

# **XYLEM INC.**

## **INVESTOR PRESENTATION**

**OPPENHEIMER 9<sup>TH</sup> ANNUAL INDUSTRIAL GROWTH CONFERENCE**



**xylem**  
Let's Solve Water

# 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 in 2011, 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.

# INVESTMENT HIGHLIGHTS

# WHY SHOULD YOU INVEST IN XYLEM?

\$3.8B

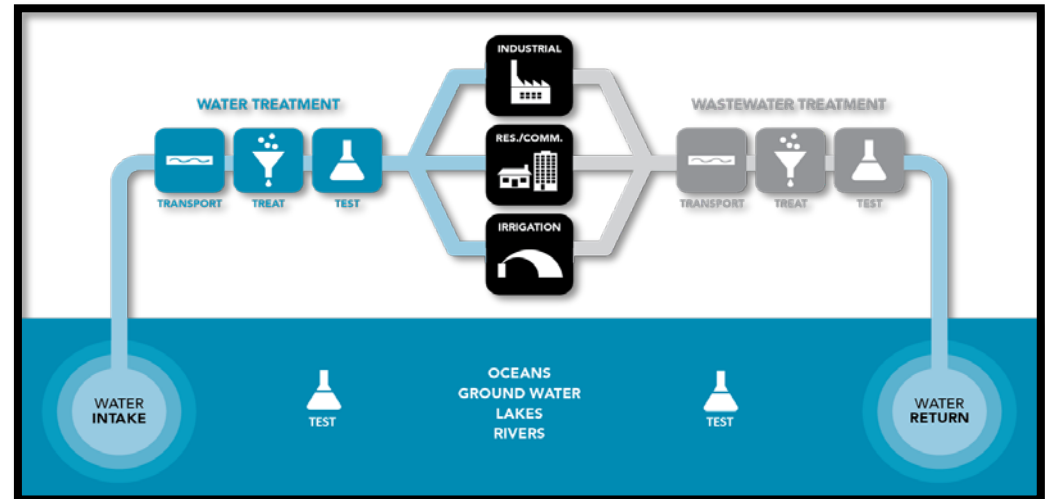
- Focused Pure Water Play
- Leading Market Positions
- Fortress Brands & World Class Distribution
- Diverse Geographic & End Market Exposure
- Large Installed Base Drives Recurring Revenue
- Strong Financial Position & Cash Flow Generation



**STRONG FOUNDATION & FUNDAMENTALS WITH OPPORTUNITY TO OUTPERFORM**

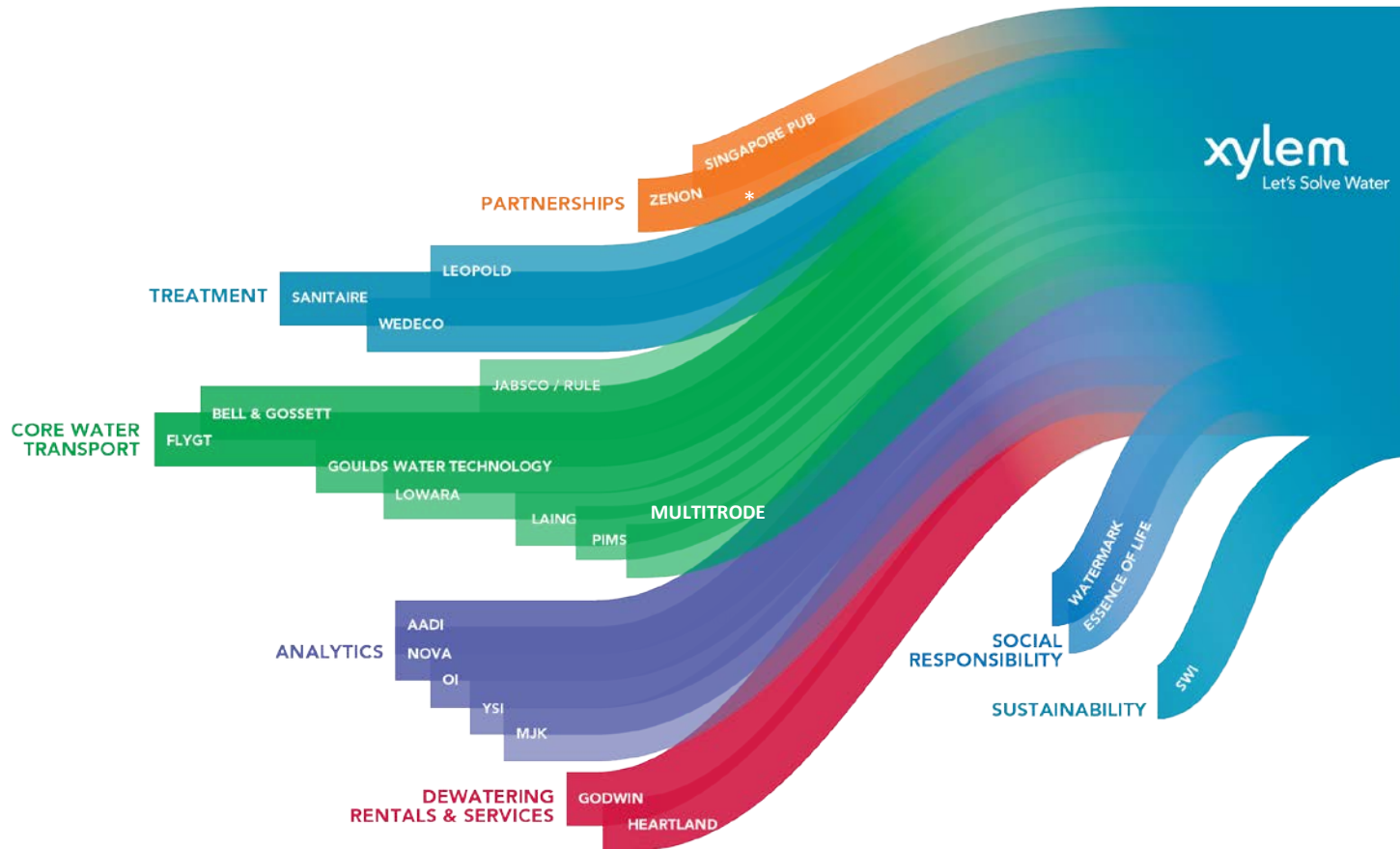
# SPECIALIZED BREADTH IN THE WATER CYCLE

- **Global Water Industry: \$500B**
  - *Public Utilities*
  - *Design & Build Firms*
  - *Equipment & Service Providers*
- **Industry Consists of Two Sectors**
  - *Water & Waste Water Infrastructure*
  - *To Serve End Users*
- **Xylem's SAM: \$35B**
  - *Technology Intensive & High Value Equipment*
  - *Critical Applications*
  - *Knowledge-Based Services*
- **Long-Term Growth Driven by Macro Trends & Growing Water Challenges**



**UNIQUELY POSITIONED TO SOLVE THE WORLD'S GROWING WATER CHALLENGES**

# JOURNEY FROM A PORTFOLIO OF BUSINESSES TO A SOLUTION PORTFOLIO



**EVOLUTION TO A LEADING GLOBAL WATER TECHNOLOGY PROVIDER**

# GLOBAL BUSINESS OVERVIEW

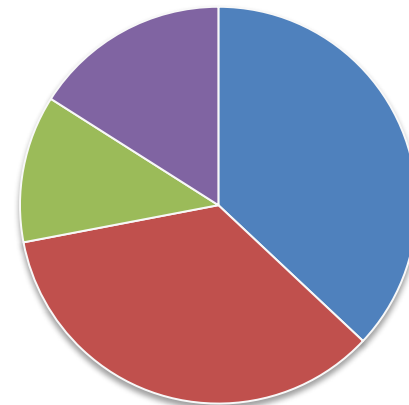
# GLOBAL MARKET PRESENCE



- **360+ Global Locations**
  - *50 Emerging Market Sales & Service Centers*
  - *11 Emerging Market Production Facilities*
- **Reaching Customers in More Than 150 Countries**

