

Q4 2015 Earnings Release

February 4, 2016

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: overall economic and business conditions, 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 successfully identify, complete and integrate acquisitions, 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.

KEY NOTES FOR TODAY'S PRESENTATION

- **All references to financial performance metrics are on an adjusted basis to exclude restructuring & realignment costs, other special non-recurring items, and the impacts of foreign currency fluctuations.**
- **Additionally, 2016 metrics reflect the operating performance attributable to previously closed acquisitions, with the exception of non-recurring transaction costs which are excluded.**
- **See appendix for non-GAAP reconciliations.**

KEY MESSAGES

- **Delivered on our financial commitments**
 - 4Q '15: 2% Organic* Revenue growth; Adj. EPS* \$0.60, up 3% ex. FX translation
 - FY '15: 2% Organic* Revenue growth; Adj. EPS* \$1.85, up 5% ex. FX translation
 - FY'15: 105% Free Cash Flow* conversion driven by Working Capital improvement
- **Well-positioned entering 2016**
 - Stable conditions across > 90% of revenue base (Public Utility, Light Ind'l, and Comm'l/ Resi)
 - Managing through Oil & Gas and Mining headwinds (< 8% of revenue base)
 - Margin expansion driven by continuous improvement (Lean/Sourcing) & business simplification
- **Driving our long-term strategy**
 - Investing for growth (targeted Capex and R&D investments)
 - Accelerating capital deployment ... announcing dividend increase and Tideland acquisition

STRONG EXECUTION ... WELL-POSITIONED ENTERING 2016

ACCELERATING CAPITAL DEPLOYMENT

RETURN OF CAPITAL TO SHAREHOLDERS

- Opportunistically repurchased 1.4M shares for \$50M during the 4Q
- FY 2015: Repurchased 5.1M shares for \$175M
- ~\$430M available for future repurchases under our authorized programs
- Dividend payments of \$25M in the quarter; Full year total of \$102M reflecting 10% increase on a per share basis
- Announcing approval of the 2016 1st Quarter dividend, an increase of 10% on a per share basis

TIDELAND ACQUISITION

- Integrated systems and services, marine platforms and navigational aids for ports, harbors and offshore platforms
- Strengthens our Analytics position in the ocean and coastal market
- Purchase Price: \$69M
- FY 2016E Revenue: \$43M (11 months)

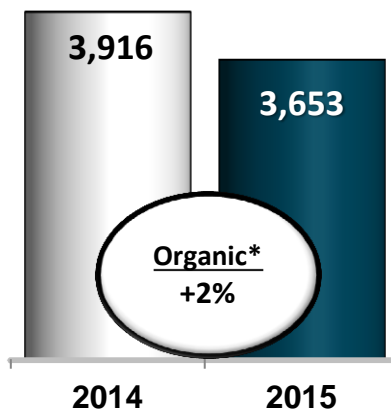


COMMITTED TO BALANCED CAPITAL DEPLOYMENT

2015 FINANCIAL SUMMARY

(Dollars, In Millions, except EPS)

REVENUE



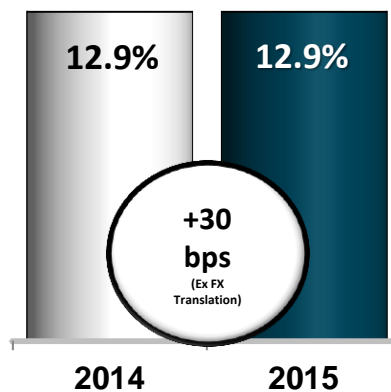
Key Organic Growth Drivers

+ Public Utility	+4%
+ Commercial	+4%
+ Residential	+4%
- Industrial	-1%
- Agriculture	-8%

Organic Growth by Region

+ Emerging Markets	+7%
+ U.S.	+1%
+ W. Europe	+1%
- Canada	-13%

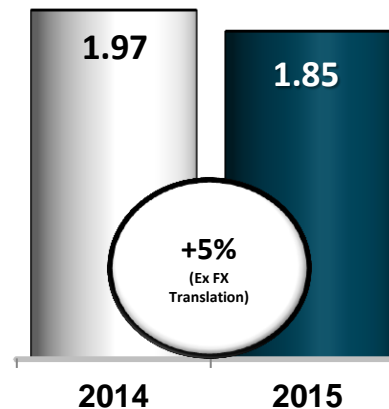
ADJ. OP MARGIN*



Key Performance Drivers

+ Operations	+0.3%
+ Cost Reductions	3.2%
- Cost Inflation	- 2.2%
- Vol/Price/Mix/Other	-0.7%
- FX Translation	-0.3%

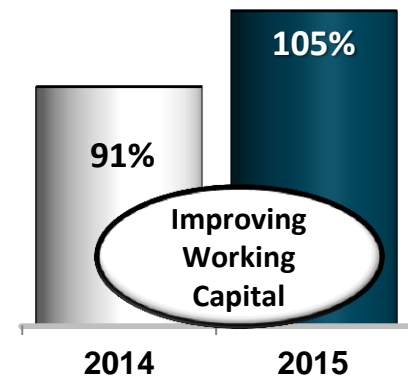
ADJ. EPS*



Key Performance Drivers

+ Operations	+\$0.10
+ Cost Reductions	+\$0.52
+ Cost Inflation	-\$0.35
+ Vol/Price/Mix/Other	-\$0.07
- FX Translation	-\$0.22

