

**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): August 2, 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**
(Address of principal executive offices)

10604
(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 August 2, 2012, announcing the financial results for the quarter ended June 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 August 2, 2012, summarizing Xylem Inc.'s financial results for the quarter ended June 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 August 2, 2012.
99.2	Slides summarizing first quarter financial results posted by Xylem Inc. on August 2, 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: August 2, 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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Xylem

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Xylem Inc. reports second quarter 2012 results

Second quarter adjusted net income is \$92 million or \$0.49 per share, up 4 percent on a normalized* basis; \$89 million or \$0.48 per share as reported, up 23 percent or \$0.09 per share from Q2 2011

Second quarter revenue up 4 percent in constant currencies to \$966 million; down 1 percent as reported, due to foreign currency translation impact

Gross and operating margins climb 60 and 100 basis points, respectively, on a normalized basis, continuing a three-year upward trend; sales program and cost reduction initiatives driving profitability

Company continues to execute growth strategy with MJK Automation acquisition; emerging markets post revenue growth of 22 percent in constant currencies

WHITE PLAINS, N.Y., August 2, 2012 – Xylem Inc. (NYSE: XYL), a leading global water technology company focused on solving the world’s most challenging water issues, today reported second quarter revenue of \$966 million, up 4 percent on a constant currency basis, down 1 percent as reported from the second quarter 2011. Second quarter net income was \$89 million or \$0.48 per share, up \$0.09 per share or 23 percent 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 tax items, net income was \$92 million or \$0.49 per share, up 4 percent or \$0.02 per share over the second quarter 2011 on a normalized basis.* Recognizing soft economic conditions and the anticipated negative currency impact from the recent strengthening of the U.S. dollar, the company announced that it is revising its full-year revenue and earnings outlook downward.

“Our business operations continue to improve, even with lower than anticipated revenue, showing strong gross and operating margin improvement in this tough economy, extending a three-year positive trend: we’re seeing the benefit of disciplined cost control measures we’ve put in place,” said Gretchen McClain, president and chief executive officer of Xylem. “Our leadership team is committed to maximizing the benefit of our Customer Excellence sales initiatives to grow the top line, and we are driving operational excellence to grow the bottom line, as well as controlling costs.”

* The 2011 normalized earnings per share reflect adjustments (including one-time separation costs, 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.

“We continue to enhance our portfolio, having just closed the acquisition of MJK Automation, a leading manufacturer of flow and level sensors, and measurement and control technology for water and wastewater applications, a business that complements our offerings in the attractive analytical instrumentation space,” McClain said. “Further, we’ve seen our business grow by 22 percent in constant currencies in the emerging markets, or 17 percent on an organic basis, enhancing our footprint, most recently with new sales and service centers in Panama and Vietnam.”

Full-year revenues are now expected to be approximately \$3.8 billion, and adjusted net income is expected to be in the range of \$321 to \$338 million, or \$1.72 to \$1.82 per share, down from the earlier projection of adjusted net income of \$1.80 to \$1.95 per share. Full-year GAAP net income is now anticipated to be in the range of \$292 to \$317 million, or \$1.57 to \$1.70 per share, which includes \$15 to \$20 million of restructuring and realignment costs and \$15 to \$20 million of one-time separation costs. This is down from the earlier projection of GAAP net income of \$1.72 to \$1.89 per share.

Second Quarter 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.

- Second quarter 2012 segment revenue was \$609 million, up 1 percent as reported, and up 7 percent in constant currencies from the second quarter of 2011. A 58 percent increase in the test business, driven by the newly acquired YSI business and 38 percent growth in the emerging markets on a constant currency basis, more than offset weakness in treatment.
- Second quarter adjusted segment operating margin was down 50 basis points from the second quarter 2011 to 15.4 percent, driven by the impact of incremental stand-alone costs and inflation, which was partially offset by price and cost actions. Stand-alone costs negatively impacted operating margin by 70 basis points for the second quarter 2012.

Applied Water

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

- Second quarter 2012 segment revenue was \$373 million, flat on a constant currency basis and down 3 percent over the second quarter of 2011, attributable to slowing commercial and residential demand, which was partially offset by strength in the U.S. industrial business.
- Second quarter adjusted segment operating margin was 13.9 percent, up 90 basis points from the second quarter 2011, thanks to significant productivity and price initiatives which more than offset incremental stand-alone costs. Stand-alone costs negatively impacted operating margin 50 basis points for the second quarter of 2012.

More detail available

Supplemental information on Xylem's second quarter earnings, including 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.

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)

<u>For the periods ended June 30,</u>	Three Months		Six Months	
	2012	2011	2012	2011
Revenue	\$ 966	\$ 971	\$ 1,891	\$ 1,861
Cost of revenue	583	592	1,145	1,145
Gross profit	383	379	746	716
Selling, general and administrative expenses	220	219	451	429
Research and development expenses	28	26	56	50
Separation costs	6	18	11	21
Operating income	129	116	228	216
Interest expense	13	1	27	1
Other non-operating (expense) income, net	(1)	—	(2)	1
Income before taxes	115	115	199	216
Income tax expense	26	43	47	66
Net income	\$ 89	\$ 72	\$ 152	\$ 150
Earnings per share:				
Basic	\$ 0.48	\$ 0.39	\$ 0.82	\$ 0.82
Diluted	\$ 0.48	\$ 0.39	\$ 0.82	\$ 0.82
Weighted average number of shares:				
Basic	185.8	184.6	185.6	184.6
Diluted	186.2	184.6	186.1	184.6
Dividends declared per share	\$0.1012	\$ —	\$0.2024	\$ —