## REVENUE BY GEOGRAPHY

(2013 Revenue)



|                 |     |
|-----------------|-----|
| ■ United States | 38% |
| ■ Europe        | 36% |
| ■ Asia Pac      | 12% |
| ■ Rest of World | 14% |

*A Growing Emerging Market Presence ... Today ~20%*

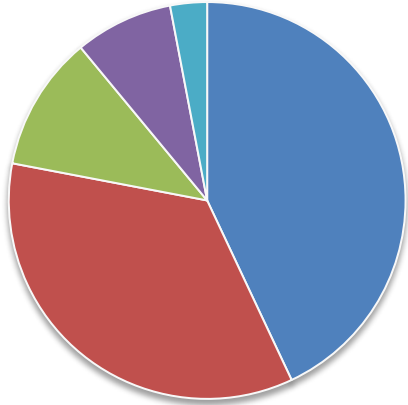
**GLOBAL SCALE & LOCAL PRESENCE PROVIDE A COMPETITIVE ADVANTAGE**



# DIVERSE CUSTOMER BASE

## REVENUE BY END MARKET

(2013 Revenue)



|                |     |
|----------------|-----|
| Industrial     | 45% |
| Public Utility | 34% |
| Commercial     | 11% |
| Residential    | 7%  |
| Agriculture    | 3%  |



*The Coca-Cola Company*



**GRAINGER**  
FOR THE ONES WHO GET IT DONE



**MERCK**



**USGS**  
science for a changing world



UNDERSTANDING & ANTICIPATING OUR CUSTOMERS NEEDS

# FOCUSED ON KEY GROWTH END MARKETS

(2013 Revenue)

## INDUSTRIAL (\$1.7B)



- **Strong Brands**
- **Diverse Market Applications**
  - *Light Industrial*
  - *Energy*
  - *Mining*
  - *Construction*
  - *Food & Beverage*
  - *Marine*
- **LT Growth Opportunities**
  - *Underserved Markets*
  - *Adjacent Mkt Expansion*

## PUBLIC UTILITY (\$1.3B)



- **Market Leading Positions**
- **Large Installed Base**
- **LT Growth Opportunities**
  - *US & Europe Pent-Up Demand*
  - *Emerging Market Infrastructure Development*
  - *Steady Growth from Maintenance & Repair Business*

## COMMERCIAL (\$400M)



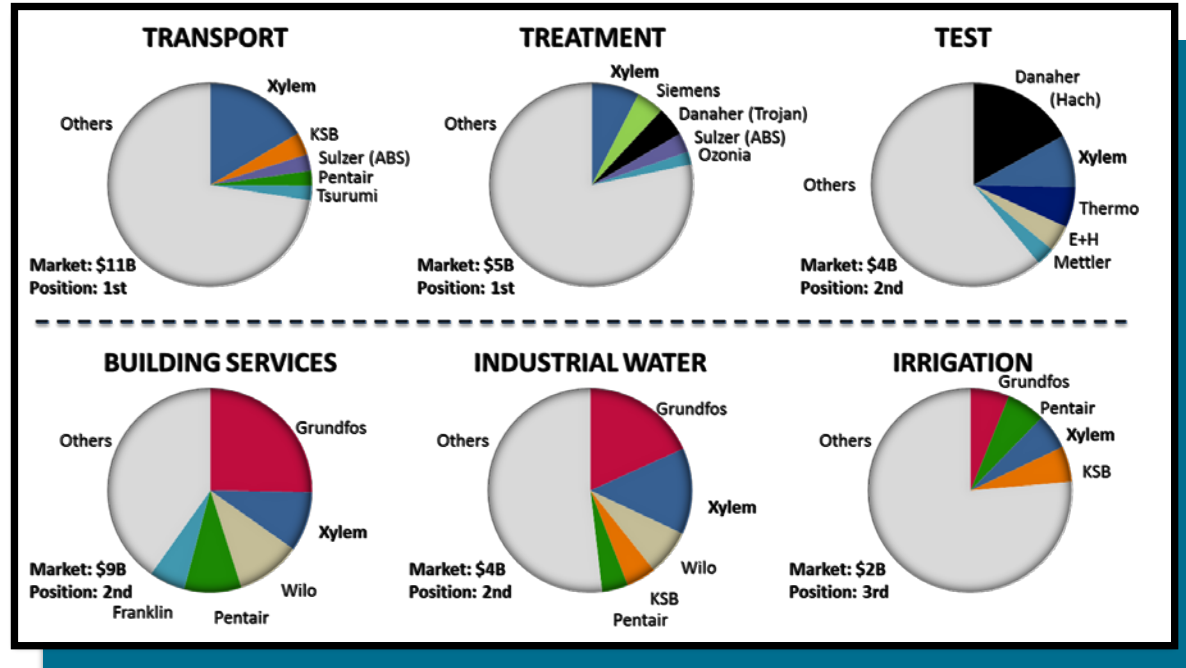
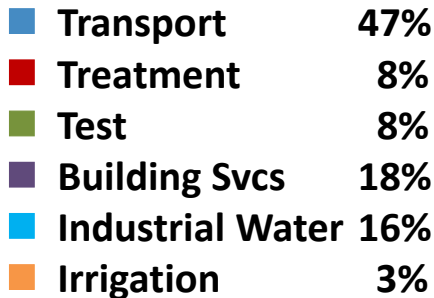
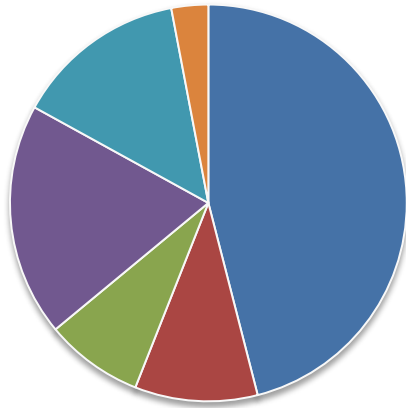
- **Market Leading Positions**
- **Large Installed Base**
- **LT Growth Opportunities**
  - *New Product Launches*
  - *Demand for Energy Efficient Solutions*
  - *Regulatory Standards*
  - *Emerging Market Key Account Strategy*

**LEADING POSITIONS & ATTRACTIVE LONG-TERM GROWTH OPPORTUNITIES**

# SERVING CRITICAL NEEDS

## REVENUE BY APPLICATION

(2013 Revenue)



**Water Infrastructure Includes Transport, Treatment and Test Applications ... Which Are Integrated into the Most Critical Water Infrastructure Systems for Both Public Utility and Large Industrial Customers**

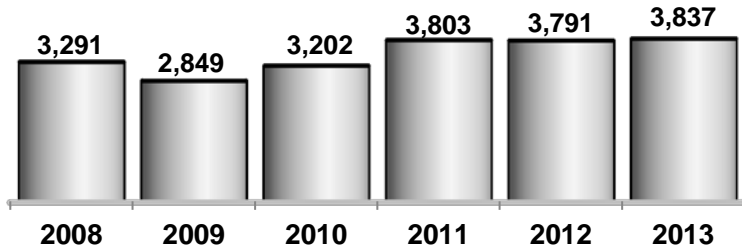
**Applied Water Includes Building Services, Industrial Water and Irrigation Applications ... Which Are Key Elements Systems for Commercial, Residential, Industrial and Ag Customers**

**GLOBAL LEADER IN WATER APPLICATION SOLUTIONS**

# HISTORICAL XYLEM PERFORMANCE

## REVENUE

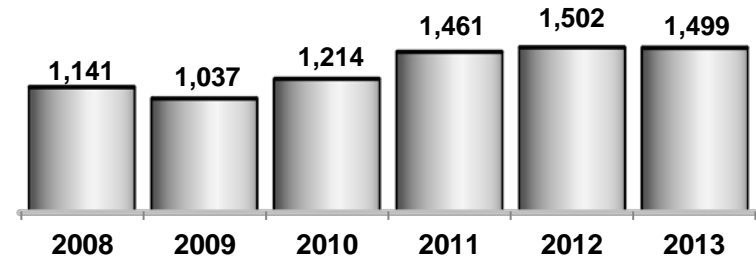
\$M



|           | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------|------|------|------|------|------|------|
| Growth:   |      | -13% | 12%  | 19%  | 0%   | 1%   |
| Organic*: |      | -9%  | 3%   | 7%   | 0%   | -1%  |

