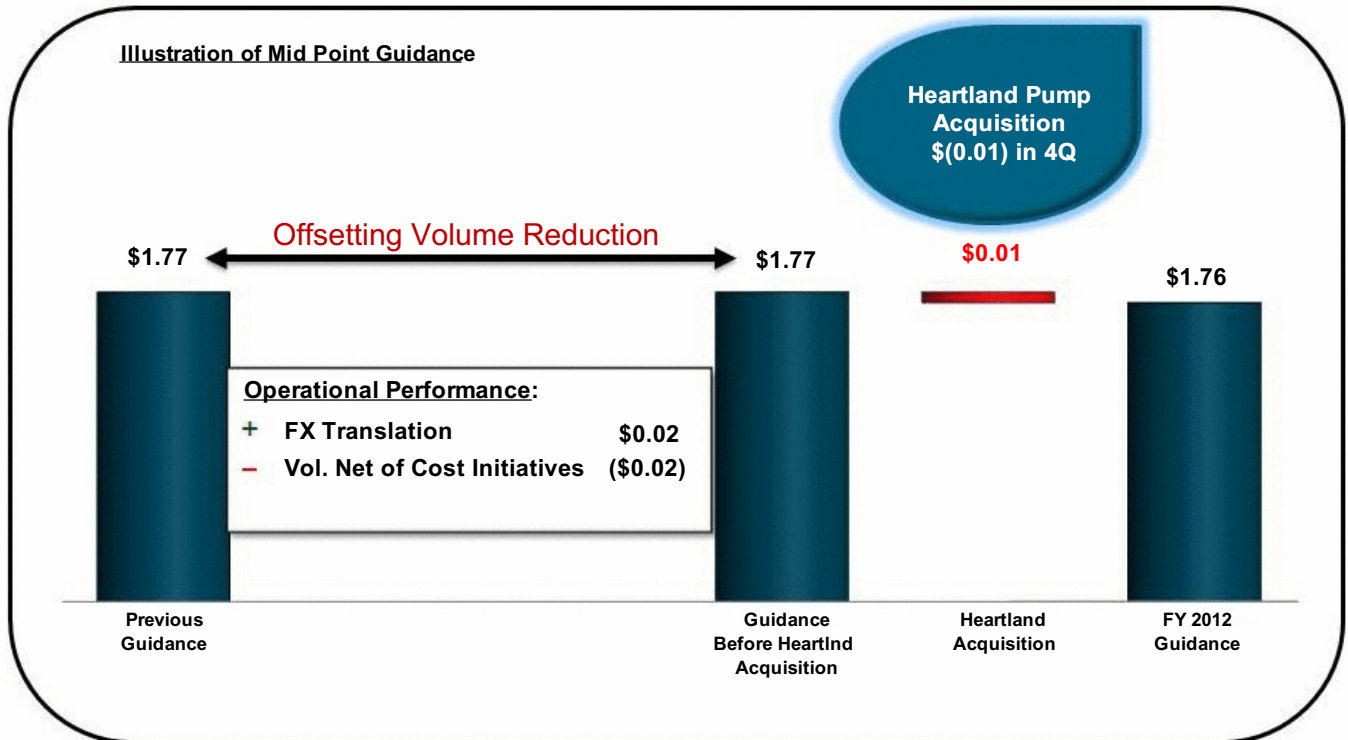
Cash	424
Debt	1,212
Net Debt	788
Stockholders' Equity	2,054
Net Capital	2,842
Net Debt to Net Capital	28%

- Strong Cash Position
 - No Significant Debt Maturities Until 2016
- 28% Net Debt to Net Capital
- 1.2x Net Debt/Adj. TTM EBITDA
- \$600M Revolving Credit Facility - Unutilized
- Access to Commercial Paper - Unutilized