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

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 358	\$ 318
Receivables, less allowances for discounts and doubtful accounts of \$32 and \$37 in 2012 and 2011, respectively	770	756
Inventories, net	467	426
Prepaid and other current assets	107	97
Deferred income tax assets	47	45
Total current assets	1,749	1,642
Property, plant and equipment, net	459	463
Goodwill	1,601	1,610
Other intangible assets, net	485	505
Other non-current assets	188	173
Total assets	\$ 4,482	\$ 4,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 327	\$ 322
Accrued and other current liabilities	445	490
Short-term borrowings and current maturities of long-term debt	7	5
Total current liabilities	779	817
Long-term debt	1,199	1,201
Accrued postretirement benefits	313	316
Deferred income tax liability	176	165
Other non-current accrued liabilities	67	67
Total liabilities	2,534	2,566
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common Stock – authorized 750.0 shares, par value \$0.01 per share:		
Issued 185.7 shares and 184.6 shares in 2012 and 2011, respectively	2	2
Capital in excess of par value	1,690	1,663
Retained earnings	153	40
Treasury stock – at cost 0.1 shares and 0 shares in 2012 and 2011, respectively	(3)	—
Accumulated other comprehensive income	106	122
Total stockholders' equity	1,948	1,827
Total liabilities and stockholders' equity	\$ 4,482	\$ 4,393

XYLEM INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (Unaudited)**

(in millions)

<u>For the six months ended June 30,</u>	<u>2012</u>	<u>2011</u>
Operating Activities		
Net income	\$ 152	\$ 150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67	68
Share-based compensation	10	5
Payments for restructuring	—	(6)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(16)	(54)
Changes in inventories	(44)	(31)
Changes in accounts payable	12	(14)
Changes in accrued liabilities	(24)	3
Changes in accrued taxes	(5)	26
Net changes in other assets and liabilities	(20)	11
Other, net	(7)	3
Net Cash—Operating activities	125	161
Investing Activities		
Capital expenditures	(57)	(53)
Proceeds from the sale of property, plant and equipment	3	5
Other, net	1	—
Net Cash—Investing activities	(53)	(48)
Financing Activities		
Net transfer to former parent	(6)	(112)
Issuance of short-term debt	3	—
Principal payments of debt and capital lease obligations	(3)	—
Purchase of common stock	(3)	—
Proceeds from exercise of employee stock options	16	—
Dividends paid	(39)	—
Other, net	1	—
Net Cash—Financing activities	(31)	(112)
Effect of exchange rate changes on cash	(1)	6
Net change in cash and cash equivalents	40	7
Cash and cash equivalents at beginning of year	318	131
Cash and cash equivalents at end of year	\$ 358	\$ 138
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 26	\$ —
Income taxes (net of refunds received)	\$ 54	\$ 18

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 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 one-time separation costs associated with the Xylem spin-off from ITT Corporation.

“Operating Income *”, “Adjusted Operating Income” and “Adjusted EPS” defined as operating income and earnings per share, adjusted to exclude restructuring and realignment and one-time separation costs associated with the Xylem spin-off from ITT Corporation 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 Currency</u>
	(A)		(B)		(C)	(D)	(E)	(F) = B+C+D+E	(G) = F/A	(H) = (B + D) / A
	<u>Orders</u>	<u>Orders</u>	<u>Change</u>	<u>% Change</u>	<u>Acquisitions /</u>	<u>FX Contribution</u>	<u>Eliminations</u>	<u>Change</u>	<u>% Change</u>	
<u>2012</u>	<u>2011</u>	<u>2012 v. 2011</u>	<u>2012 v. 2011</u>	<u>Divestitures</u>			<u>Adj. 2012 v.</u>	<u>Adj. 2012 v. 2011</u>		
							<u>2011</u>			
Six Months Ended										
June 30										
Xylem Inc.	1,974	1,976	(2)	-0.1%	(67)	69	—	—	0.0%	3.4%
Water infrastructure	1,255	1,244	11	0.9%	(67)	53	—	(3)	-0.2%	5.1%
Applied Water	752	764	(12)	-1.6%	—	18	(3)	3	0.4%	0.8%
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.

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

	<u>(As Reported - GAAP)</u>				<u>(As Adjusted - Organic)</u>					<u>Constant Currency</u>
	<u>(A)</u>		<u>(B)</u>		<u>(C)</u>	<u>(D)</u>	<u>(E)</u>	<u>(F) = B+C+D+E</u>	<u>(G) = F/A</u>	<u>(H) = (B + D) / A</u>
	<u>Revenue</u> 2012	<u>Revenue</u> 2011	<u>Change</u> 2012 v. 2011	<u>% Change</u> 2012 v. 2011	<u>Acquisitions /</u> <u>Divestitures</u>	<u>FX Contribution</u>	<u>Eliminations</u>	<u>Change</u> Adj. 2012 v. 2011	<u>% Change</u> Adj. 2012 v. 2011	
Six Months										
Ended June 30										
Xylem Inc.	1,891	1,861	30	1.6%	(66)	63	—	27	1.5%	5.0%
Water infrastructure	1,193	1,153	40	3.5%	(66)	47	—	21	1.8%	7.5%
Applied Water	728	740	(12)	-1.6%	—	18	(1)	5	0.7%	0.8%
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%	—	13	(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	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 Six Months Ended June 30, 2012 & 2011
(\$ Millions, except per share amounts)

	<u>Q1 2012</u>	<u>Q2 2012</u>	<u>YTD 2012</u>
Net Income	63	89	152
Separation costs, net of tax	4	4	8
Adjusted Net Income before Special Tax Items	<u>67</u>	<u>93</u>	<u>160</u>
Special Tax Items	—	(1)	(1)
Adjusted Net Income	<u>67</u>	<u>92</u>	<u>159</u>
Diluted Earnings per Share	\$ 0.34	\$ 0.48	\$ 0.82
Separation costs per Share	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>
Adjusted diluted EPS before Special Tax Items	<u>\$ 0.36</u>	<u>\$ 0.50</u>	<u>\$ 0.86</u>
Special Tax Items per Share	<u>\$ 0.00</u>	<u>(\$ 0.01)</u>	<u>(\$ 0.01)</u>
Adjusted diluted EPS	<u>\$ 0.36</u>	<u>\$ 0.49</u>	<u>\$ 0.85</u>
	<u>Q1 2011</u>	<u>Q2 2011</u>	<u>YTD 2011</u>
Net Income	78	72	150
Separation costs, net of tax	2	27	29
Adjusted Net Income before Special Tax Items	<u>80</u>	<u>99</u>	<u>179</u>
Special Tax Items	—	4	4
Adjusted Net Income	<u>80</u>	<u>103</u>	<u>183</u>
Diluted Earnings per Share	\$ 0.42	\$ 0.39	\$ 0.82
Separation costs per Share	<u>\$ 0.01</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>
Adjusted diluted EPS before Special Tax Items	<u>\$ 0.43</u>	<u>\$ 0.54</u>	<u>\$ 0.97</u>
Special Tax Items per Share	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Adjusted diluted EPS	<u>\$ 0.43</u>	<u>\$ 0.56</u>	<u>\$ 0.99</u>