FCF* CONVERSION



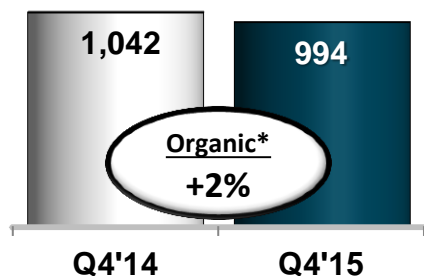
- + Free Cash Flow \$347, up 17%
- + Working Capital % improves 80 bps ex. FX Translation
- + Enabling 24% Increase in Return of Capital to Shareholders

SOLID 2015 PERFORMANCE IN CHALLENGING ENVIRONMENT

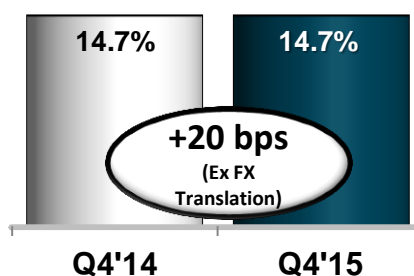
Q4'15 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

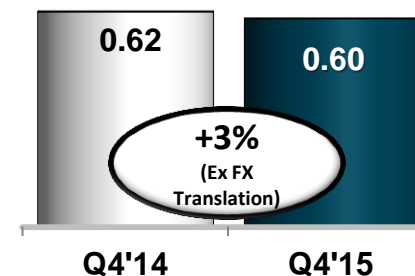
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Key Organic Growth Drivers

+ Public Utility	+8%
+ Residential	+10%
= Commercial	Flat
- Industrial	-2%
- Agriculture	-12%

Organic Growth by Region

+ U.S.	+5%
+ Emerging	+2%
+ W. Europe	+1%
- Canada	-12%

Key Performance Drivers

+ Operations	+0.2%
+ Cost Reductions	3.4%
- Cost Inflation	-2.0%
- Vol/Price/Mix/Other	-1.2%
- FX Translation	-0.2%

**Growth & Cost Discipline
Offsetting Unfavorable Mix ...
Pricing Neutral/Stable**

Key Performance Drivers

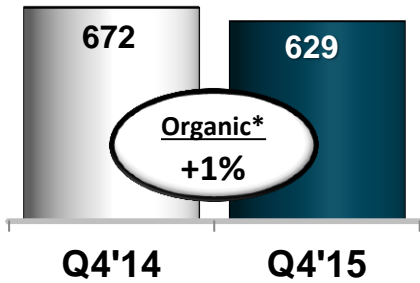
- Operations	+\$0.02
+ Cost Reductions	+\$0.16
- Cost Inflation	-\$0.09
- Vol/Price/Mix/Other	-\$0.05
- FX Translation	-\$0.04
• Tax Rate	18.2%
• Share Count	180.0M

SOLID FINISH TO 2015 ... PERFORMANCE IN-LINE WITH EXPECTATIONS

Q4'15 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Transport +2%
- + Test +4%
- Treatment -3%

By Regions

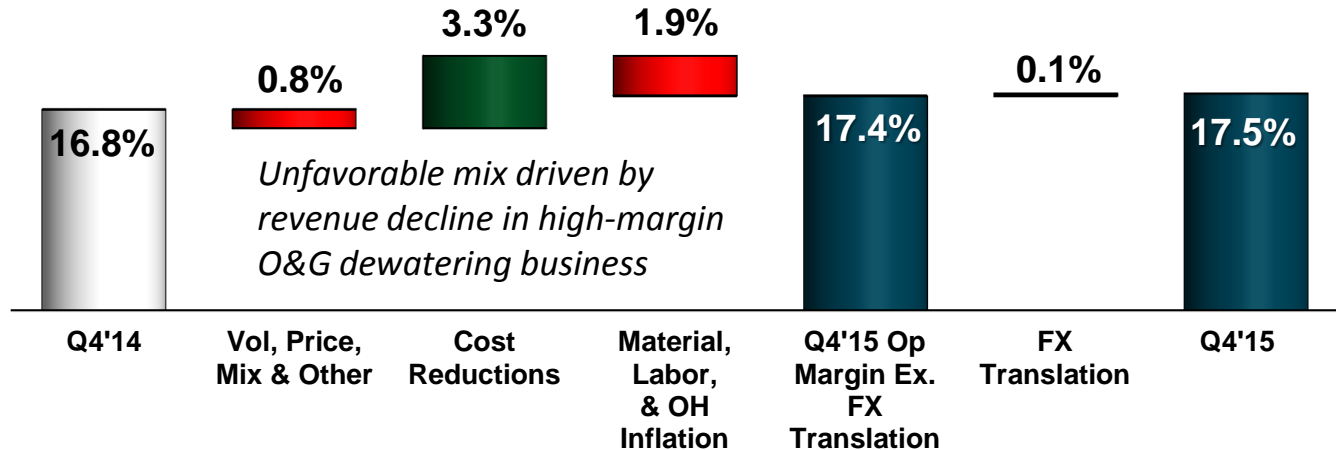
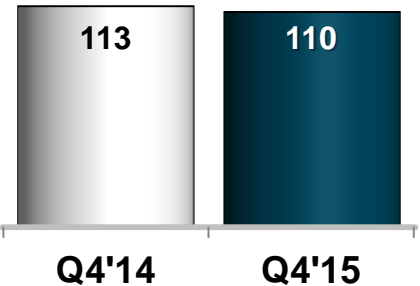
- + U.S. +4%
- + Emerging +5%
- + W. Europe +1%
- Canada -21%

Highlights

- + Transport growth driven by Public Utility strength in water & wastewater pump and dewatering sales and rental services ... and more than offsetting O&G and Mining dewatering headwinds
- + Test application growth in Europe and China
- Treatment decline due to project timing