## GROSS PROFIT & MARGIN

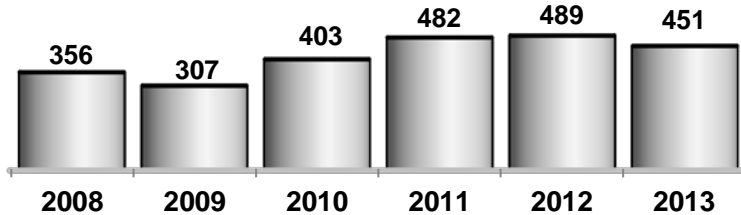
\$M



|      | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|------|-------|-------|-------|-------|-------|-------|
| GM%: | 34.7% | 36.4% | 37.9% | 38.4% | 39.6% | 39.1% |

## OPERATING INCOME & MARGIN\*

\$M



|      | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|------|-------|-------|-------|-------|-------|-------|
| OM%: | 10.8% | 10.8% | 12.6% | 12.7% | 12.9% | 11.8% |

### '08-'13 Revenue up 17%; 3% CAGR

- New Product Development
- Emerging Market Growth
- Analytics and Dewatering Platforms

### 100 Bps Operating Margin Expansion

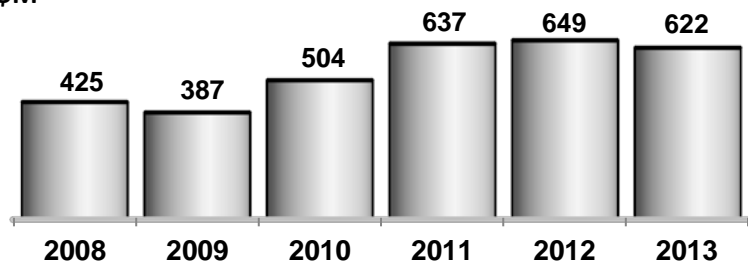
- Pricing Improvements; Lean & Global Sourcing
- Deployed ~\$100M in Restructuring
- Includes \$33M Stand-Alone Costs
- 2013 impacted by lower Public Utility CAPEX spending and weak European market conditions

**OPPORTUNITY TO ACCELERATE GROWTH AND IMPROVE OPERATING PERFORMANCE**

# HISTORICAL XYLEM PERFORMANCE

## EBITDA\*

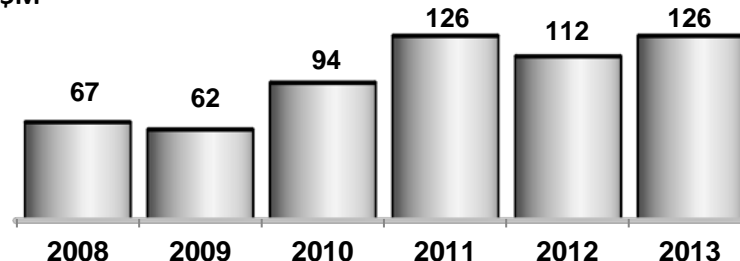
\$M



Margin %: 12.9% 13.6% 15.7% 16.7% 17.1% 16.2%

## CAPEX

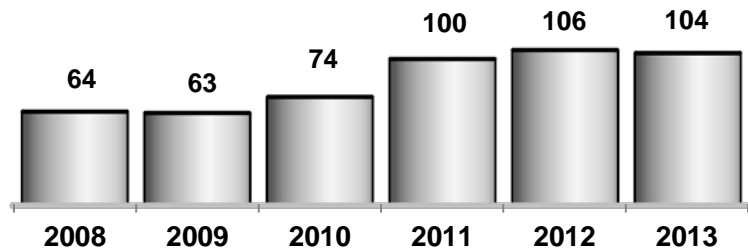
\$M



Reinvest %: 1.2x 1.2x 1.5x 1.4x 1.2x 1.3x  
Ratio

## R&D

\$M



% of Revenue: 1.9% 2.2% 2.3% 2.6% 2.8% 2.7%

## Strong Operating Cash Flow Generation

- EBITDA Up 47% Since 2008; 8% CAGR
- Better Price Execution
- Increase in Portfolio Profitability
- Improved Productivity

## Generate, Reinvest, Grow

- Increasing R&D Investment
- Capex Reinvestment Ratio >1

**STRONG CASH GENERATION FUNDS CONTINUED GROWTH INVESTMENT**

# STRONG FINANCIAL POSITION

## CAPITAL SUMMARY

March 31, 2014

|                         |       |
|-------------------------|-------|
| Cash                    | 466   |
| Debt                    | 1,243 |
| Net Debt                | 777   |
| Shareholders' Equity    | 2,229 |
| Net Capital             | 3,006 |
| Net Debt to Net Capital | 26%   |

### Liquidity and Cash Management

- Access to Revolver and Commercial Paper for Short-Term Liquidity Requirements
- No Debt Maturities Until 2016 & 2021

### Pension & OPEB

- Status: 103% (Funded Plans); 67% (Overall)

## CAPITAL DEPLOYMENT STRATEGY

### Invest in Organic Growth Initiatives

- Differentiated Product Development
- Maintenance & Investment Capex

### Return Capital to Shareholders

- Dividends
- Share Repurchase Programs

### Inorganic Growth Investments

- Acquire Bolt-on and Close-to-Core Companies
- Strategic & Financial Filters Drive Disciplined Approach
- Proven Track Record

**BALANCED CAPITAL DEPLOYMENT TO ENHANCE SHAREHOLDER RETURNS**

# REVIEW OF 1Q EARNINGS PERFORMANCE & 2014 OUTLOOK

**Note: Forward Looking information presented on slides 17 & 18 were as of April 29, 2014. Please review the Forward Looking Statements on slide 2, and note that 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.**

# BUSINESS UPDATE

## Highlights

- Strong finish to the 1<sup>st</sup> Quarter ... March performance offset slow start
- Emerging Markets off to fast start, Europe slowly recovering
- Volume & cost actions drive significant Op Margin expansion & Earnings growth
- Operating improvements on track to deliver full year savings

## 1st Quarter Financial Summary

- Orders of \$993M up 3% ... Ending Backlog \$793M, 2014 Shippable Backlog up 6%
- Revenue of \$906M up 3%, with growth in both segments
- Operating Margin\* of 10.4%, up 150 bps; strong incremental margin performance
- Earnings Per Share\* \$0.34 up 26%
- Free Cash Flow\* usage \$3M ... Seasonality and Working Capital investment

**SOLID 1ST QUARTER PERFORMANCE ... ON TRACK TO DELIVER 2014**



# 2014 GROWTH PROFILE (As of April 29, 2014)

Xylem 2014  
Organic Growth

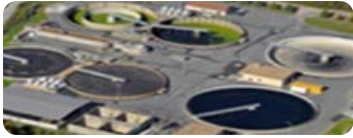


## Industrial

(45% of '13 Revenue)

- Improving global Capex environment
- Driving market share gains
- Mining headwinds continue

Up Low  
Single Digit



## Public Utility

(34% of '13 Revenue)

- Emerging Market infrastructure investment; Slow Capex recovery in U.S./Europe
- Opex stable in US & Europe

Up Low  
Single Digit



## Commercial

(11% of '13 Revenue)

- Emerging Market growth & new product launches
- Weak U.S. institutional bldg mkt; Europe slow to recover

Up Low  
Single Digit



## Residential

(7% of '13 Revenue)

- Cold winter subsidies in U.S.; U.S. housing recovery moderates; Europe stabilizes
- Tough 2Q comp (2Q'13 U.S. +18% vs. PY)

Up Low  
Single Digit



## Agriculture

(3% of '13 Revenue)