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

	Q2 2011					Q2 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	971		971		971	966		966
Operating Income	116	18a	134	(8)c	126	129	6a	135
Operating Margin	11.9%		13.8%		13.0%	13.4%		14.0%
Interest Expense	(1)		(1)	(13)d	(14)	(13)		(13)
Other Non-Operating Income (Expense)	—		—		—	(1)		(1)
Income before Taxes	115	18	133	(21)	112	115	6	121
Provision for Income Taxes	(43)	13b	(30)	5e	(25)	(26)	(3)b	(29)
Net Income	72	31	103	(16)	87	89	3	92
Diluted Shares	184.6				184.6	186.2		186.2
Diluted EPS	\$ 0.39	\$ 0.17	\$ 0.56	\$ (0.09)	\$ 0.47	\$ 0.48	\$ 0.01	\$ 0.49

a One time separation 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
Segment Operating Income
(\$ Millions)

Adjusted Segment Operating Income

	Q1		Q2		YTD	
	'12	'11	'12	'11	'12	'11
Total Revenue						
• Water Infrastructure	584	551	609	602	1,193	1,153
• Applied Water	355	355	373	385	728	740
Operating Income						
• Water Infrastructure	75	64	93	94	167	158
• Applied Water	40	46	52	50	92	96
Separation Costs						
• Water Infrastructure	2	—	1	2	3	2
• Applied Water	1	—	—	—	1	—
Adjusted Operating Income*						
• Water Infrastructure	77	64	94	96	170	160
• Applied Water	41	46	52	50	93	96
Operating Margin						
• Water Infrastructure	12.8%	11.6%	15.2%	15.6%	14.0%	13.7%
• Applied Water	11.3%	13.0%	13.9%	13.0%	12.6%	13.0%
Adjusted Operating Margin*						
• Water Infrastructure	13.2%	11.6%	15.4%	15.9%	14.2%	13.9%
• Applied Water	11.5%	13.0%	13.9%	13.0%	12.8%	13.0%

* Adjusted Operating Income excludes non-recurring separation costs

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

	<u>Six Months Ended</u>	
	<u>2012</u>	<u>2011</u>
Net Cash—Operating Activities	125	161
Capital Expenditures	(57)	(53)
Free Cash Flow, including separation costs	68	108
Separation Costs (Cash Paid incl. Capex)	18	26
Free Cash Flow, excluding separation costs	<u>86</u>	<u>134</u>
Net Income	152	150
Separation Costs, net of tax (incl. tax friction)	8	29
Adjusted Net Income	<u>160</u>	<u>179</u>
Free Cash Flow Conversion	<u>54%</u>	<u>75%</u>

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

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	29a	532	(10)d	522	524	25h,i	549
Segment Operating Margin	13.2%		14.0%		13.7%	13.8%		14.4%
Corporate Expense	108	(58)b	50	18e	68	66	(11)h	55
Operating Income	395	87	482	(28)	454	458	36	494
Operating Margin	10.4%		12.7%		11.9%	12.1%		13.0%
Interest Expense	(17)		(17)	(39)f	(56)	(54)		(54)
Other Non-Operating Income (Expense)	5		5		5	(2)		(2)
Income before Taxes	383	87	470	(67)	403	402	36	438
Provision for Income Taxes	(104)	(8)c	(112)	16g	(96)	(99)	(10)j	(109)
Net Income	279	79	358	(51)	307	303	26	329
Diluted Shares	185.3				185.3	186.3		186.3
Diluted EPS	\$ 1.50	\$ 0.43	\$ 1.93	\$ (0.27)	1.66	1.63	0.14	1.77

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 \$7M and \$11M to be incurred at the segments and headquarters, respectively.

i Restructuring & realignment costs of \$18M 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 Q2 2012.

Q2 2012 Earnings Release

August 2, 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.

Q2'12 Xylem Results

Financial Performance Summary

Orders	\$970M	Book to Bill 1.00
Revenue	\$966M	+4% (Constant Currency)*
Gross Margin	39.6%	+60 bps
Operating Margin *	14.0%	14.8% ex. Stand-Alone Costs, +100 bps
EPS *	\$0.49	+4% Normalized Growth
Free Cash Flow *	\$86M	54% Conversion

Strong Operating Performance

Business Update

Advancing Our Strategic Position

- **Growing the Analytical Instrumentation Platform**
 - **MJK Automation Acquisition**
- **Expanding Dewatering Services into Attractive Markets in Brazil**

Deploying Innovative New Product Applications and Services






- **Strong Order Rate for Treatment in Q2'12**
- **New Generation YSI EXO Sonde**
- **Xylem Total Care - Energy Audits Identify Customer Savings & Retrofit Opportunities**

Continued Strong Execution

- **Q2'12 Emerging Markets Growth of 22% (Constant Currency Basis)**
- **Driving Customer Excellence and Cost Reduction Initiatives**