ADJ. OP INCOME*

(Dollars, In Millions)

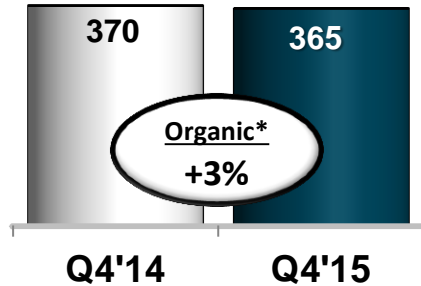


RECORD MARGIN PERFORMANCE

Q4'15 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Bldg Svcs +3%
- + Ind'l Water +5%
- Irrigation -12%

By Regions

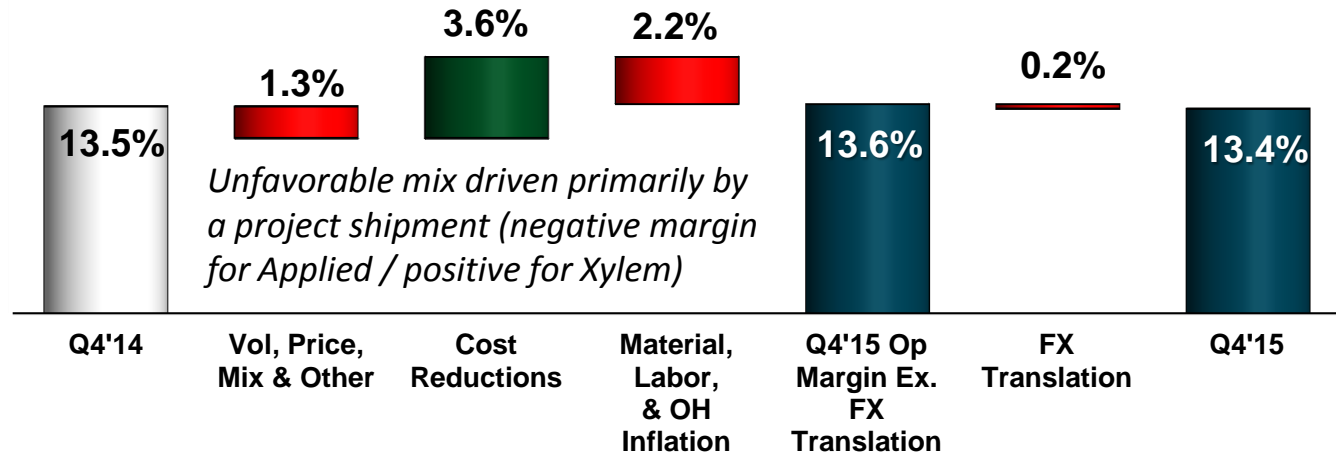
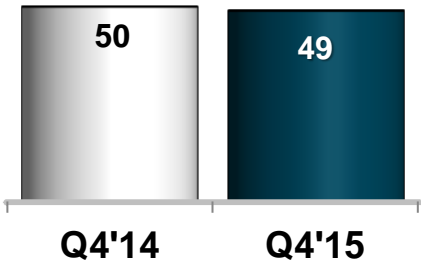
- + U.S. +5%
- + W. Europe +4%
- Emerging -4%

Highlights

- + Building Services growth driven by share gains U.S. Resi applications; Comm'l flat, with continued U.S. growth offset by expected softness in China
- + Industrial Water growth driven by strength in the U.S., and modestly improving market conditions and project shipments in Europe
- U.S. Irrigation decline driven by unfavorable weather