- Tough year-over-year comparison following strong 2012 & 2013 performance

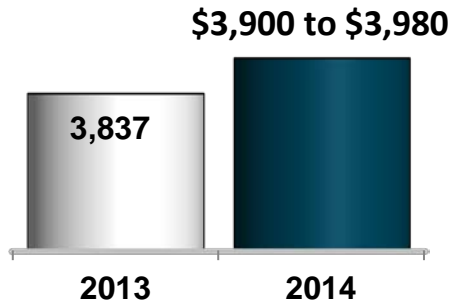
Flat to Up  
Low Single  
Digit

**STABLE MARKET CONDITIONS ... EXPECTATIONS REMAIN UNCHANGED**

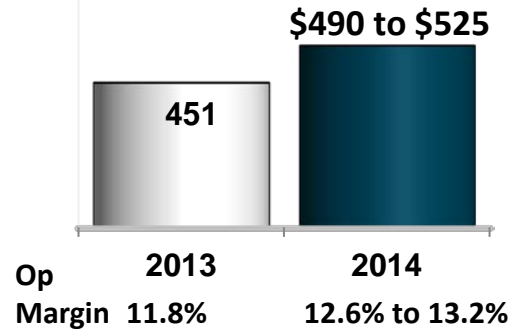
# 2014 XYLEM OUTLOOK (As of April 29, 2014)

(Dollars, In Millions, except EPS)

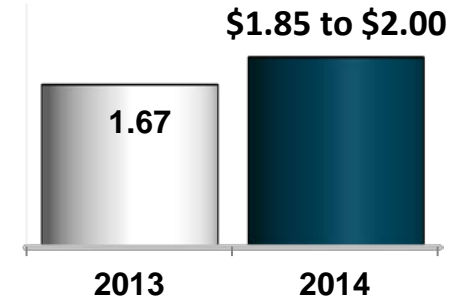
## REVENUE



## OPERATING INCOME\*

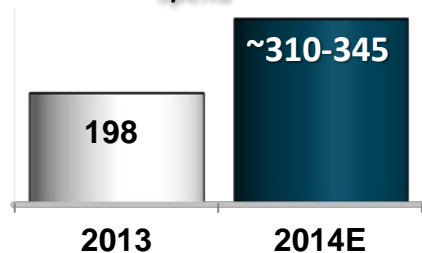


## EPS\*



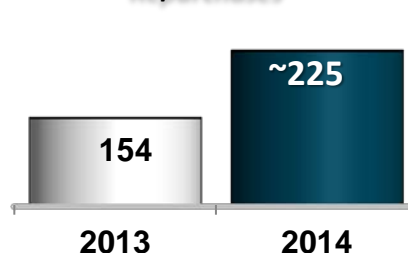
## FREE CASH FLOW\*

*Higher Income, Working Cap Improvement, and Lower Capex Spend*



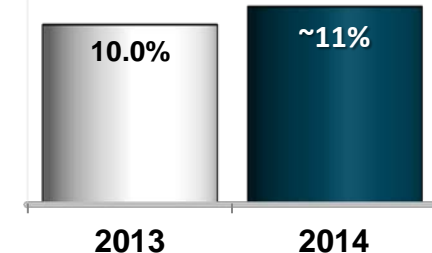
## DIVIDENDS/SHARE REPURCHASES

*Expected 10% Annual Dividend Increase, ~\$130M for Share Repurchases*



## ROIC

*Targeting 100 Bps Improvement*



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

# CLOSING SUMMARY

# HOW WILL XYLEM IMPROVE PERFORMANCE?

## REIGNITE “XMS”

*The Xylem Management System (“XMS”) defines how we create value.*

*It integrates our key strategic operating processes to drive superior growth and operational excellence, efficient capital deployment, and strong, consistent leadership*

## TOP PRIORITIES

### Accelerate Revenue Growth

- Optimize Integrated Front End
  - *Invest & Implement Global CRM Tool*
- Rebalance Portfolio & Product Investments
  - *Differentiated Product Innovation*
  - *Emerging Market Expansion*

### Improve Operating Cost Position

- Expand Global Sourcing Capabilities
- Manage General & Administrative Costs

### Embed Continuous Improvement Tools

- Drive Lean Six Sigma More Consistently, Deeper and Across the Entire Organization

## FOCUSED ON EXECUTION & DRIVING ACCOUNTABILITY

# xylem

Let's Solve Water

# APPENDIX

# SEGMENT OVERVIEW

## WATER INFRASTRUCTURE

Market Size: \$20B

2013 Revenues: \$2.5B

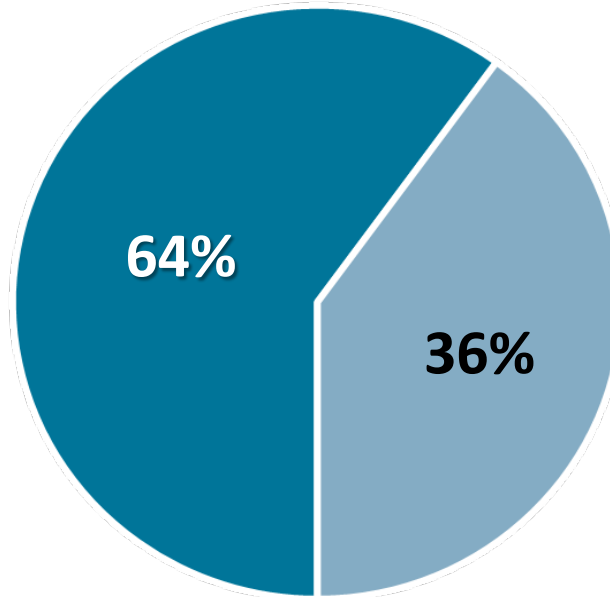
2013 Op Margin\*: 13.1%

- World's Largest Waste Water Pump & Dewatering Services Provider
- Broad Portfolio of Filtration, Biological and Disinfection Technologies
- Industry-Leading Water & Environment Analytics Platform



**UNIQUE PORTFOLIO PROVIDES FOR INNOVATIVE SOLUTIONS**

**Segment Split**  
(3<sup>rd</sup> Party Revenue)



## APPLIED WATER

Market Size: \$15B

2013 Revenues: \$1.4B

2013 Op Margin\*: 12.7%









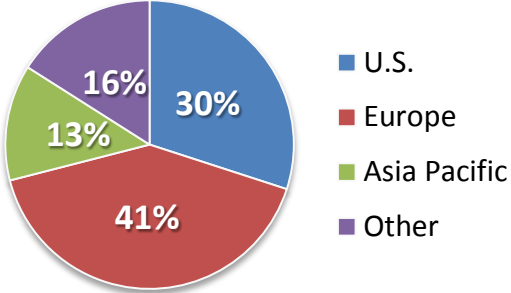
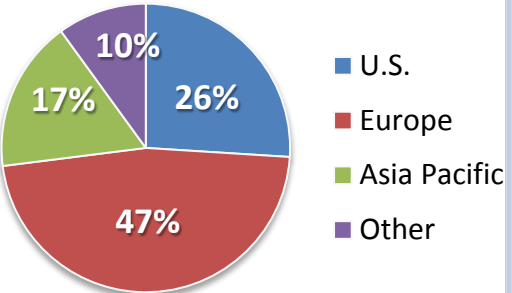
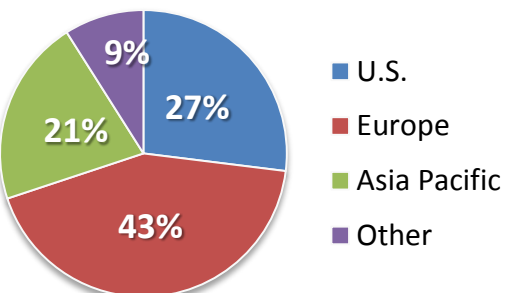
- Leading Global Provider of a Broad Range of Energy-Efficient Solutions with a Large & Diverse Customer Base
- U.S. Leader in Building Services Equipment & Solutions
- U.S. Leader in Industrial Water Technologies



