

XYLEM INC.

INVESTOR PRESENTATION

CITI 2014 INDUSTRIALS CONFERENCE

SEPTEMBER 23, 2014



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.

WHY SHOULD YOU INVEST IN XYLEM?

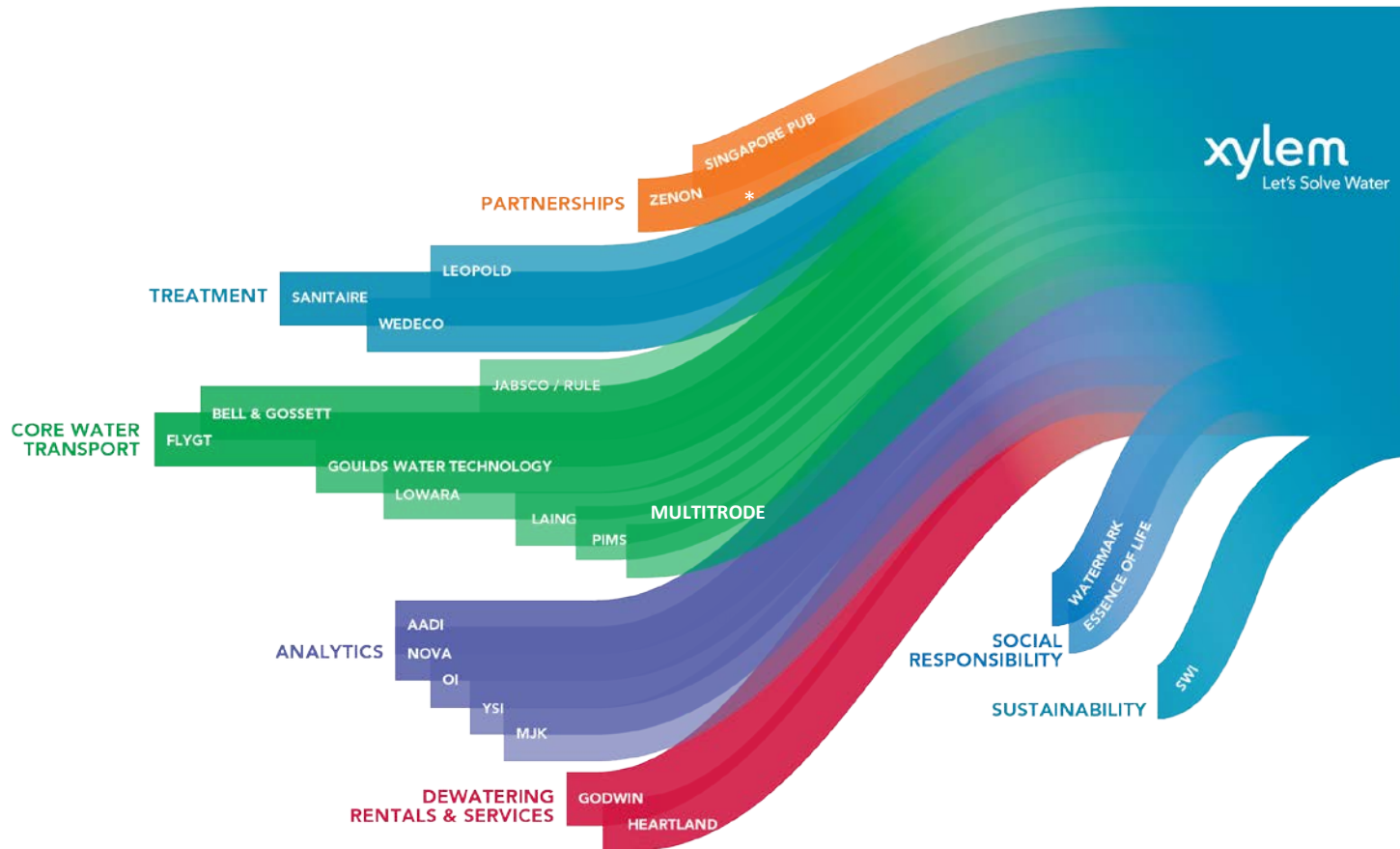
INVESTMENT HIGHLIGHTS

- Focused Pure Water Play
- Leading Market Positions in Highly Fragmented Industry
- Fortress Brands & World Class Distribution
- Diverse Geographic & End Market Exposure
- ~40% Recurring Revenue Driven from Large Installed Base
- Strong Financial Position & Cash Flow Generation