FY Cash Flow On Track ... Strong Balance Sheet Provides Flexibility

2012 Guidance

2012 EPS Guidance Walk



Mid Point 6% Earnings Growth Versus Prior Year On Normalized Basis

2012 Financial Guidance Summary

	2012 Full Year Financial Outlook		Growth 2012E vs. 2011	
			<u>Constant Currency</u>	<u>Organic</u> <u>Acquisition</u>
Revenue				
Xylem Consolidated	~\$3.8B	~3%	~1%	2%
Water Infrastructure	~\$2.4B	~5%	~1%	4%
Applied Water	~\$1.4B	~1%	~1%	0%
Segment Margin *	14.1% - 14.3%	+10 to +30 bps		
Operating Margin *	12.7% - 12.9%	+0 to +20 bps		
EPS *	\$1.72 - \$1.79	\$1.76 Mid Point incl. Heartland Pump Acq. impact \$0.01		
Free Cash Flow Conversion	95%	Excluding one-time separation costs		
Guidance Assumptions:				
Stand-Alone Costs	~\$28M	Included in EPS Guidance; In Line with Expectations		
Operating Tax Rate	~\$25%	Excludes Special Tax Items		
Share Count	~186.2M			
Items Excluded from Guidance:				
(1) Separation Costs	~\$20M	In Line with Expectations		
(2) Restructuring & Realignment Costs	~\$20M	Additional Actions Identified in 3Q'12 ~\$11M Total Run Rate Savings Beginning 2013		

* See Appendix for Non-GAAP Reconciliations

Key Takeaways

Positioning for Long-Term Growth

- Investing in Strategic Growth Platforms
 - Executing M&A Strategy
 - Advancing Our Geographic Position
- Launching New Products & Investing in Future Growth
- Customer Excellence & Operational Discipline

Restructuring & Realignment Actions Underway

- Executing Actions to Preserve Investments
- Defending and Improving Our Competitive Advantage
- Providing for Stronger Operating Leverage

Strong Financial Position

- Flexibility to Execute Long-Term Strategy

Appendix

Quarterly Financial Performance

(\$M, Except EPS)	Q1'10	Q2'10	Q3'10	Q4'10	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12	Q2'12	Q3'12
Revenue	686	775	806	935	3,202	890	971	939	1,003	3,803	925	966	931
COGS	431	484	497	576	1,988	553	592	574	623	2,342	562	583	557
Gross Profit	255	291	309	359	1,214	337	379	365	380	1,461	363	383	374
SG&A	164	170	183	220	737	210	219	215	233	877	231	220	231
R&D	18	17	18	21	74	24	26	23	27	100	28	28	24
Separation Costs	-	-	-	-	-	3	18	46	20	87	5	6	4
Restructuring & Asset Impairment Charges, net	4	3	1	7	15	-	-	2	-	2	-	-	4
Op Income	69	101	107	111	388	100	116	79	100	395	99	129	111
Interest Expense	-	-	-	-	-	-	1	1	15	17	14	13	14
Other Non-Op	-2	-1	3	-	-	1	-	4	-	5	(1)	(1)	3
Income before Tax	67	100	110	111	388	101	115	82	85	383	84	115	100
Tax	11	15	19	14	59	23	43	5	33	104	21	26	28
Net Income	56	85	91	97	329	78	72	77	52	279	63	89	72
EPS –Diluted *	\$0.30	\$0.46	\$0.49	\$0.53	\$1.78	\$0.42	\$0.39	\$0.42	\$0.28	\$1.50	\$0.34	\$0.48	\$0.38

* On October 31, 2011, Xylem Inc. completed the spin-off through a tax-free stock dividend to ITT Corporation's shareholders. ITT Corporation shareholders received one share of our common stock for each share of ITT common stock. As a result on October 31, 2011, we had 184.6 million shares of common stock outstanding and this share amount is being utilized to calculate earnings per share for all periods presented prior to the spin-off.

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.