**BROAD PRODUCT PORTFOLIO BACKED BY APPLICATION EXPERTISE**

# WATER INFRASTRUCTURE

## SEGMENT OVERVIEW

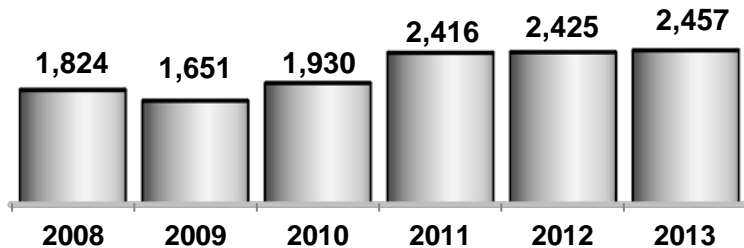
|                                     | TRANSPORT  | TREATMENT  | TEST   |
|-------------------------------------|--|--|--|
| <b>Market Size:</b>                 | \$11B  | \$5B   | \$4B   |
| <b>2013 Revenues:</b>               | \$1,812M   | \$329M   | \$298M   |
| <b>Key Products &amp; Services:</b> | Water & Waste Water Pumps<br>Dewatering (Sales & Rentals)<br>Aftermarket Parts & Services  | Biological<br>U.V. and Ozone Disinfection<br>Filtration  | Analytical Instrumentation,<br>Doppler and Level Measurement,<br>Water Quality and Environmental<br>Monitoring Systems   |
| <b>Key Brands:</b>                  |                                      |  <br> |  <br> |
| <b>Key Facilities:</b>              | Emmaboda, Sweden;<br>Baroda, India; Shenyang, China;<br>Bridgeport, NJ   | Herford, Germany;<br>Brown Deer, WI;<br>Zelienople, PA   | Yellow Springs, OH;<br>Weilheim, Germany;<br>Bergen, Norway  |
| <b>2013 Revenues by Geography:</b>  |  <ul style="list-style-type: none"> <li>■ U.S.</li> <li>■ Europe</li> <li>■ Asia Pacific</li> <li>■ Other</li> </ul> |  <ul style="list-style-type: none"> <li>■ U.S.</li> <li>■ Europe</li> <li>■ Asia Pacific</li> <li>■ Other</li> </ul>  |  <ul style="list-style-type: none"> <li>■ U.S.</li> <li>■ Europe</li> <li>■ Asia Pacific</li> <li>■ Other</li> </ul>   |



# WATER INFRASTRUCTURE

## REVENUE

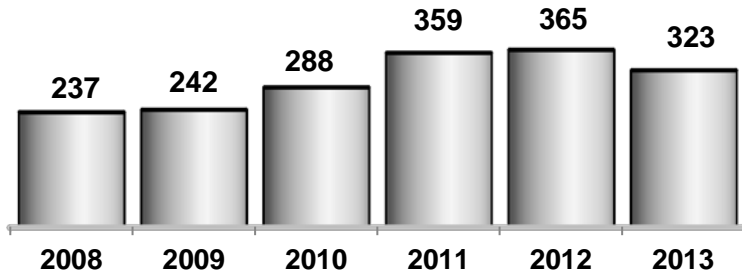
\$M



|           | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------|------|------|------|------|------|
| Growth:   | -10% | 17%  | 25%  | 0%   | 1%   |
| Organic*: | -4%  | 2%   | 7%   | 0%   | -2%  |

## OPERATING INCOME & MARGIN\*

\$M



| Year | OM%   |
|------|-------|
| 2008 | 13.0% |
| 2009 | 14.7% |
| 2010 | 14.9% |
| 2011 | 14.9% |
| 2012 | 15.1% |
| 2013 | 13.1% |

## HIGHLIGHTS

### '08-'13 Revenue up 35%; 6% CAGR

- Resilient Through the Downturn
- Growth Driven by Acquisitions, Emerging Markets & Product Launches
- Public Utility CAPEX Slowdown
- European Crisis

### Recent Market Conditions Negatively Impacted Operating Margins

- Operating Productivity Funds Incremental Strategic Investments
- Decline in Dewatering related to Fracking along with weak Public Utility CAPEX and European market conditions impacted 2013

LEVERAGE & RECENT COST REDUCTION ACTIONS ACCELRATE LONG-TERM GROWTH

# APPLIED WATER SYSTEMS

## SEGMENT OVERVIEW

|                          | BUILDING SERVICES  | INDUSTRIAL WATER  | IRRIGATION   |
|--------------------------|--|---|--|
| Market Size:             | \$9B   | \$4B  | \$2B   |
| 2013 Revenues:           | \$696M   | \$600M  | \$102M   |
| Key Products & Services: | HVAC Pumps, Valves & Heat Exchangers, Drives & Controls, Waste Water Pumps, Pressure Boosters, Fire Protection | Pumps & Pumping Systems, Heat Exchangers, Drives & Controls, Membrane Filtration, Fire Protection | Groundwater & Surface Pumps, Packaged Systems, Drives & Controls |

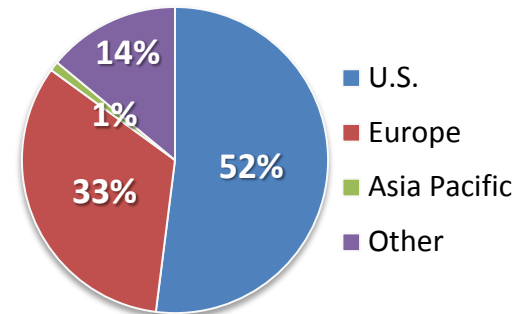
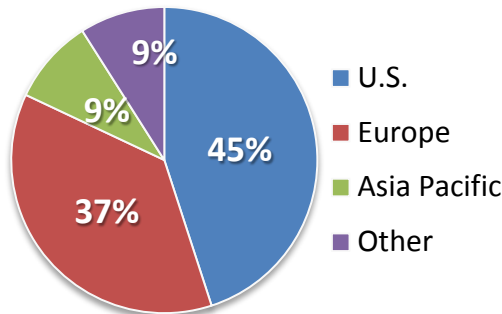
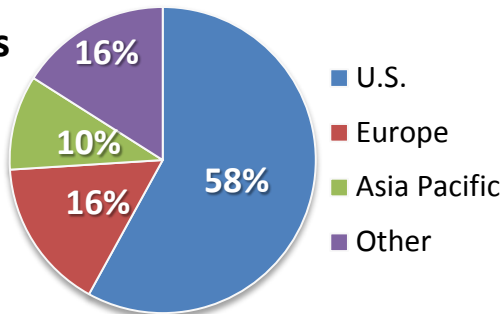
### Key Brands:



### Key Facilities:

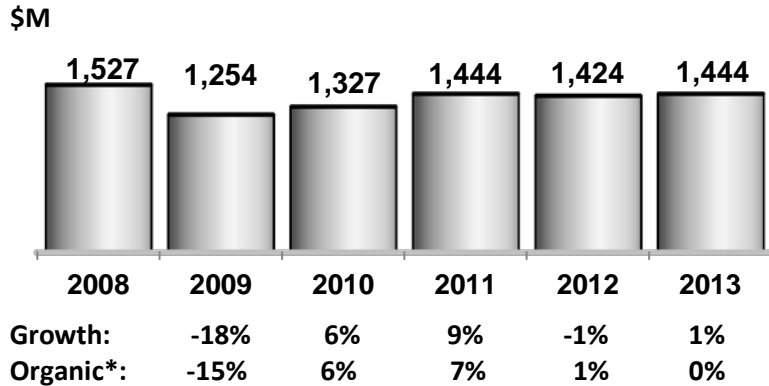
Auburn, NY; Buffalo, NY; Cegled, Hungary; Chihuahua, Mexico; Dallas, TX; Hoddesdon, UK; Montecchio, Italy; Morton Grove, IL; Nanjing, China; Stockerau, Austria; Strzelin, Poland; Wolverhampton, UK