Strengthening Foundation & Positioning for Future Growth

1H'12 Organic Revenue Performance

End Market (% of 2011 Revenue)	1H'12 Organic Growth vs. PY	Major Geographic Region (% of 2011 Revenue)	Organic Growth vs. PY
Industrial (~40%)	 Mid Single	U.S. (~36%)	+3%
Public Utility (~36%)		+ Industrial & Residential Strength	
Commercial (~12%)	 Low Single	+ Commercial Up (Moderating)	
Residential (~9%)	 Low Single	- Public Utility (Dewatering & Projects)	
Agriculture (~3%)	 Mid Single	Europe (~37%)	-1%
		- Industrial Down Slightly	
		- Residential & Commercial Weakness	
		= Public Utility Flat	
		Emerging Markets (19%)	+11%
		+ Up Across All Regions	
		Total Growth	+1%

U.S. & EM Strength Partially Offset by Europe ... Public Utility Stable

Full Year Outlook

Challenging Market Dynamics

- Slower Growth in the Developed Markets
- FX Headwinds Continue

Productivity & Strong Execution Continues While Investing for Growth

- Disciplined Capital Deployment
- Maintaining Operating Margin Expansion Target

Accelerating Restructuring & Realignment Actions In Face of Economic Uncertainty

- Investing \$15M to \$20M

Updating 2012 Guidance, Reflecting Lower Organic Growth

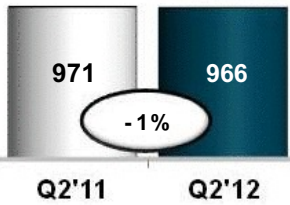
- Full Year Revenue ~\$3.8B; Organic Growth 1% to 3%
- Adjusted EPS Mid Point of \$1.77*

Navigating Through a Tougher Macro Environment

Q2'12 Xylem Performance

Revenue

(Dollars, In Millions)



Q2 Growth

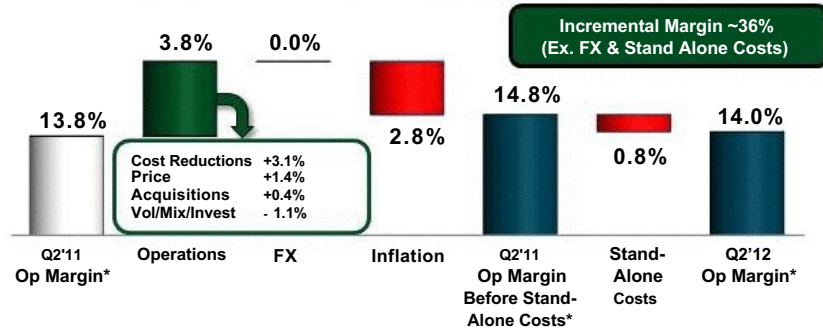
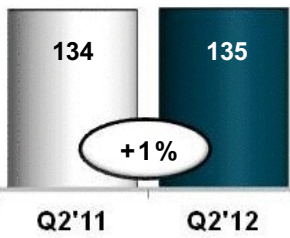
Organic	+1%
Acquisition	+3%
Constant Currency	+4%
FX	-5%
Total	-1%

Organic Performance

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

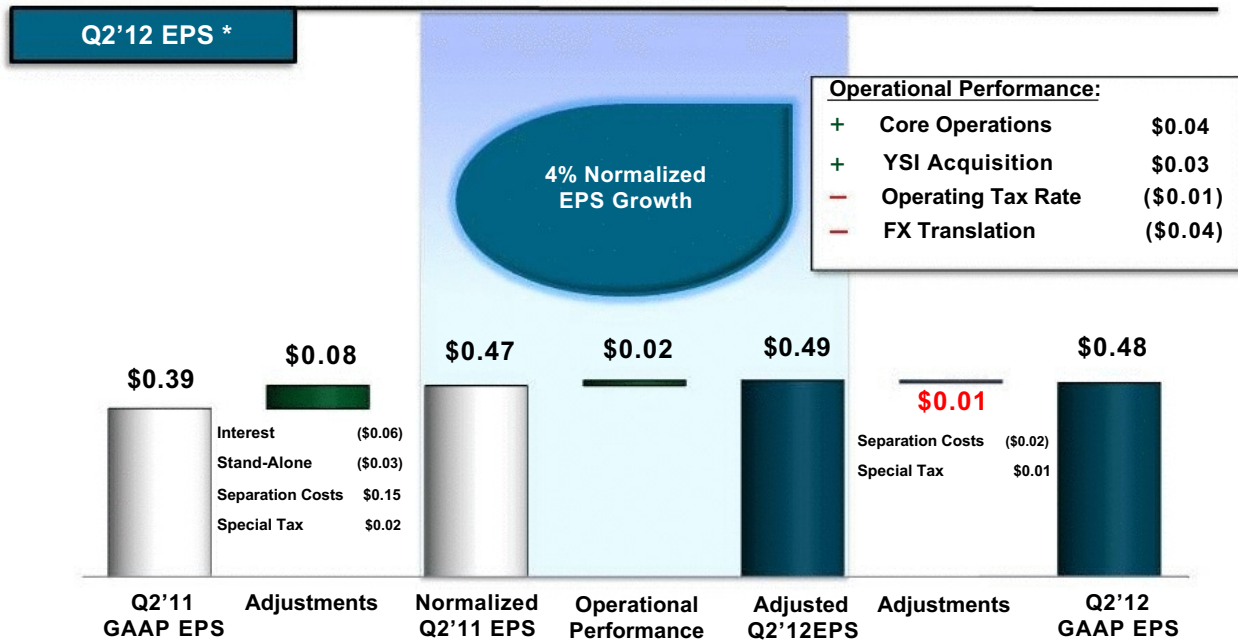
Operating Income *

(Dollars, In Millions)



Revenue Up 4%* ... Op Margin Before Stand Alone Costs + 100 Bps

Q2'12 Xylem Performance

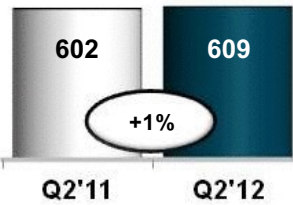


Core Operations & YSI Drive Significant Earnings Growth

Q2'12 Water Infrastructure Performance

Revenue

(Dollars, In Millions)