ADJ. OP INCOME*

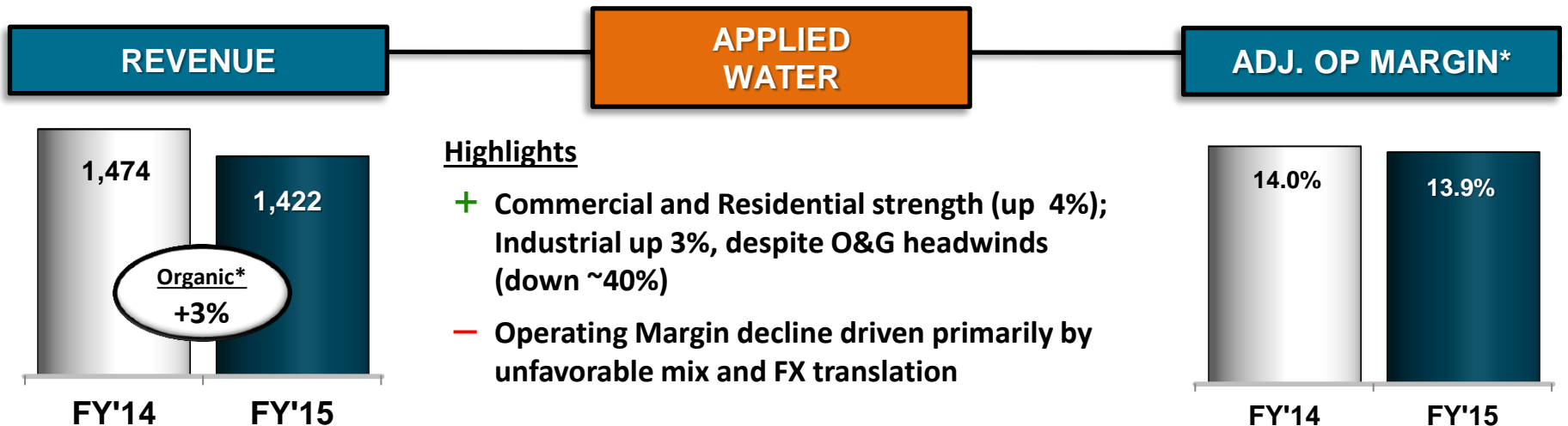
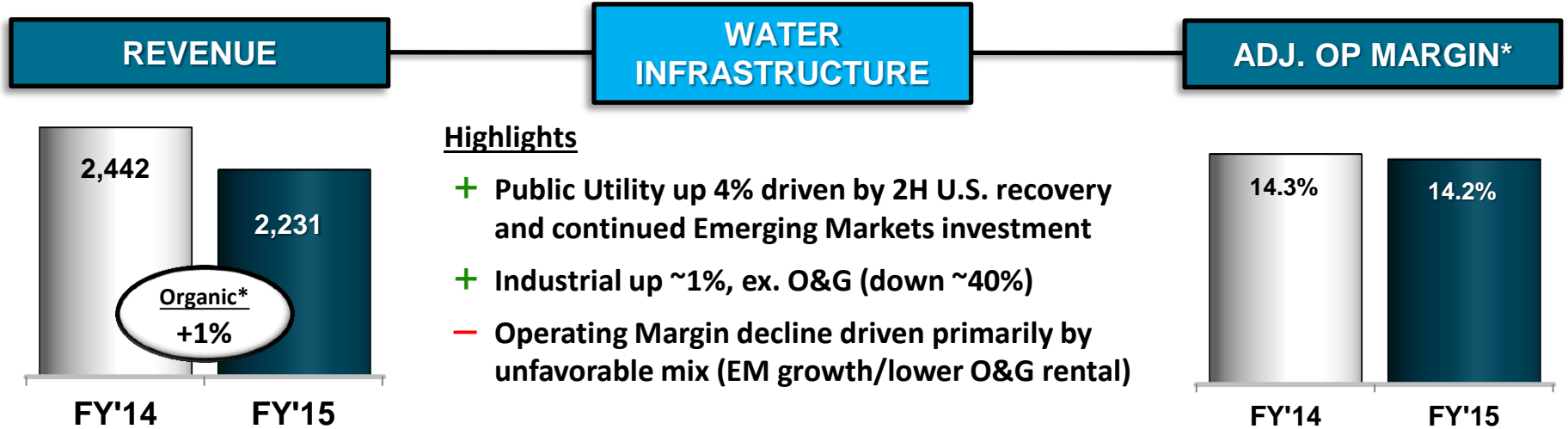
(Dollars, In Millions)



3% ORGANIC GROWTH DESPITE TOUGH PY COMPARISON (+7%)

FULL YEAR 2015 SEGMENT PERFORMANCE

(Dollars, In Millions)

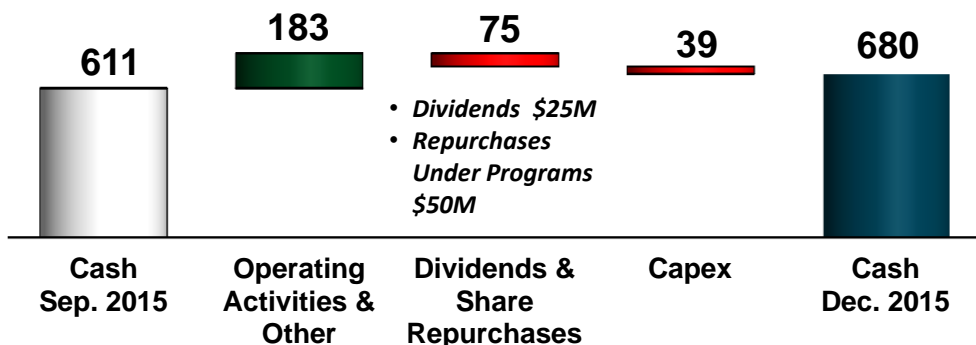


SOLID PERFORMANCE DESPITE O&G HEADWINDS

XYLEM FINANCIAL POSITION

CASH DRIVERS

(Dollars, In Millions)



CAPITAL SUMMARY

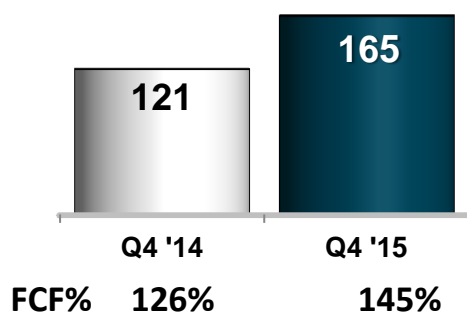
December 31, 2015

(Dollars, In Millions)

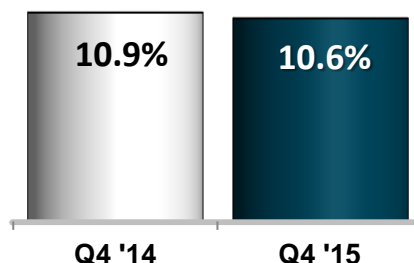
Cash	680
Debt	1,274
Net Debt	594
Shareholders' Equity	2,084
Net Capital	2,678
Net Debt to Net Capital	22.2%

FREE CASH FLOW *

(Dollars, In Millions)