STRONG FOUNDATION & FUNDAMENTALS WITH OPPORTUNITY TO OUTPERFORM

JOURNEY FROM A PORTFOLIO OF BUSINESSES TO A SOLUTION PORTFOLIO



EVOLUTION TO A LEADING GLOBAL WATER TECHNOLOGY PROVIDER

SECULAR DRIVERS PROVIDE FOR COMPELLING LONG-TERM GROWTH



- We acknowledge that these compelling long-term secular drivers will provide for long-term growth opportunities
- We focus on addressing water challenges across diversified & cyclical end markets

FOCUSED ON WATER CHALLENGES

PRODUCTIVITY



Problem:

Delivery and use of water as a factor of production is highly inefficient

Solutions:

- Energy efficient pumps
- Advanced water treatment
- Analytical instrumentation

QUALITY



Problem:

Management of wastewater is energy-intensive, expensive, and inefficient

Solutions:

- Smart pumps
- Advanced wastewater treatment
- Analytical instrumentation

RESILIENCE



Problem:

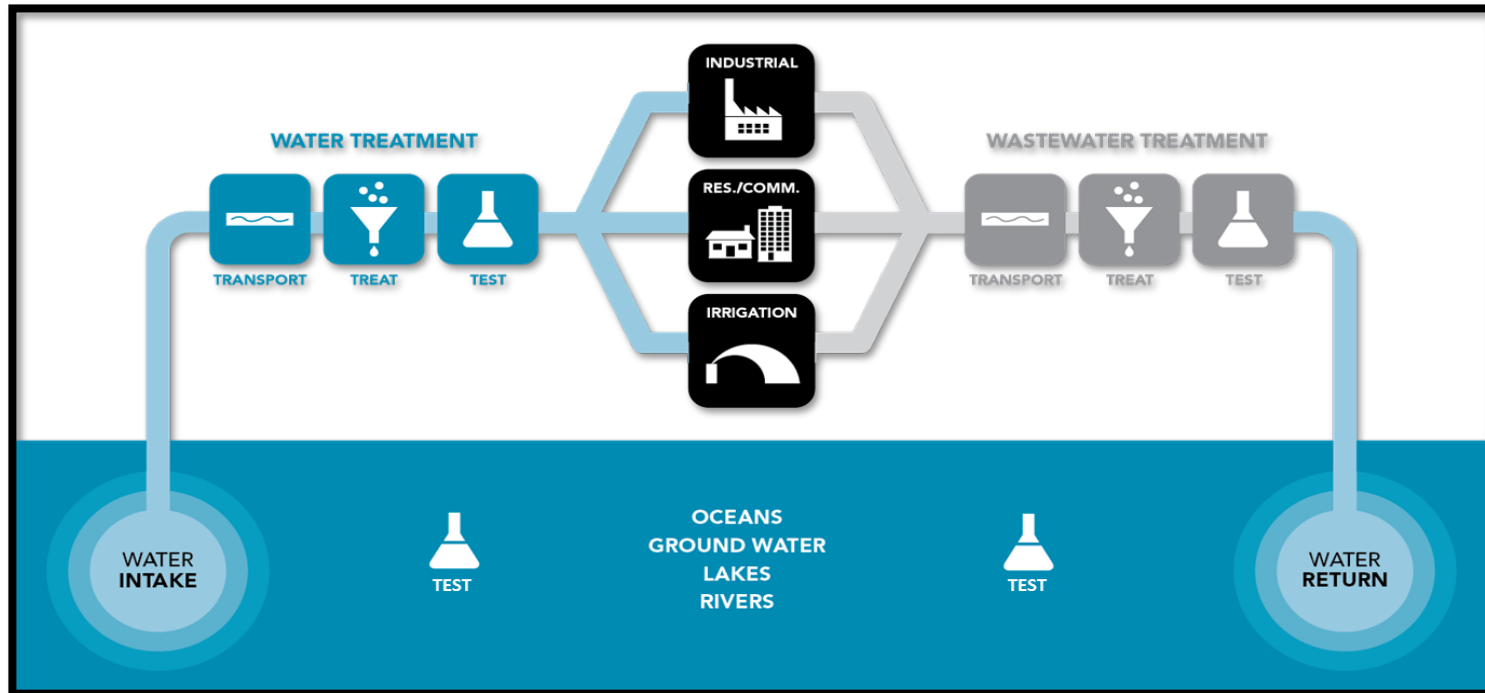
Communities face rising economic risks from water variability (flooding, scarcity)