### 2013 Revenues by Geography:

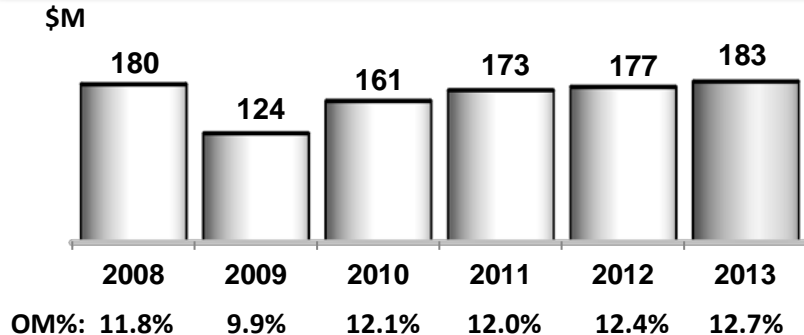


# APPLIED WATER

## REVENUE



## OPERATING INCOME & MARGIN\*



## HIGHLIGHTS

### '08-'13 Revenue Down 5%

- Residential & Commercial Building Decline
- Growth Driven By New Product Launches
  - Energy-Efficient Solutions
  - Emerging Markets Penetration

### Strong Operating Performance

- Margin Expansion Driven by Customer & Operational Excellence Initiatives
- Continued to Fund Future Growth Investments

**STRONG OPERATING PERFORMANCE DESPITE CHALLENGED MARKETS**

# ACQUISITION SCORECARD

✓ Completed    ✗ Not Achieved  
● On Track

| Acquisition         | Invested \$M | Year Completed | Strategic Fit | Gross Margin Accretive | IRR > Risk Adj. Cost of Capital | Mid-Teens ROIC | Cash Return 7-9 Years | EPS Accretive After Yr 1 |
|---------------------|--------------|----------------|---------------|------------------------|---------------------------------|----------------|-----------------------|--------------------------|
| Laing               | \$30         | 2009           | ✓             | ✗                      | ✓                               | ✓              | ✗                     | ✗                        |
| Nova                | \$384        | 2010           | ✓             | ✓                      | ✓                               | ●              | ●                     | ✓                        |
| Godwin              | \$585        | 2010           | ✓             | ✓                      | ✓                               | ●              | ●                     | ✓                        |
| OI                  | \$25         | 2010           | ✓             | ✓                      | ✓                               | ●              | ●                     | ✓                        |
| YSI                 | \$310        | 2011           | ✓             | ✓                      | ✓                               | ●              | ●                     | ✓                        |
| <b>Through 2012</b> |              |                |               | <b>Added ~200 Bps</b>  |                                 |                |                       | <b>Added ~\$0.45</b>     |
| MJK                 | \$13         | 2012           | ✓             | ●                      | ●                               | ●              | ●                     | ✓                        |
| Heartland           | \$29         | 2012           | ✓             | ●                      | ●                               | ●              | ●                     | ✓                        |
| PIMS                | \$57         | 2013           | ✓             | ●                      | ●                               | ●              | ●                     | ✓                        |
| MultiTrode          | \$26         | 2013           | ✓             | ●                      | ●                               | ●              | ●                     | ✗                        |

# 2014 FINANCIAL GUIDANCE SUMMARY

| (Dollars In Millions, Except per Share Data) | 2014 Full Year Financial Outlook | Growth 2014E vs. 2013                                |                |                       |
|--|----------------------------------|--|----------------|-----------------------|
|  |                                  | <u>Total Growth</u>                                  | <u>Organic</u> | <u>FX/Acquisition</u> |
| <b>Revenue</b>                               |                                  |  |                |                       |
| Xylem Consolidated                           | \$3,900 to \$3,980               | 2% to 4%   | 1% to 3%       | 1%                    |
| Water Infrastructure                         | \$2,500 to \$2,540               | 2% to 4%   | 2% to 3%       | 1%                    |
| Applied Water                                | \$1,470 to \$1,490               | 2% to 3%   | 1% to 2%       | 1%                    |
| <b>Segment Margin *</b>                      | 14.1% to 14.6%                   | +90 bps to +140 bps                                  |                |                       |
| <b>Operating Margin *</b>                    | 12.6% to 13.2%                   | +80 bps to +140 bps                                  |                |                       |
| <b>EPS *</b>                                 | \$1.85 to \$2.00                 | Up 11% to 20%  |                |                       |
| <b>Free Cash Flow Conversion</b>             | ~100%                            |  |                |                       |
| <b>Guidance Assumptions:</b>                 |                                  |  |                |                       |
| Operating Tax Rate *                         | ~21%                             | Unchanged from 2013                                  |                |                       |
| Share Count                                  | ~185M                            | Q2: 185.5; ~\$130M for Share Repurchases in 2014     |                |                       |
| <b>Restructuring &amp; Realignment Costs</b> | ~\$40 to \$50                    | '14 Rest. Savings ~\$15M; Realignment Cost \$10-\$15 |                |                       |

**SOLID START TO 2014 ... AFFIRMING FULL YEAR GUIDANCE**

# 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 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 restructuring and realignment costs and tax-related special items.

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

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

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

|  | (As Reported - GAAP)    |                       |                    |                      | (As Adjusted - Organic)        |                 |              |                         |                           | Constant Currency |
|--|-------------------------|-----------------------|--------------------|----------------------|--------------------------------|-----------------|--------------|-------------------------|---------------------------|-------------------|
|  | (A)                     | (B)                   | (C)                | (D)                  | (E)                            | (F) = B+C+D+E   | (G) = F/A    | (H) = (F - C) / A       |                           |                   |
|  | Revenue<br>Current Year | Revenue<br>Prior Year | Change<br>CY v. PY | % Change<br>CY v. PY | Acquisitions /<br>Divestitures | FX Contribution | Eliminations | Change<br>Adj. CY v. PY | % Change<br>Adj. CY v. PY |                   |
| <b><u>Year Ended December 31, 2013</u></b> |                         |                       |                    |                      |                                |                 |              |                         |                           |                   |
| <b>Xylem Inc.</b>                          | 3,837                   | 3,791                 | 46                 | 1%                   | (82)                           | (3)             | -            | (39)                    | -1%                       | 1%                |
| Water infrastructure                       | 2,457                   | 2,425                 | 32                 | 1%                   | (82)                           | 4               | -            | (46)                    | -2%                       | 1%                |
| Applied Water                              | 1,444                   | 1,424                 | 20                 | 1%                   | -                              | (9)             | (6)          | 5                       | 0%                        | 0%                |
| <b><u>Year Ended December 31, 2012</u></b> |                         |                       |                    |                      |                                |                 |              |                         |                           |                   |
| <b>Xylem Inc.</b>                          | 3,791                   | 3,803                 | (12)               | 0%                   | (94)                           | 108             | -            | 2                       | 0%                        | 3%                |
| Water infrastructure                       | 2,425                   | 2,416                 | 9                  | 0%                   | (94)                           | 80              | (1)          | (6)                     | 0%                        | 4%                |
| Applied Water                              | 1,424                   | 1,444                 | (20)               | -1%                  | -                              | 32              | (3)          | 9                       | 1%                        | 1%                |
| <b><u>Year Ended December 31, 2011</u></b> |                         |                       |                    |                      |                                |                 |              |                         |                           |                   |
| <b>Xylem Inc.</b>                          | 3,803                   | 3,202                 | 601                | 19%                  | (264)                          | (111)           | -            | 226                     | 7%                        | 15%               |
| Water Infrastructure                       | 2,416                   | 1,930                 | 486                | 25%                  | (264)                          | (87)            | 2            | 137                     | 7%                        | 21%               |
| Applied Water                              | 1,444                   | 1,327                 | 117                | 9%                   | -                              | (28)            | (1)          | 88                      | 7%                        | 7%                |
| <b><u>Year Ended December 31, 2010</u></b> |                         |                       |                    |                      |                                |                 |              |                         |                           |                   |
| <b>Xylem Inc.</b>                          | 3,202                   | 2,849                 | 353                | 12%                  | (263)                          | 6               | -            | 96                      | 3%                        | 13%               |
| Water infrastructure                       | 1,930                   | 1,651                 | 279                | 17%                  | (247)                          | (8)             | -            | 24                      | 1%                        | 16%               |
| Applied Water                              | 1,327                   | 1,254                 | 73                 | 6%                   | (16)                           | 15              | -            | 72                      | 6%                        | 7%                |
| <b><u>Year Ended December 31, 2009</u></b> |                         |                       |                    |                      |                                |                 |              |                         |                           |                   |
| <b>Xylem Inc.</b>                          | 2,849                   | 3,291                 | (442)              | -13%                 | (7)                            | 158             | -            | (291)                   | -9%                       | -9%               |
| Water infrastructure                       | 1,651                   | 1,824                 | (173)              | -9%                  | -                              | 109             | (1)          | (65)                    | -4%                       | -4%               |
| Applied Water                              | 1,254                   | 1,527                 | (273)              | -18%                 | (7)                            | 53              | -            | (227)                   | -15%                      | -14%              |