ROIC**

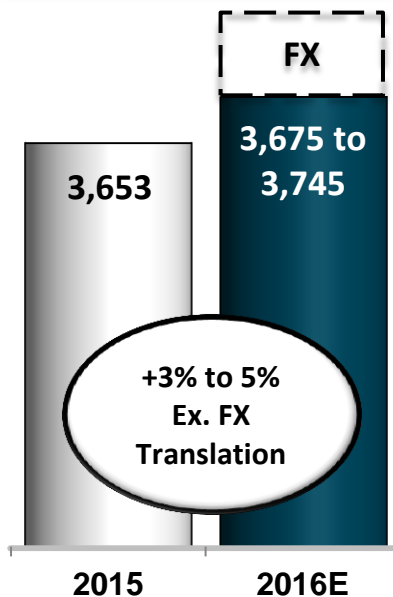


- Strong cash position
- Investment grade credit (BBB / Baa2)
- Full-year return of capital to shareholders up 24% :
 - Dividends \$25 (4Q); \$102 (FY)
 - Share repurchases: \$50 (4Q); \$175 (FY)
- Strong Free Cash Flow performance

2016 OUTLOOK

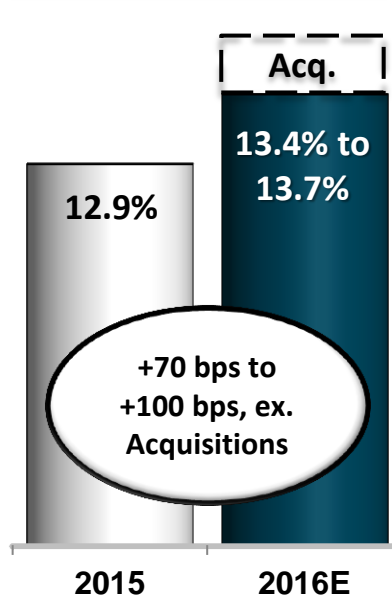
(Dollars, In Millions, except EPS)

REVENUE



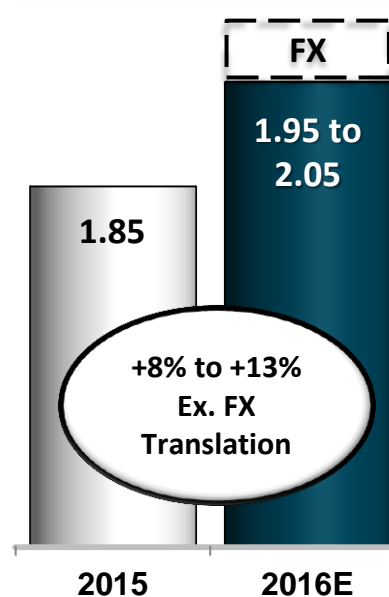
- Organic +2% to 4%
- Acquisitions + 1%
- FX Translation - 3%

ADJ. OP MARGIN*



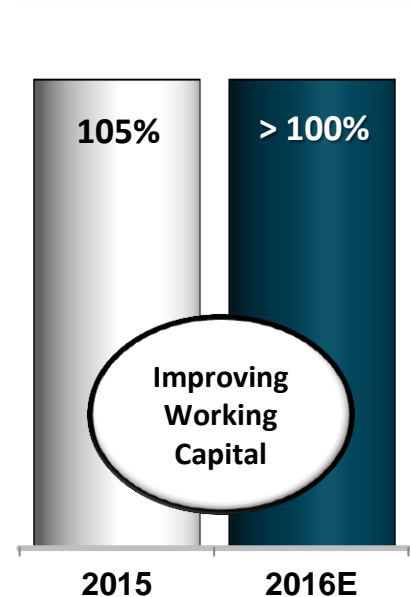
- Acquisitions - 20 bps
- Corp. Expense ~\$50, in-line with 4Q'15 run-rate
- Ex. ~\$25 for Restructuring & Realignment costs

ADJ. EPS*



- Tax Rate ~20%
- Share Count ~180M
- FX Translation - \$0.04

FCF CONVERSION*



COMMITTED TO STRONG OPERATIONAL PERFORMANCE

2016 OUTLOOK

Xylem 2016
Organic Growth



Industrial

(44% of '15 Revenue)

- Low-single digit growth in Light Industrial applications
- Double-digit decline in O&G / Mining (~8% of Revenue)

Flat to Up
Low Single
Digits



Public Utility

(33% of '15 Revenue)

- Mid-single digit U.S. growth
- Europe stable ... Multi-year UK AMP 6 investment cycle accelerates in 2H
- Emerging Market growth continues

Up Mid
Single Digits



Commercial

(14% of '15 Revenue)

- U.S. institutional growth continues
- Improving European market conditions
- Urbanization continues to drive growth in most Emerging Markets (China soft)

Up Mid
Single Digits



Residential

(7% of '15 Revenue)

- U.S. growth moderates, up low single digits
- Continued low single digit growth in Europe

Up Low to
Mid Single
Digits



Agriculture

(2% of '15 Revenue)