Non-GAAP Reconciliation: Organic & Constant Currency Revenue Growth

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)	(G)	(H) = (E) + (F) + (G)	(I) = (H) / (A)	(J) = (I) / (A)
	Revenue	Revenue	Change	% Change	Acquisitions/ Divestitures	FX Contribution	Eliminations	Change	% Change	
	2012	2011	2012 v. 2011	2012 v. 2011				Adj. 2012 v. 2011	Adj. 2012 v. 2011	
Nine Months Ended September 30										
Xylem Inc.	2,822	2,800	22	0.8%	(87)	101	-	36	1.3%	4.4%
Water Infrastructure	1,788	1,757	51	2.9%	(87)	75	-	39	2.2%	7.3%
Applied Water	1,078	1,108	(30)	-2.7%	-	30	(3)	(3)	-0.3%	0.0%
Quarter Ended September 30, 2012										
Xylem Inc.	931	999	(8)	-0.9%	(21)	38	-	9	1.0%	3.2%
Water Infrastructure	595	584	11	1.9%	(21)	28	-	18	3.1%	6.7%
Applied Water	350	368	(18)	-4.9%	-	12	(2)	(8)	-2.2%	-1.6%
Quarter Ended June 30										
Xylem Inc.	966	971	(5)	-0.5%	(32)	49	-	12	1.2%	4.5%
Water Infrastructure	609	602	7	1.2%	(32)	37	(1)	11	1.8%	7.3%
Applied Water	373	385	(12)	-3.1%	-	15	(1)	-	0.0%	0.3%
Quarter Ended March 31										
Xylem Inc.	925	890	35	3.9%	(34)	14	-	15	1.7%	5.5%
Water Infrastructure	584	551	33	6.0%	(34)	10	1	10	1.8%	7.8%
Applied Water	355	385	(30)	-7.8%	-	5	-	5	1.4%	1.4%

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

Non-GAAP Reconciliation: Organic & Constant Currency Order Growth

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) = (B+D)/A		
	Orders 2012	Orders 2011	Change 2012 v. 2011	% Change 2012 v. 2011	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2012 v. 2011	% Change Adj. 2012 v. 2011	
Nine Months Ended September 30										
Xylem Inc.	2,856	2,942	(86)	-2.9%	(88)	108	-	(66)	-2.2%	0.7%
Water infrastructure	1,819	1,865	(46)	-2.5%	(88)	82	-	(52)	-2.8%	1.9%
Applied Water	1,086	1,122	(36)	-3.2%	-	30	(8)	(14)	-1.2%	-0.5%
Quarter Ended September 30, 2012										
Xylem Inc.	882	966	(84)	-8.7%	(21)	39	-	(66)	-6.8%	-4.7%
Water infrastructure	564	621	(57)	-9.2%	(21)	29	-	(49)	-7.9%	-4.5%
Applied Water	334	358	(24)	-6.7%	-	12	(5)	(17)	-4.7%	-3.4%
Quarter Ended June 30										
Xylem Inc.	970	998	(28)	-2.8%	(30)	51	-	(7)	-0.7%	2.3%
Water infrastructure	617	632	(15)	-2.4%	(30)	40	-	(5)	-0.8%	4.0%
Applied Water	370	383	(13)	-3.4%	-	13	(2)	(2)	-0.5%	0.0%
Quarter Ended March 31										
Xylem Inc.	1,004	978	26	2.7%	(37)	18	-	7	0.7%	4.5%
Water infrastructure	638	612	26	4.2%	(37)	13	-	2	0.3%	6.4%
Applied Water	382	381	1	0.3%	-	5	(1)	5	1.3%	1.6%

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

Non-GAAP Reconciliation: Adjusted Diluted EPS

Xylem Inc. Non-GAAP Reconciliation
Adjusted Diluted EPS
For The Three and Nine Months Ended September 30, 2012 & 2011
(\$ Millions, except per share amounts)