Q2 Growth

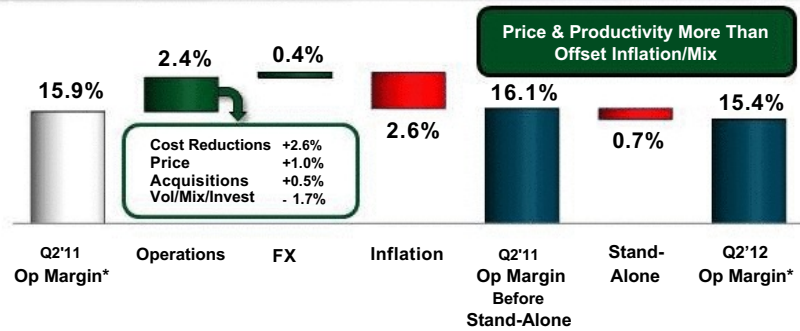
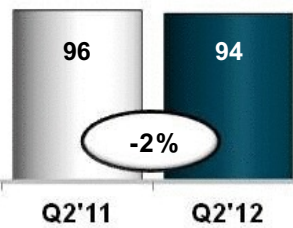
(Constant Currency)

Organic	+2%
Acquisition	+5%
Constant Currency	+7%
FX	-6%
Total	+1%

- Transport +6%
 - + Public Utility ... Emerging Markets Up, Europe Flat
 - + Industrial ... Up in Most Regions, U.S. Flat
 - Drought Condition Impact on Dewatering
- Treatment -11%
 - Lower Project Deliveries; Key Wins for 2013
- Test +58% (Incl. YSI Acquisition \$32M)
 - Europe Weaker

Operating Income *

(Dollars, In Millions)

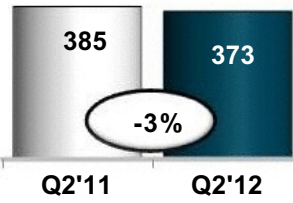


Resilient Portfolio ... Outstanding YSI Performance

Q2'12 Applied Water Performance

Revenue

(Dollars, In Millions)



Q2 Growth

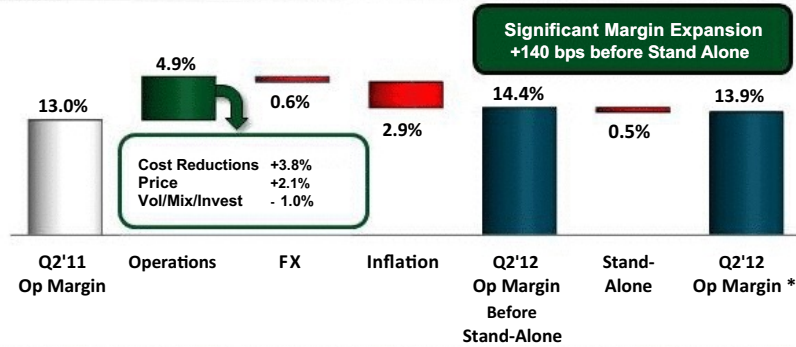
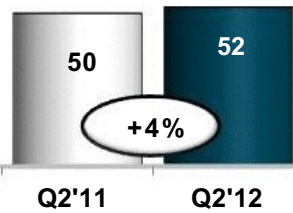
Organic	Flat
Acquisition	-%
Constant Currency	Flat
FX	-3%
Total	-3%

(Constant Currency)

- Building Services -2%
 - Commercial ... Slowing Institutional Spend
 - Residential ... Europe Down
 - + U.S. Up Mid Single Digits
- Industrial Water +4%
 - + Double-Digit U.S. Growth
 - Europe Weaker
- Irrigation -4%
 - + U.S. Up Double Digits

Operating Income *

(Dollars, In Millions)

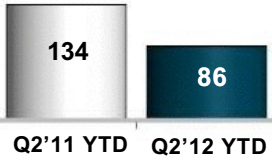


Productivity & Price Initiatives Drive Strong Op Margin Expansion

Xylem Financial Position

Free Cash Flow *

(Dollars, In Millions)



FCF% 75% 54%

- **Free Cash Flow \$86M**
- '12 Includes \$36M and \$26M of Incremental Tax & Interest Pmts
- Working Capital Investment \$10M
- **Capex > 1 Reinvestment Ratio**

Working Capital

(Dollars, In Millions)



W/C%**24.8% 23.6%

Capital Summary/Liquidity

June 30, 2012

(Dollars, In Millions)

Cash	358
Debt	1,206
Net Debt	848
Stockholders' Equity	1,948
Net Capital	2,796
Net Debt to Net Capital	30%






- **Strong Cash Position**
 - No Significant Debt Maturities Until 2016
- **30% Net Debt to Net Capital**
- **1.3x Net Debt/Adj. TTM EBITDA**
- **\$600M Revolving Credit Facility - Unutilized**
- **Accesso Commercial Paper - Unutilized**

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

2012 Guidance

xylem
Let's Solve Water

End Market Performance

	FY'12 vs.PY	vs. Previous Outlook	2H Planning Assumptions
Industrial	Up Low - Mid Single Digit		<ul style="list-style-type: none"> Weaker Europe Drought Conditions Continue Moderate Sequential Growth (2H vs. 1H)
Public Utility	Flat - Up Low Single Digit		<ul style="list-style-type: none"> US/Europe MRO Stable Shippable 2012 project backlog down (Capex) Moderate Sequential Growth (2H vs. 1H)
Commercial	Up Low Single Digit		<ul style="list-style-type: none"> Energy Efficient Solutions Flat to Up Slightly (2H vs. 1H)
Residential	Up Low Single Digit		<ul style="list-style-type: none"> U.S. Stable ... Weaker Europe Flat to Up Slightly (2H vs. 1H)
Agriculture	Down Low Single Digit - Flat		<ul style="list-style-type: none"> Favorable U.S. Conditions Continue