- U.S. recovers from '15 weather impacts

Up Low
Single Digits

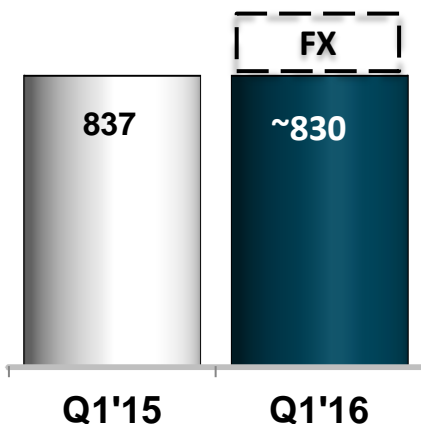
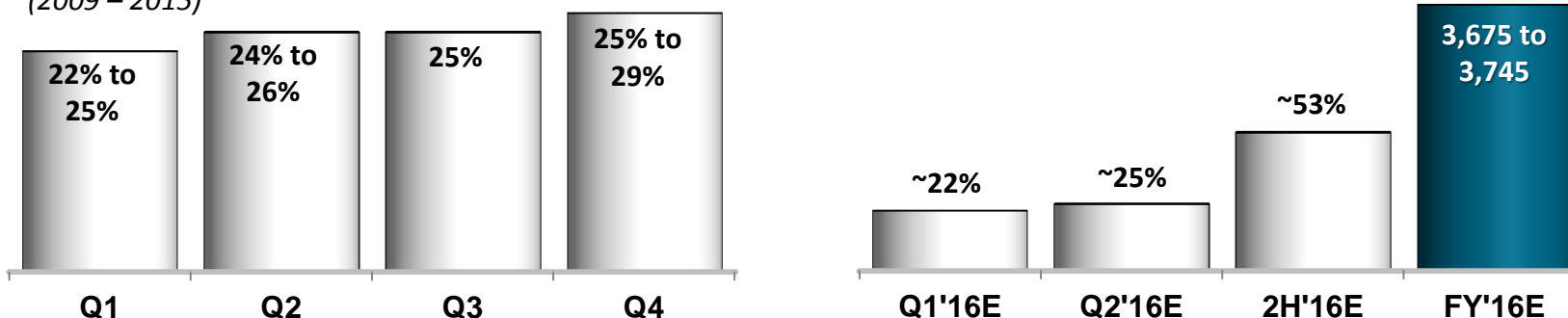
STABLE CONDITIONS ... DRIVING MARKET-PLUS GROWTH

PLANNING ASSUMPTIONS

(Dollars, In Millions)

HISTORIC REVENUE PROFILE

As a % of Full Year
(2009 – 2015)



1Q'16 Highlights (vs. prior year)

- Revenue: Organic Growth +2%; Acquisitions +1%; FX -4%
 - 1Q Shippable backlog -2%
 - Anticipating slight increase in book-and-ship
- Adj. Operating Margin* flat
 - Lean/Global Procurement Savings outpace inflation
 - Unfavorable mix ~40 bps
 - Pacing investments

1Q OUTLOOK: 2% ORGANIC GROWTH ... OP MARGIN FLAT

SUMMARY

- **Strong execution in a challenging environment**
- **Delivered on our commitments; Solid finish to 2015**
- **Strong financial position ... accelerating capital deployment**
- **Increased return of capital to shareholders by 24% in 2015**
- **Well-positioned to further improve performance in 2016**

APPENDIX

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 fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for classification as a discontinued operation or insignificant portions of our business that we did not classify as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.

“Constant currency” defined as financial results adjusted for currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.

“EBITDA” defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **“Adjusted EBITDA”** reflects the adjustment to EBITDA to exclude restructuring and realignment costs, gain on sale of business and special charges.

“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS” defined as operating income, segment operating income and earnings per share, adjusted to exclude restructuring and realignment costs, gain on sale of businesses, special charges and tax-related special items, as applicable.

“Free Cash Flow” defined as net cash from operating activities, as reported in the Statement of Cash Flow, less capital expenditures as well as adjustments for other significant items that impact current results which management believes are not related to our ongoing operations and performance. Our definition of free cash flows does not consider non-discretionary cash payments, such as debt.

“Realignment costs” defined as costs not included in restructuring costs that are incurred as part of actions taken to reposition our business, including items such as professional fees, severance, relocation, travel, facility set-up and other costs.

“Special charges” defined as costs incurred by the Company, such as legal and professional fees, associated with the Korea matters, as well as costs incurred for the contractual indemnification of tax obligations to ITT.

“Tax-related special items” defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts and other discrete tax adjustments.

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders 2015	Orders 2014	Change 2015 v. 2014	% Change 2015 v. 2014	Acquisitions / Divestitures	FX Contribution	Change Adj. 2015 v. 2014	% Change Adj. 2015 v. 2014			
<u>Year Ended December 31</u>											
Xylem Inc.	3,711	4,021	(310)	-8%	9	320	19	0%	0%		
Water Infrastructure	2,296	2,511	(215)	-9%	(1)	240	24	1%	1%		
Applied Water	1,415	1,510	(95)	-6%	10	80	(5)	0%	-1%		
<u>Quarter Ended December 31</u>											
Xylem Inc.	913	970	(57)	-6%	(1)	63	5	1%	1%		
Water Infrastructure	559	596	(37)	-6%	(1)	48	10	2%	2%		
Applied Water	354	374	(20)	-5%	-	15	(5)	-1%	-1%		
<u>Quarter Ended September 30</u>											
Xylem Inc.	939	1,027	(88)	-9%	-	88	-	0%	0%		
Water Infrastructure	590	664	(74)	-11%	-	68	(6)	-1%	-1%		
Applied Water	349	363	(14)	-4%	-	20	6	2%	2%		
<u>Quarter Ended June 30</u>											
Xylem Inc.	944	1,031	(87)	-8%	5	92	10	1%	0%		
Water Infrastructure	585	654	(69)	-11%	-	69	-	0%	0%		
Applied Water	359	377	(18)	-5%	5	24	11	3%	2%		
<u>Quarter Ended March 31</u>											
Xylem Inc.	915	993	(78)	-8%	5	77	4	0%	0%		
Water Infrastructure	562	597	(35)	-6%	-	55	20	3%	3%		
Applied Water	353	396	(43)	-11%	5	21	(17)	-4%	-6%		