	Q1 2012	Q2 2012	Q3 2012	YTD 2012
Net Income	63	89	72	224
Separation Costs, Net of Tax	4	4	3	11
Restructuring & Realignment, Net of Tax	-	-	4	4
Adjusted Net Income before Special Tax Items	67	93	79	239
Special Tax Items	-	(1)	4	3
Adjusted Net Income	67	92	83	242
Diluted Earnings per Share	\$0.34	\$0.48	\$0.38	\$1.20
Separation Costs per Share	\$0.02	\$0.02	\$0.02	\$0.06
Restructuring & Realignment Costs per Share	\$0.00	\$0.00	\$0.02	\$0.02
Adjusted Diluted EPS before Special Tax Items	\$0.36	\$0.50	\$0.42	\$1.28
Special Tax Items per Share	\$0.00	(\$0.01)	\$0.02	\$0.01
Adjusted Diluted EPS	\$0.36	\$0.49	\$0.44	\$1.29

	Q1 2011	Q2 2011	Q3 2011	YTD 2011
Net Income	78	72	77	227
Separation Costs, Net of Tax	2	27	25	54
Adjusted Net Income before Special Tax Items	80	99	102	281
Special Tax Items	-	4	(1)	3
Adjusted Net Income	80	103	101	284
Diluted Earnings per Share	\$0.42	\$0.39	\$0.42	\$1.23
Separation Costs per Share	\$0.01	\$0.15	\$0.13	\$0.29
Adjusted Diluted EPS before Special Tax Items	\$0.43	\$0.54	\$0.55	\$1.52
Special Tax Items per Share	\$0.00	\$0.02	(\$0.01)	\$0.01
Adjusted Diluted EPS	\$0.43	\$0.56	\$0.54	\$1.53

Non-GAAP Reconciliation: Normalized and Adjusted EPS

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

	Q3 2011					Q3 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	939		939		939	931		931
Operating Income	79	46 a	125	(8) c	117	111	9 a	120
Operating Margin	8.4%		13.3%		12.5%	11.9%		12.9%
Interest Expense	(1)		(1)	(13) d	(14)	(14)		(14)
Other Non-Operating Income (Expense)	4		4		4	3		3
Income before Taxes	82	46	128	(21)	107	100	9	109
Provision for Income Taxes	(5)	(22) b	(27)	4 e	(23)	(28)	2 b	(26)
Net Income	77	24	101	(17)	84	72	11	83
Diluted Shares	184.6				184.6	186.3		186.3
Diluted EPS	\$ 0.42	\$ 0.12	\$ 0.54	\$ (0.09)	\$ 0.45	\$ 0.38	\$ 0.06	\$ 0.44

a One time separation, restructuring & realignment costs

b Tax impact of one time separation costs and special tax items

c Incremental stand alone costs incurred in 2012

d Incremental interest expense on long-term debt entered into in conjunction with the spin

e Tax impact of incremental interest expense and stand alone costs incurred in 2012

Non-GAAP Reconciliation: Operating Income

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

	Q3		YTD	
	'12	'11	'12	'11
Total Revenue				
• Total Xylem	931	939	2,822	2,800
• Water Infrastructure	595	584	1,788	1,737
• Applied Water	350	368	1,078	1,108
Operating Income				
• Total Xylem	111	79	339	296
• Water Infrastructure	85	87	253	245
• Applied Water	43	37	135	133
Operating Margin				
• Total Xylem	11.9%	8.4%	12.0%	10.6%
• Water Infrastructure	14.3%	14.9%	14.1%	14.1%
• Applied Water	12.3%	10.0%	12.5%	12.0%
Separation Costs				
• Total Xylem	4	46	15	67
• Water Infrastructure	-	8	3	10
• Applied Water	1	9	2	9
Restructuring & Realignment Costs				
• Total Xylem	5	-	5	-
• Water Infrastructure	4	-	4	-
• Applied Water	-	-	-	-
Adjusted Operating Income*				
• Total Xylem	120	125	359	363
• Water Infrastructure	89	95	260	255
• Applied Water	44	46	137	142
Adjusted Operating Margin*				
• Total Xylem	12.9%	13.3%	12.7%	13.0%
• Water Infrastructure	15.0%	16.3%	14.5%	14.7%
• Applied Water	12.6%	12.5%	12.7%	12.8%