Challenging Market Dynamics ... Europe Weaker

Guidance Roll-Forward

Mid-Point Roll-Forward	Revenue	EPS	Note
Previous Guidance	\$3.95B	\$1.87	Based on Organic Growth 4%-6%
FX Translation	(\$50M)	(\$0.03)	Euro Rate at \$1.22 (Previously \$1.31)
MJK Acquisition	\$6M	(\$0.01)	Not Included in Prior Guidance
Market Dynamics	(\$105M)	(\$0.16)	Organic Growth 1%-3%; -3 pt. Revision
Cost Savings Actions	-	\$0.10	Paced Investments, Discretionary Costs
Revised Guidance	~3.8B	\$1.77	3% Operational EPS Reduction

EPS Midpoint Illustration



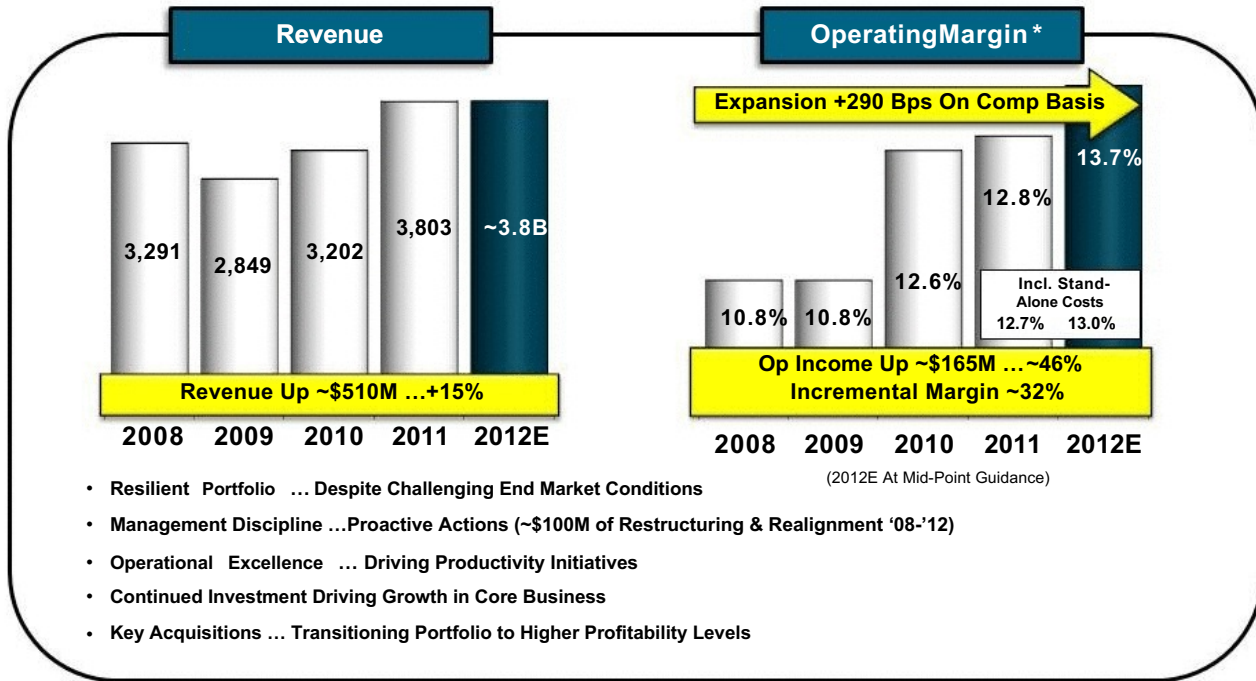
Lower Revenue Outlook ... Cost Savings Plan Mitigates EPS Impact

2012 Financial Guidance Summary

	2012 Full Year Financial Outlook	Growth 2012E vs. 2011		
Revenue		Constant Currency	Organic	Acquisition
Xylem Consolidated	~\$3.8B	3% to 5%	1% to 3%	2%
Water Infrastructure	~\$2.4B	5% to 7%	1% to 3%	4%
Applied Water	~\$1.4B	0% to 3%	0% to 3%	0%
Segment Margin *	14.2% -14.6%	+20 to +60 bps		
Operating Margin *	12.7% -13.3%	+0 to +60 bps		
EPS *	\$1.72 - \$1.82	+4% to +10% on Normalized Basis		
Free Cash Flow Conversion	95%	Excluding one-time separation costs		
Guidance Assumptions:				
Stand-Alone Costs	\$25M - \$30M	Included in EPS Guidance; In Line with Expectations		
Operating Tax Rate	~25%	Excludes Special Tax Items		
Share Count	~186.3M			
Items Excluded from Guidance:				
(1) Separation Costs	\$15M - \$20M	In Line with Expectations		
(2) Restructuring & Realignment Costs	\$15M - \$20M	\$9M-\$10M Annual Savings Beginning 2013		

* See Appendix for Non-GAAP Reconciliations

Resilient Portfolio, Discipline & Strategic Focus



... Provides Confidence in 2H Execution and Ability to Position For 2013

Key Takeaways

Strong Q2 Operating Performance

- Executing Long-Term Strategy ... MJK Bolt-On Acquisition & New Product Applications
- Stable Business Performance In Challenging Macro Environment

Top-Line Challenges ... Driven by Europe

- Resilient Portfolio & Large Installed Base Dampens Unfavorable Macro Conditions

Positioning Cost Structure for Stronger Operating Leverage

- Customer Excellence & Operational Discipline
- Taking Actions and Investing for Future Growth