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Contribution	Change	% Change			
2015	2014	2015 v. 2014	2015 v. 2014	Divestitures		Adj. 2015 v. 2014	Adj. 2015 v. 2014				
<u>Year Ended December 31</u>											
Xylem Inc.	3,653	3,916	(263)	-7%	10	313	60	2%	1%		
Water Infrastructure	2,231	2,442	(211)	-9%	(1)	234	22	1%	1%		
Applied Water	1,422	1,474	(52)	-4%	11	79	38	3%	2%		
<u>Quarter Ended December 31</u>											
Xylem Inc.	994	1,042	(48)	-5%	(1)	70	21	2%	2%		
Water Infrastructure	629	672	(43)	-6%	(1)	54	10	1%	2%		
Applied Water	365	370	(5)	-1%	-	16	11	3%	3%		
<u>Quarter Ended September 30</u>											
Xylem Inc.	902	963	(61)	-6%	-	81	20	2%	2%		
Water Infrastructure	551	602	(51)	-8%	-	61	10	2%	2%		
Applied Water	351	361	(10)	-3%	-	20	10	3%	3%		
<u>Quarter Ended June 30</u>											
Xylem Inc.	920	1,005	(85)	-8%	6	89	10	1%	0%		
Water Infrastructure	551	616	(65)	-11%	-	65	-	0%	0%		
Applied Water	369	389	(20)	-5%	6	24	10	3%	1%		
<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%		

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

	Q1		Q2		Q3		Q4		YTD	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Total Revenue										
• Total Xylem	837	906	920	1,005	902	963	994	1,042	3,653	3,916
• Water Infrastructure	500	552	551	616	551	602	629	672	2,231	2,442
• Applied Water	337	354	369	389	351	361	365	370	1,422	1,474
Operating Income										
• Total Xylem	83	76	104	116	120	130	142	141	449	463
• Water Infrastructure	47	46	65	76	83	95	108	104	303	321
• Applied Water	46	41	51	53	46	51	47	48	190	193
• Total Segments	93	87	116	129	129	146	155	152	493	514
Operating Margin										
• Total Xylem	9.9%	8.4%	11.3%	11.5%	13.3%	13.5%	14.3%	13.5%	12.3%	11.8%
• Water Infrastructure	9.4%	8.3%	11.8%	12.3%	15.1%	15.8%	17.2%	15.5%	13.6%	13.1%
• Applied Water	13.6%	11.6%	13.8%	13.6%	13.1%	14.1%	12.9%	13.0%	13.4%	13.1%
• Total Segments	11.1%	9.6%	12.6%	12.8%	14.3%	15.2%	15.6%	14.6%	13.5%	13.1%
Special Charges										
• Total Xylem	1	-	-	-	-	-	-	-	1	-
• Water Infrastructure	1	-	-	-	-	-	-	-	1	-
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Total Segments	1	-	-	-	-	-	-	-	1	-
Restructuring & Realignment Costs										
• Total Xylem	6	18	6	9	4	4	4	12	20	43
• Water Infrastructure	5	12	4	5	2	3	2	9	13	29
• Applied Water	1	6	2	4	2	1	2	2	7	13
• Total Segments	6	18	6	9	4	4	4	11	20	42
Adjusted Operating Income*										
• Total Xylem	90	94	110	125	124	134	146	153	470	506
• Water Infrastructure	53	58	69	81	85	98	110	113	317	350
• Applied Water	47	47	53	57	48	52	49	50	197	206
• Total Segments	100	105	122	138	133	150	159	163	514	556
Adjusted Operating Margin*										
• Total Xylem	10.8%	10.4%	12.0%	12.4%	13.7%	13.9%	14.7%	14.7%	12.9%	12.9%
• Water Infrastructure	10.6%	10.5%	12.5%	13.1%	15.4%	16.3%	17.5%	16.8%	14.2%	14.3%
• Applied Water	13.9%	13.3%	14.4%	14.7%	13.7%	14.4%	13.4%	13.5%	13.9%	14.0%
• Total Segments	11.9%	11.6%	13.3%	13.7%	14.7%	15.6%	16.0%	15.6%	14.1%	14.2%

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

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

	Q4 2014			Q4 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,042		1,042	994		994
Operating Income	141	12 a	153	142	4 a	146
Operating Margin	13.5%		14.7%	14.3%		14.7%
Interest Expense	(13)		(13)	(14)		(14)
Other Non-Operating Income (Expense)	-		-	-		-
Gain from sale of business	-		-	-		-
Income before Taxes	128	12	140	128	4	132
Provision for Income Taxes	(32)	6 c	(26)	(14)	(10) c	(24)
Net Income	96	18	114	114	(6)	108
Diluted Shares	183.3		183.4	180.0		180.0
Diluted EPS	\$ 0.52	\$ 0.10	\$ 0.62	\$ 0.63	\$ (0.03)	\$ 0.60
Year-over-year currency translation impact on current year diluted EPS				\$ (0.05)	\$ 0.01	\$ (0.04)
Diluted EPS at Constant Currency				\$ 0.68	\$ (1.32)	\$ 0.64

	Q4 YTD 2014			Q4 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,916		3,916	3,653		3,653
Operating Income	463	43 a	506	449	21 a	470
Operating Margin	11.8%		12.9%	12.3%		12.9%
Interest Expense	(54)		(54)	(55)		(55)
Other Non-Operating Income (Expense)	1		1	-	4 b	4
Gain from sale of businesses	11	(11)	-	9	(9)	0
Income before Taxes	421	32	453	403	16	419
Provision for Income Taxes	(84)	(7) c	(91)	(63)	(20) c	(83)
Net Income	337	25	362	340	(4)	336
Diluted Shares	184.2		184.2	181.7		181.7
Diluted EPS	\$ 1.83	\$ 0.14	\$ 1.97	\$ 1.87	\$ (0.02)	\$ 1.85
Year-over-year currency translation impact on current year diluted EPS				\$ (0.22)	\$ -	\$ (0.22)
Diluted EPS at Constant Currency				\$ 2.09	\$ (0.02)	\$ 2.07