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

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

|  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|--|-------|-------|-------|-------|-------|-------|
| Revenue  | 3,291 | 2,849 | 3,202 | 3,803 | 3,791 | 3,837 |
| Operating Income   | 315   | 276   | 388   | 395   | 443   | 363   |
| <i>Operating Margin</i>                                  | 9.6%  | 9.7%  | 12.1% | 10.4% | 11.7% | 9.5%  |
| Restructuring & Realignment                              | 41    | 31    | 15    | -     | 24    | 64    |
| Separation Costs*  | -     | -     | -     | 87    | 22    | -     |
| Special Charges  | -     | -     | -     | -     | -     | 24    |
| Adjusted Operating Income                                | 356   | 307   | 403   | 482   | 489   | 451   |
| <i>Adjusted Operating Margin</i>                         | 10.8% | 10.8% | 12.6% | 12.7% | 12.9% | 11.8% |
| Standalone Costs   | -     | -     | -     | 5     | 28    | -     |
| Adj. Operating Income, excl. Standalone Costs            | 356   | 307   | 403   | 487   | 517   | 451   |
| <i>Adjusted Operating Margin, excl. Standalone Costs</i> | 10.8% | 10.8% | 12.6% | 12.8% | 13.6% | 11.8% |

\* 2013 separation costs are not excluded from adjusted operating income.



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

|                                   | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Revenue                     |             |             |             |             |             |             |
| • Total Xylem                     | 3,837       | 3,791       | 3,803       | 3,202       | 2,849       | 3,291       |
| • Water Infrastructure            | 2,457       | 2,425       | 2,416       | 1,930       | 1,651       | 1,824       |
| • Applied Water                   | 1,444       | 1,424       | 1,444       | 1,327       | 1,254       | 1,527       |
| Operating Income                  |             |             |             |             |             |             |
| • Total Xylem                     | 363         | 443         | 395         | 388         | 276         | 315         |
| • Water Infrastructure            | 271         | 342         | 343         | 276         | 227         | 220         |
| • Applied Water                   | 167         | 170         | 160         | 158         | 109         | 162         |
| Operating Margin                  |             |             |             |             |             |             |
| • Total Xylem                     | 9.5%        | 11.7%       | 10.4%       | 12.1%       | 9.7%        | 9.6%        |
| • Water Infrastructure            | 11.0%       | 14.1%       | 14.2%       | 14.3%       | 13.7%       | 12.1%       |
| • Applied Water                   | 11.6%       | 11.9%       | 11.1%       | 11.9%       | 8.7%        | 10.6%       |
| Separation Costs                  |             |             |             |             |             |             |
| • Total Xylem                     | -           | 22          | 87          | -           | -           | -           |
| • Water Infrastructure            | -           | 4           | 16          | -           | -           | -           |
| • Applied Water                   | -           | 2           | 13          | -           | -           | -           |
| Special Charges                   |             |             |             |             |             |             |
| • Total Xylem                     | 24          | -           | -           | -           | -           | -           |
| • Water Infrastructure            | 4           | -           | -           | -           | -           | -           |
| • Applied Water                   | -           | -           | -           | -           | -           | -           |
| Restructuring & Realignment Costs |             |             |             |             |             |             |
| • Total Xylem                     | 64          | 24          | -           | 15          | 31          | 41          |
| • Water Infrastructure            | 48          | 19          | -           | 12          | 15          | 17          |
| • Applied Water                   | 16          | 5           | -           | 3           | 15          | 18          |
| Adjusted Operating Income*        |             |             |             |             |             |             |
| • Total Xylem                     | 451         | 489         | 482         | 403         | 307         | 356         |
| • Water Infrastructure            | 323         | 365         | 359         | 288         | 242         | 237         |
| • Applied Water                   | 183         | 177         | 173         | 161         | 124         | 180         |
| Adjusted Operating Margin*        |             |             |             |             |             |             |
| • Total Xylem                     | 11.8%       | 12.9%       | 12.7%       | 12.6%       | 10.8%       | 10.8%       |
| • Water Infrastructure            | 13.1%       | 15.1%       | 14.9%       | 14.9%       | 14.7%       | 13.0%       |
| • Applied Water                   | 12.7%       | 12.4%       | 12.0%       | 12.1%       | 9.9%        | 11.8%       |

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

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

|  | Year Ended        |                    |                    |                   |                    |                    |
|--|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
|  | 2013              | 2012               | 2011               | 2010              | 2009               | 2008               |
| <b>Net Cash - Operating Activities</b>             | 324               | 396                | 449                | 395               | 370                | 408                |
| Capital Expenditures                               | (126)             | (112)              | (126)              | (94)              | (62)               | (67)               |
| Free Cash Flow, including separation costs         | <u>198</u>        | <u>284</u>         | <u>323</u>         | <u>301</u>        | <u>308</u>         | <u>341</u>         |
| Cash Paid for Separation Costs (incl. Capex)       | -                 | 28                 | 65                 | -                 | -                  | -                  |
| <b>Free Cash Flow, excluding separation costs*</b> | <u><u>198</u></u> | <u><u>312</u></u>  | <u><u>388</u></u>  | <u><u>301</u></u> | <u><u>308</u></u>  | <u><u>341</u></u>  |
| Net Income   | 228               | 297                | 279                | 329               | 263                | 224                |
| Separation Costs, net of tax (incl. tax friction)  | <u>-</u>          | <u>16</u>          | <u>72</u>          | <u>0</u>          | <u>0</u>           | <u>0</u>           |
| <b>Net Income, excluding separation costs*</b>     | <u><u>228</u></u> | <u><u>313</u></u>  | <u><u>351</u></u>  | <u><u>329</u></u> | <u><u>263</u></u>  | <u><u>224</u></u>  |
| <b>Free Cash Flow Conversion</b>                   | <u><u>87%</u></u> | <u><u>100%</u></u> | <u><u>111%</u></u> | <u><u>91%</u></u> | <u><u>117%</u></u> | <u><u>152%</u></u> |

\* Separation costs are not excluded in 2013

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

|   | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Net Income  | 224                  | 263                  | 329                  | 279                  | 297                  | 228                  |
| Separation Costs, Net of Tax*                       | -                    | -                    | -                    | 72                   | 16                   | -                    |
| Restructuring & Realignment, Net of Tax             | 28                   | 22                   | 11                   | -                    | 17                   | 46                   |
| Special Charges, Net of Tax                         | -                    | -                    | -                    | -                    | -                    | 23                   |
| <u>Adjusted Net Income before Special Tax Items</u> | <u>252</u>           | <u>285</u>           | <u>340</u>           | <u>351</u>           | <u>330</u>           | <u>297</u>           |
| Special Tax Items                                   | -                    | (61)                 | (43)                 | 7                    | -                    | 14                   |
| <u>Adjusted Net Income</u>                          | <u>252</u>           | <u>224</u>           | <u>297</u>           | <u>358</u>           | <u>330</u>           | <u>311</u>           |
| Diluted Earnings per Share                          | \$1.22               | \$1.42               | \$1.78               | \$1.50               | \$1.59               | \$1.22               |
| Separation Costs per Share*                         | \$0.00               | \$0.00               | \$0.00               | \$0.39               | \$0.09               | \$0.00               |
| Restructuring & Realignment Costs per Share         | \$0.14               | \$0.11               | \$0.06               | \$0.00               | \$0.09               | \$0.25               |
| Special Charges per Share                           | -                    | -                    | -                    | -                    | -                    | \$0.13               |
| Adjusted Diluted EPS before Special Tax Items       | \$1.36               | \$1.53               | \$1.84               | \$1.89               | \$1.77               | \$1.60               |
| <u>Special Tax Items per Share</u>                  | <u>\$0.00</u>        | <u>(\$0.32)</u>      | <u>(\$0.23)</u>      | <u>\$0.04</u>        | <u>\$0.00</u>        | <u>\$0.07</u>        |
| <b><u>Adjusted Diluted EPS</u></b>                  | <b><u>\$1.36</u></b> | <b><u>\$1.21</u></b> | <b><u>\$1.61</u></b> | <b><u>\$1.93</u></b> | <b><u>\$1.77</u></b> | <b><u>\$1.67</u></b> |