*Adjusted Operating Income excludes non-recurring separation, restructuring & realignment costs

Non-GAAP Reconciliation: Free Cash Flow

Xylem Inc. Non-GAAP Reconciliation
Net Cash - Operating Activities vs. Free Cash Flow
For The Nine Months Ended September 30, 2012 & 2011
(\$ Millions)

	Nine Months Ended	
	2012	2011
Net Cash - Operating Activities	230	252
Capital Expenditures	(81)	(79)
Free Cash Flow, including separation costs	149	173
Cash Paid for Separation Costs (incl. Capex)	22	62
Free Cash Flow, excluding separation costs	<u>171</u>	<u>235</u>
Net Income	224	227
Separation Costs, net of tax (incl. tax friction)	11	54
Adjusted Net Income	<u>235</u>	<u>281</u>
Free Cash Flow Conversion	<u>73%</u>	<u>84%</u>

Non-GAAP Reconciliation: 2012 Xylem EBITDA & Adj. EBITDA

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

	2012			
	Q1	Q2	Q3	YTD
Income Before Taxes	84	115	100	299
Interest, net	13	13	12	38
Depreciation	23	21	24	68
Amortization	11	12	12	35
Stock Compensation	5	5	6	16
EBITDA	136	166	154	456
Separation Costs	5	6	4	15
Restructuring & Realignment Costs	-	-	5	5
Adjusted EBITDA	141	172	163	476
Revenue	925	966	931	2,822
Adjusted EBITDA Margin	15.2%	17.8%	17.5%	16.9%

Non-GAAP Reconciliation: 2011 Xylem EBITDA & Adj. EBITDA

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

	Q1	Q2	2011 Q3	Q4	Total
Pre-Tax Net Income	101	115	82	85	383
Interest, net	-	-	1	16	17
Depreciation	22	25	25	21	93
Amortization	11	10	11	12	44
Stock Compensation	3	2	2	6	13
EBITDA	137	152	121	140	550
Separation Costs	3	18	46	20	87
Adjusted EBITDA	140	170	167	160	637
Revenues	890	971	939	1,003	3,803
Adjusted EBITDA Margin	15.7%	17.5%	17.8%	16.0%	16.7%

Non-GAAP Reconciliation: 2012 Water Infrastructure EBITDA & Adj. EBITDA

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

	2012			
	Q1	Q2	Q3	YTD
Income Before Taxes	75	93	86	254
Interest, net	-	-	(1)	(1)
Depreciation	16	15	17	48
Amortization	10	9	10	29
Stock Compensation	1	1	3	5
EBITDA	102	118	115	335
Separation Costs	2	1	-	3
Restructuring & Realignment Costs	-	-	4	4
Adjusted EBITDA	104	119	119	342
Revenue	584	609	595	1,788
Adjusted EBITDA Margin	17.8%	19.5%	20.0%	19.1%

Non-GAAP Reconciliation: 2011 Water Infrastructure EBITDA & Adj. EBITDA

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

	Q1	Q2	2011 Q3	Q4	Total
Pre-Tax Net Income	65	93	88	99	345
Interest, net			(1)	-	(1)
Depreciation	16	19	19	14	68
Amortization	9	9	9	9	36
Stock Compensation	-	-	1	1	2
EBITDA	90	121	116	123	450
Separation Costs	-	2	8	6	16
Adjusted EBITDA	90	123	124	129	466
Revenues	551	602	584	679	2,416
Adjusted EBITDA Margin	16.3%	20.4%	21.2%	19.0%	19.3%