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

b Special charges

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

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

	Q1		Q2		Q3		Q4		Year Ended	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net Cash - Operating Activities	\$ 39	\$ 22	\$ 84	\$ 76	\$ 137	\$ 155	\$ 204	\$ 163	\$ 464	\$ 416
Capital Expenditures	(37)	(25)	(20)	(23)	(21)	(29)	(39)	(42)	(117)	(119)
Free Cash Flow	<u>\$ 2</u>	<u>\$ (3)</u>	<u>\$ 64</u>	<u>\$ 53</u>	<u>\$ 116</u>	<u>\$ 126</u>	<u>\$ 165</u>	<u>\$ 121</u>	<u>\$ 347</u>	<u>\$ 297</u>
Net Income	64	49	74	86	88	106	114	96	340	337
Gain from sale of businesses	9	-	-	-	-	11	-	-	9	11
Net Income, excluding gain on sale of businesses	<u>\$ 55</u>	<u>\$ 49</u>	<u>\$ 74</u>	<u>\$ 86</u>	<u>\$ 88</u>	<u>\$ 95</u>	<u>\$ 114</u>	<u>\$ 96</u>	<u>\$ 331</u>	<u>\$ 326</u>
Free Cash Flow Conversion	<u>4%</u>	<u>-6%</u>	<u>86%</u>	<u>62%</u>	<u>132%</u>	<u>133%</u>	<u>145%</u>	<u>126%</u>	<u>105%</u>	<u>91%</u>

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

	2015				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	77	91	107	128	403
Interest Expense (Income), net	13	13	13	14	53
Depreciation	24	23	22	19	88
Amortization	11	11	11	12	45
Stock Compensation	4	4	3	4	15
EBITDA	<u>129</u>	<u>142</u>	<u>156</u>	<u>177</u>	<u>604</u>
Restructuring & Realignment	6	6	4	4	20
Gain on sale of business	(9)	-	-	-	(9)
Special Charges	2	1	2	-	5
Adjusted EBITDA	<u>128</u>	<u>149</u>	<u>162</u>	<u>181</u>	<u>620</u>
Revenue	<u>837</u>	<u>920</u>	<u>902</u>	<u>994</u>	<u>3,653</u>
Adjusted EBITDA Margin	<u>15.3%</u>	<u>16.2%</u>	<u>18.0%</u>	<u>18.2%</u>	<u>17.0%</u>
	2014				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	61	104	128	128	421
Interest Expense (Income), net	13	14	12	13	52
Depreciation	23	24	23	25	95
Amortization	13	12	12	10	47
Stock Compensation	4	5	5	4	18
EBITDA	<u>114</u>	<u>159</u>	<u>180</u>	<u>180</u>	<u>633</u>
Restructuring & Realignment	18	9	4	12	43
Gain on sale of business	-	-	(11)	-	(11)
Adjusted EBITDA	<u>132</u>	<u>168</u>	<u>173</u>	<u>192</u>	<u>665</u>
Revenue	<u>906</u>	<u>1,005</u>	<u>963</u>	<u>1,042</u>	<u>3,916</u>
Adjusted EBITDA Margin	<u>14.6%</u>	<u>16.7%</u>	<u>18.0%</u>	<u>18.4%</u>	<u>17.0%</u>

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

	2015				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	55	65	84	108	312
Interest Expense (Income), net	-	(1)	-	-	(1)
Depreciation	16	14	13	10	53
Amortization	9	9	9	8	35
Stock Compensation	1	-	1	-	2
EBITDA	81	87	107	126	401
Restructuring & Realignment	5	4	2	2	13
Gain on sale of business	(8)	-	-	-	(8)
Special Charges	1	-	-	-	1
Adjusted EBITDA	79	91	109	128	407
Revenue	500	551	551	629	2,231
Adjusted EBITDA Margin	15.8%	16.5%	19.8%	20.3%	18.2%
	2014				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	45	77	96	105	323
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	15	15	14	17	61
Amortization	10	10	10	9	39
Stock Compensation	1	1	-	-	2
EBITDA	71	103	119	131	424
Restructuring & Realignment	12	5	3	9	29
Adjusted EBITDA	83	108	122	140	453
Revenue	552	616	602	672	2,442
Adjusted EBITDA Margin	15.0%	17.5%	20.3%	20.8%	18.6%

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

	2015				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	46	51	47	46	190
Interest, net	-	-	-	-	-
Depreciation	5	5	7	4	21
Amortization	1	1	-	3	5
Stock Compensation	1	-	-	1	2
EBITDA	53	57	54	54	218
Restructuring & Realignment	1	2	2	2	7
Gain on sale of business	(1)	-	-	-	(1)
Adjusted EBITDA	53	59	56	56	224
Revenue	337	369	351	365	1,422
Adjusted EBITDA Margin	15.7%	16.0%	16.0%	15.3%	15.8%
	2014				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	42	53	61	48	204
Interest, net	-	-	-	-	-
Depreciation	5	5	6	5	21
Amortization	1	1	1	1	4
Stock Compensation	-	1	1	-	2
EBITDA	48	60	69	54	231
Restructuring & Realignment	6	4	1	2	13
Gain on sale of business	-	-	(11)	-	(11)
Adjusted EBITDA	54	64	59	56	233
Revenue	354	389	361	370	1,474
Adjusted EBITDA Margin	15.3%	16.5%	16.3%	15.1%	15.8%

xylem

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