\* Separation costs are not excluded in 2013

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

|                                | <u>2008</u>       | <u>2009</u>       | <u>2010</u>       | <u>2011</u>       | <u>2012</u>       | <u>2013</u>       |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Pre-Tax Income                 | 312               | 277               | 388               | 383               | 388               | 298               |
| Interest Expense (Income), net | -                 | -                 | -                 | 17                | 51                | 52                |
| Depreciation and Amortization  | 72                | 79                | 101               | 137               | 142               | 149               |
| Stock Compensation             | -                 | -                 | -                 | 13                | 22                | 27                |
| EBITDA                         | <u>384</u>        | <u>356</u>        | <u>489</u>        | <u>550</u>        | <u>603</u>        | <u>526</u>        |
| Separation Costs*              | -                 | -                 | -                 | 87                | 22                | 64                |
| Restructuring & Realignment    | 41                | 31                | 15                | -                 | 24                | 32                |
| Adjusted EBITDA                | <u><u>425</u></u> | <u><u>387</u></u> | <u><u>504</u></u> | <u><u>637</u></u> | <u><u>649</u></u> | <u><u>622</u></u> |
| Revenue                        | <u>3,291</u>      | <u>2,849</u>      | <u>3,202</u>      | <u>3,803</u>      | <u>3,791</u>      | <u>3,837</u>      |
| Adjusted EBITDA Margin         | <u>12.9%</u>      | <u>13.6%</u>      | <u>15.7%</u>      | <u>16.7%</u>      | <u>17.1%</u>      | <u>16.2%</u>      |

\* Separation costs are not excluded in 2013

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

| (As Reported - GAAP)          |        | (As Adjusted - Organic) |              |                |                 |              | Constant Currency |                   |    |    |
|-------------------------------|--------|-------------------------|--------------|----------------|-----------------|--------------|-------------------|-------------------|----|----|
| (A)                           | (B)    | (C)                     | (D)          | (E)            | (F) = B+C+D+E   | (G) = F/A    | (H) = (F - C) / A |                   |    |    |
| Orders                        | Orders | Change                  | % Change     | Acquisitions / | FX Contribution | Eliminations | Change            | % Change          |    |    |
| 2014                          | 2013   | 2014 v. 2013            | 2014 v. 2013 | Divestitures   |                 |              | Adj. 2014 v. 2013 | Adj. 2014 v. 2013 |    |    |
| <b>Quarter Ended March 31</b> |        |                         |              |                |                 |              |                   |                   |    |    |
| Xylem Inc.                    | 993    | 962                     | 31           | 3%             | (7)             | 3            | -                 | 27                | 3% | 4% |
| Water infrastructure          | 619    | 601                     | 18           | 3%             | (7)             | 6            | 2                 | 19                | 3% | 4% |
| Applied Water                 | 394    | 378                     | 16           | 4%             | -               | (4)          | (3)               | 9                 | 2% | 2% |

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)

| (As Reported - GAAP)          |         | (As Adjusted - Organic) |              |                |                 |              | Constant Currency |                   |    |    |
|-------------------------------|---------|-------------------------|--------------|----------------|-----------------|--------------|-------------------|-------------------|----|----|
| (A)                           | (B)     | (C)                     | (D)          | (E)            | (F) = B+C+D+E   | (G) = F/A    | (H) = (F - C) / A |                   |    |    |
| Revenue                       | Revenue | Change                  | % Change     | Acquisitions / | FX Contribution | Eliminations | Change            | % Change          |    |    |
| 2014                          | 2013    | 2014 v. 2013            | 2014 v. 2013 | Divestitures   |                 |              | Adj. 2014 v. 2013 | Adj. 2014 v. 2013 |    |    |
| <b>Quarter Ended March 31</b> |         |                         |              |                |                 |              |                   |                   |    |    |
| Xylem Inc.                    | 906     | 879                     | 27           | 3%             | (5)             | 4            | -                 | 26                | 3% | 4% |
| Water infrastructure          | 568     | 551                     | 17           | 3%             | (5)             | 7            | 1                 | 20                | 4% | 5% |
| Applied Water                 | 355     | 345                     | 10           | 3%             | -               | (3)          | (1)               | 6                 | 2% | 2% |

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

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

|                                   | <b>Q1</b>          |                    |
|-----------------------------------|--------------------|--------------------|
|                                   | <b><u>2014</u></b> | <b><u>2013</u></b> |
| Total Revenue                     |                    |                    |
| • Total Xylem                     | 906                | 879                |
| • Water Infrastructure            | 568                | 551                |
| • Applied Water                   | 355                | 345                |
| Operating Income                  |                    |                    |
| • Total Xylem                     | 76                 | 66                 |
| • Water Infrastructure            | 46                 | 42                 |
| • Applied Water                   | 41                 | 40                 |
| Operating Margin                  |                    |                    |
| • Total Xylem                     | 8.4%               | 7.5%               |
| • Water Infrastructure            | 8.1%               | 7.6%               |
| • Applied Water                   | 11.5%              | 11.6%              |
| Restructuring & Realignment Costs |                    |                    |
| • Total Xylem                     | 18                 | 12                 |
| • Water Infrastructure            | 12                 | 10                 |
| • Applied Water                   | 6                  | 2                  |
| Adjusted Operating Income*        |                    |                    |
| • Total Xylem                     | 94                 | 78                 |
| • Water Infrastructure            | 58                 | 52                 |
| • Applied Water                   | 47                 | 42                 |
| Adjusted Operating Margin*        |                    |                    |
| • Total Xylem                     | 10.4%              | 8.9%               |
| • Water Infrastructure            | 10.2%              | 9.4%               |
| • Applied Water                   | 13.2%              | 12.2%              |

\*Adjusted Operating Income excludes restructuring & realignment costs.

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

|                                      | Q1 2013        |                |                | Q1 2014        |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                      | As Reported    | Adjustments    | Adjusted       | As Reported    | Adjustments    | Adjusted       |
| Total Revenue                        | 879            |                | 879            | 906            |                | 906            |
| Operating Income                     | 66             | 12             | 78             | 76             | 18             | 94             |
| Operating Margin                     | 7.5%           |                | 8.9%           | 8.4%           |                | 10.4%          |
| Interest Expense                     | (13)           |                | (13)           | (14)           |                | (14)           |
| Other Non-Operating Income (Expense) | (2)            |                | (2)            | (1)            |                | (1)            |
| Income before Taxes                  | 51             | 12             | 63             | 61             | 18             | 79             |
| Provision for Income Taxes           | (10)           | (3)            | (13)           | (12)           | (4)            | (16)           |
| Net Income                           | 41             | 9              | 50             | 49             | 14             | 63             |
| Diluted Shares                       | 186.4          |                | 186.4          | 185.8          |                | 185.8          |
| <b>Diluted EPS</b>                   | <b>\$ 0.22</b> | <b>\$ 0.05</b> | <b>\$ 0.27</b> | <b>\$ 0.27</b> | <b>\$ 0.07</b> | <b>\$ 0.34</b> |

a Restructuring & realignment costs

b Net tax impact of restructuring & realignment costs and special tax items

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

|  | Three Months Ended |         |
|--|--------------------|---------|
|  | 2014               | 2013    |
| <b>Net Cash - Operating Activities</b> | \$ 22              | \$ 20   |
| Capital Expenditures                   | (25)               | (30)    |
| <b>Free Cash Flow</b>                  | \$ (3)             | \$ (10) |
| <b>Net Income</b>                      | \$ 49              | \$ 41   |
| <b>Free Cash Flow Conversion</b>       | -6%                | -24%    |



# xylem

## Let's Solve Water

NYSE: XYL

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