Non-GAAP Reconciliation: 2012 Applied Water EBITDA & Adj. EBITDA

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

	2012			
	Q1	Q2	Q3	YTD
Income Before Taxes	40	52	43	135
Interest, net	-	-	-	-
Depreciation	6	6	6	18
Amortization	1	1	1	3
Stock Compensation	1	-	2	3
EBITDA	48	59	52	159
Separation Costs	1	-	1	2
Restructuring & Realignment Costs	-	-	-	-
Adjusted EBITDA	49	59	53	161
Revenue	355	373	350	1,078
Adjusted EBITDA Margin	13.8%	15.8%	15.1%	14.9%

Non-GAAP Reconciliation: 2011 Applied Water EBITDA & Adj. EBITDA

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

	Q1	Q2	2011 Q3	Q4	Total
Pre-Tax Net Income	46	51	37	25	159
Interest, net	-	-	-	-	-
Depreciation	6	6	6	7	25
Amortization	2	1	2	1	6
Stock Compensation	-	-	1	1	2
EBITDA	54	58	46	34	192
Separation Costs	-	-	9	4	13
Adjusted EBITDA	54	58	55	38	205
Revenues	355	385	368	336	1,444
Adjusted EBITDA Margin	15.2%	15.1%	14.9%	11.3%	14.2%

Non-GAAP Reconciliation: Guidance

2012 Guidance

Illustration of Mid Point Guidance

	FY '11					FY '12		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Projected	Adjustments	Adjusted
Total Revenue	3,803		3,803		3,803	3,800		3,800
Segment Operating Income	503	29 a	532	(10) d	522	516	25 h,i	541
Segment Operating Margin	13.2%		14.0%		13.7%	13.6%		14.2%
Corporate Expense	108	(58) b	50	18 e	68	68	(15) h	53
Operating Income	395	87	482	(28)	454	448	40	488
Operating Margin	10.4%		12.7%		11.9%	11.8%		12.8%
Interest Expense	(17)		(17)	(39) f	(56)	(54)		(54)
Other Non-Operating Income (Expense)	5		5		5	(1)		(1)
Income before Taxes	383	87	470	(67)	403	393	40	433
Provision for Income Taxes	(104)	(8) c	(112)	16 g	(96)	(99)	(7) j	(106)
Net Income	279	79	358	(51)	307	294	33	327
Diluted Shares	185.3				185.3	186.2		186.2
Diluted EPS	\$ 1.50	\$ 0.43	\$ 1.93	\$ (0.27)	1.66	1.58	0.18	1.76

a One time separation costs incurred at the segment level

b One time separation costs incurred at the corporate level

c Net tax impact of above items, plus the addition of 2011 special tax items

d Incremental stand alone costs to be incurred in 2012 at the segment level (\$10M)

e Incremental stand alone costs to be incurred in 2012 at the corporate level (\$18M)

f Incremental interest expense on long-term debt to be incurred in 2012

g Tax impact of incremental interest expense and stand alone costs to be incurred in 2012

h Expected one time separation costs of \$5M and \$15M to be incurred at the segments and headquarters, respectively.

i Restructuring & realignment costs of \$20M to be incurred at the segments.

j Tax impact of one time separation, restructuring & realignment costs expected to be incurred in 2012 and tax special items realized through Q3 2012.

Non-GAAP Reconciliation: Adj. Operating Income & Margin

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

	2008	2009	2010	2011	Mid Point Guidance 2012E
Revenue	3,291	2,849	3,202	3,803	3,800
Operating Income	315	276	388	395	448
<i>Operating Margin</i>	9.6%	9.7%	12.1%	10.4%	11.8%
Restructuring & Realignment Separation Costs	41	31	15	-	20
	-	-	-	87	20
Adjusted Operating Income	356	307	403	482	488
<i>Adjusted Operating Margin</i>	10.8%	10.8%	12.6%	12.7%	12.8%
Standalone Costs	-	-	-	5	28
Adj. Operating Income, excl. Standalone Costs	356	307	403	487	516
<i>Adjusted Operating Margin, excl. Standalone Costs</i>	10.8%	10.8%	12.6%	12.8%	13.6%

xylem

Let's Solve Water

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