Strong Financial Position & Strong Cash Flow Generation

- Flexibility to Execute Long-Term Strategy

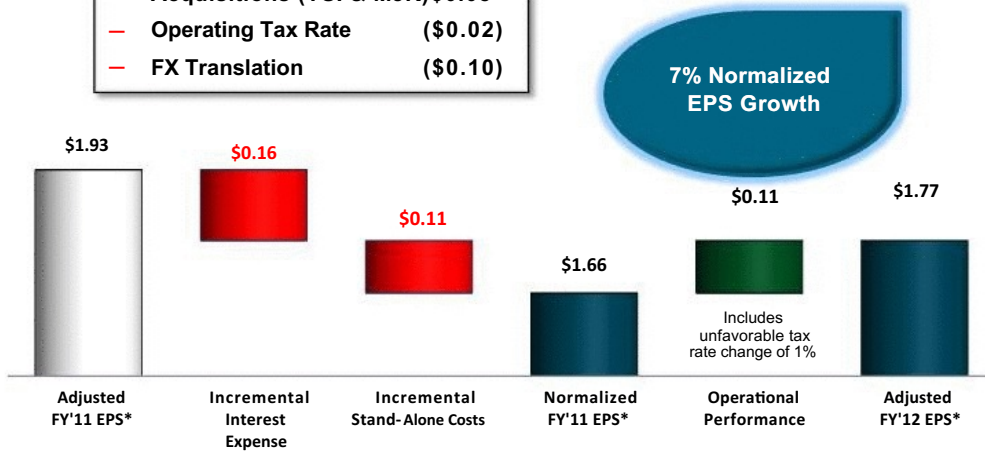
Appendix

2012 EPS Outlook

Illustration of Mid Point Guidance

Operational Performance:

+	Core Operations	\$0.15
+	Acquisitions (YSI & MJK)	\$0.08
-	Operating Tax Rate	(\$0.02)
-	FX Translation	(\$0.10)



Mid Point 7% Earnings Growth On Normalized Basis

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

* 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

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 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 one-time separation costs associated with the Xylem spin-off from ITT Corporation.

"Operating Income *", "Adjusted Operating Income" and "Adjusted EPS" defined as operating income and earnings per share, adjusted to exclude restructuring and realignment and one- time separation costs associated with the Xylem spin- off from ITT Corporation 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) = B+C+D+E	(G) = F/A	(H) = (B + D) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Contribution	Eliminations	Change	% Change	
	2012	2011	2012 v. 2011	2012 v. 2011	Divestitures			Adj. 2012 v. 2011	Adj. 2012 v. 2011	
Six Months Ended June 30										
Xylem Inc.	1,891	1,861	30	1.6%	(66)	63	-	27	1.5%	5.0%
Water infrastructure	1,193	1,153	40	3.5%	(66)	47	-	21	1.8%	7.5%
Applied Water	728	740	(12)	-1.6%	-	18	(1)	5	0.7%	0.8%
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%	-	13	(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	355	-	0.0%	-	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	
Six Months Ended June 30										
Xylem Inc.	1,974	1,976	(2)	-0.1%	(67)	69	-	-	0.0%	3.4%
Water infrastructure	1,255	1,244	11	0.9%	(67)	53	-	(3)	-0.2%	5.1%
Applied Water	752	764	(12)	-1.6%	-	18	(3)	3	0.4%	0.8%
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 Six Months Ended June 30, 2012 & 2011
(\$ Millions, except per share amounts)

	Q1 2012	Q2 2012	YTD 2012
Net Income	63	89	152
Separation costs, net of tax	4	4	8
Adjusted Net Income before Special Tax Items	67	93	160
Special Tax Items	-	(1)	(1)
Adjusted Net Income	67	92	159
Diluted Earnings per Share	\$0.34	\$0.48	\$0.82
Separation costs per Share	\$0.02	\$0.02	\$0.04
Adjusted diluted EPS before Special Tax Items	\$0.36	\$0.50	\$0.86
Special Tax Items per Share	\$0.00	(\$0.01)	(\$0.01)
Adjusted diluted EPS	\$0.36	\$0.49	\$0.85

	Q1 2011	Q2 2011	YTD 2011
Net Income	78	72	150
Separation costs, net of tax	2	27	29
Adjusted Net Income before Special Tax Items	80	99	179
Special Tax Items	-	4	4
Adjusted Net Income	80	103	183
Diluted Earnings per Share	\$0.42	\$0.39	\$0.82
Separation costs per Share	\$0.01	\$0.15	\$0.16
Adjusted diluted EPS before Special Tax Items	\$0.43	\$0.54	\$0.97
Special Tax Items per Share	\$0.00	\$0.02	\$0.02
Adjusted diluted EPS	\$0.43	\$0.56	\$0.99

Non-GAAP Reconciliation: Normalized and Adjusted EPS

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

	Q2 2011					Q2 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	971		971		971	966		966
Operating Income	116	18 ^a	134	(8) ^c	126	129	6 ^a	135
Operating Margin	11.9%		13.8%		13.0%	13.4%		14.0%
Interest Expense	(1)		(1)	(13) ^d	(14)	(13)		(13)
Other Non-Operating Income (Expense)	-		-		-	(1)		(1)
Income before Taxes	115	18	133	(21)	112	115	6	121
Provision for Income Taxes	(43)	13 ^b	(30)		(25)	(26)	(3) ^b	(29)
Net Income	72	31	103	(16)	87	89	3	92
Diluted Shares	184.6				184.6	186.2		186.2
Diluted EPS	\$ 0.39	\$ 0.17	\$ 0.56	\$ (0.09)	\$ 0.47	\$ 0.48	\$ 0.01	\$ 0.49

^a One time separation 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: Segment Operating Income

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

Adjusted Segment Operating Income

	Q1		Q2		YTD	
	'12	'11	'12	'11	'12	'11
Total Revenue						
• Water Infrastructure	584	551	609	602	1,193	1,153
• Applied Water	355	355	373	385	728	740
Operating Income						
• Water Infrastructure	75	64	93	94	167	158
• Applied Water	40	46	52	50	92	96
Separation Costs						
• Water Infrastructure	2	-	1	2	3	2
• Applied Water	1	-	-	-	1	-
Adjusted Operating Income*						
• Water Infrastructure	77	64	94	96	170	160
• Applied Water	41	46	52	50	93	96
Operating Margin						
• Water Infrastructure	12.8%	11.6%	15.2%	15.6%	14.0%	13.7%
• Applied Water	11.3%	13.0%	13.9%	13.0%	12.6%	13.0%
Adjusted Operating Margin*						
• Water Infrastructure	13.2%	11.6%	15.4%	15.9%	14.2%	13.9%
• Applied Water	11.5%	13.0%	13.9%	13.0%	12.8%	13.0%

*Adjusted Operating Income excludes non-recurring separation costs

Non-GAAP Reconciliation: Free Cash Flow

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

	Six Months Ended	
	2012	2011
Net Cash - Operating Activities	125	161
Capital Expenditures	(57)	(53)
Free Cash Flow, including separation costs	68	108
Separation Costs (Cash Paid incl. Capex)	18	26
Free Cash Flow, excluding separation costs	<u>86</u>	<u>134</u>
Net Income	152	150
Separation Costs, net of tax (incl. tax friction)	8	29
Adjusted Net Income	<u>160</u>	<u>179</u>
Free Cash Flow Conversion	<u>54%</u>	<u>75%</u>

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

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

	Q1	2012 Q2	YTD
Income Before Taxes	84	115	199
Interest, net	13	13	26
Depreciation	23	21	44
Amortization	11	12	23
Stock Compensation	5	5	10
EBITDA	<u>136</u>	<u>166</u>	<u>302</u>
Separation Costs	5	6	11
Adjusted EBITDA	<u><u>141</u></u>	<u><u>172</u></u>	<u><u>313</u></u>
Revenue	<u>925</u>	<u>966</u>	<u>1,891</u>
Adjusted EBITDA Margin	<u>15.2%</u>	<u>17.8%</u>	<u>16.6%</u>

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

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

	Q1	2011 Q2	YTD
Income Before Taxes	101	115	216
Interest, net	-	-	-
Depreciation	22	25	47
Amortization	11	10	21
Stock Compensation	3	2	5
EBITDA	137	152	289
Separation Costs	3	18	21
Adjusted EBITDA	140	170	310
Revenue	890	971	1,861
Adjusted EBITDA Margin	15.7%	17.5%	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)

	Q1	2012 Q2	YTD
Income Before Taxes	75	93	168
Interest, net	-	-	-
Depreciation	16	15	31
Amortization	10	9	19
Stock Compensation	1	1	2
EBITDA	<u>102</u>	<u>118</u>	<u>220</u>
Separation Costs	2	1	3
Adjusted EBITDA	<u>104</u>	<u>119</u>	<u>223</u>
Revenue	<u>584</u>	<u>609</u>	<u>1,193</u>
Adjusted EBITDA Margin	<u>17.8%</u>	<u>19.5%</u>	<u>18.7%</u>

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

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

	Q1	2011 Q2	YTD
Income Before Taxes	65	93	158
Interest, net	-	-	-
Depreciation	16	19	35
Amortization	9	9	18
Stock Compensation	-	-	-
EBITDA	<u>90</u>	<u>121</u>	<u>211</u>
Separation Costs	-	2	2
Adjusted EBITDA	<u><u>90</u></u>	<u><u>123</u></u>	<u><u>213</u></u>
Revenue	<u>551</u>	<u>602</u>	<u>1,153</u>
Adjusted EBITDA Margin	<u>16.3%</u>	<u>20.4%</u>	<u>18.5%</u>

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

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

	Q1	2012 Q2	YTD
Income Before Taxes	40	52	92
Interest, net	-	-	-
Depreciation	6	6	12
Amortization	1	1	2
Stock Compensation	1	-	1
EBITDA	48	59	107
Separation Costs	1	-	1
Adjusted EBITDA	49	59	108
Revenue	355	373	728
Adjusted EBITDA Margin	13.8%	15.8%	14.8%

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

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

	Q1	2011 Q2	YTD
Income Before Taxes	46	51	97
Interest, net	-	-	-
Depreciation	6	6	12
Amortization	2	1	3
Stock Compensation	-	-	-
EBITDA	54	58	112
Separation Costs	-	-	-
Adjusted EBITDA	54	58	112
Revenue	355	385	740
Adjusted EBITDA Margin	15.2%	15.1%	15.1%

Non-GAAP Reconciliation: Guidance

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

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	524	25 ^{h,i}	549
Segment Operating Margin	13.2%		14.0%		13.7%	13.8%		14.4%
Corporate Expense	108	(58) ^b	50	18 ^e	68	66	(11) ^h	55
Operating Income	395	87	482	(28) ^e	454	458	36	494
Operating Margin	10.4%		12.7%		11.9%	12.1%		13.0%
Interest Expense	(17)		(17)	(39) ^f	(56)	(54)		(54)
Other Non-Operating Income (Expense)	s		s		s	(2)		(2)
Income before Taxes	383	87	470	(67)	403	402	36	438
Provision for Income Taxes	(104)	(8) ^c	(112)	16 ^g	(96)	(99)	(10) ^j	(109)
Net Income	279	79	358	(51)	307	303	26	329
Diluted Shares	185.3		185.3		185.3	186.3		186.3
Diluted EPS	\$ 1.50	\$ 0.43	\$ 1.93	\$ (0.27)	1.66	1.63	0.14	1.77

^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 \$7M and \$11M to be incurred at the segments and headquarters, respectively.

ⁱ Restructuring & realignment costs of \$18M 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 Q2 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	458
Operating Margin	9.6%	9.7%	12.1%	10.4%	12.1%
Restructuring & Realignment	41	31	15	-	18
Separation Costs	-	-	-	87	18
Adjusted Operating Income	356	307	403	482	494
Adjusted Operating Margin	10.8%	10.8%	12.6%	12.7%	13.0%
Standalone Costs	-	-	-	5	28
Adj. Operating Income, excl. Standalone Costs	356	307	403	487	522
Adjusted Operating Margin, excl. Standalone Costs	10.8%	10.8%	12.6%	12.8%	13.7%



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