Solutions:

- Dewatering pumps
- Advanced water treatment
- Analytical instrumentation

**BY ADDRESSING OUR CUSTOMERS BIGGEST WATER CHALLENGES WE WILL
CREATE ECONOMIC VALUE FOR OUR CUSTOMERS**

SPECIALIZED BREADTH IN THE WATER CYCLE



- **Global Water Industry: \$500B**
 - *Public Utilities*
 - *Design & Build Firms*
 - *Equipment & Service Providers*

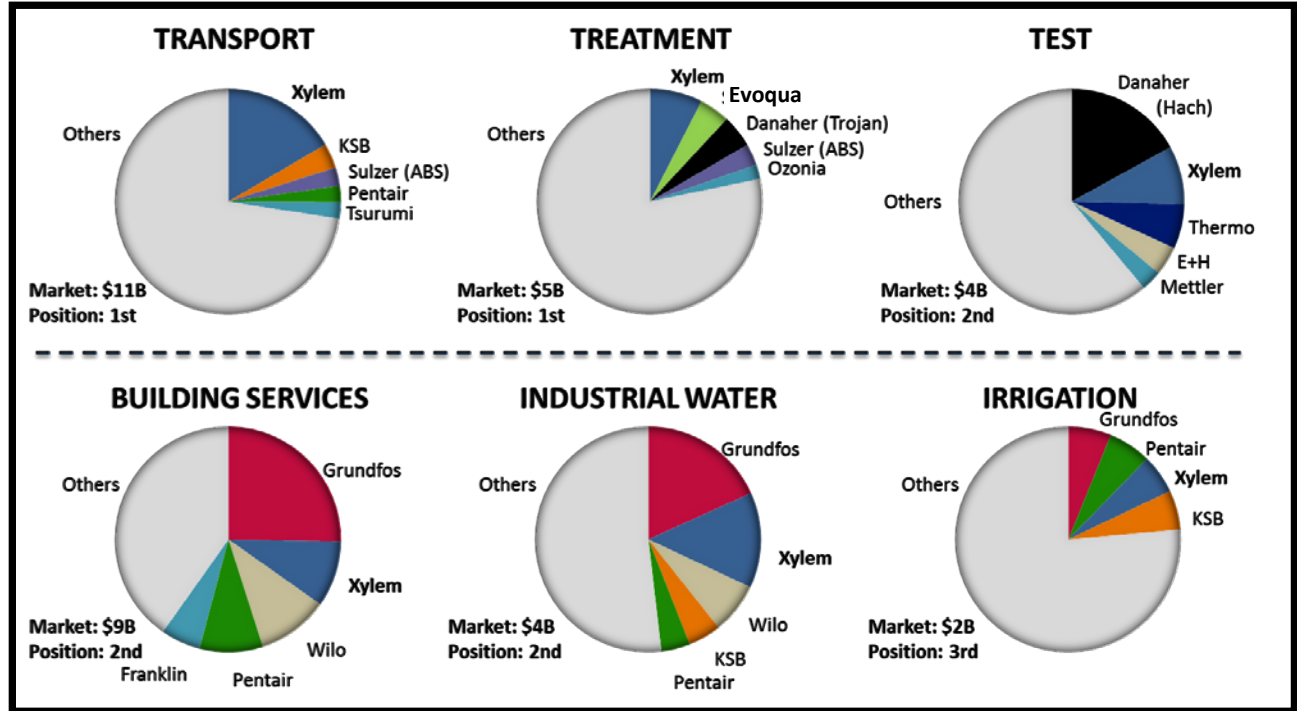
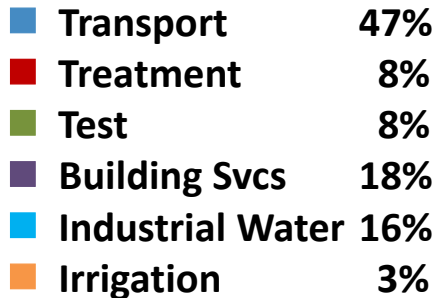
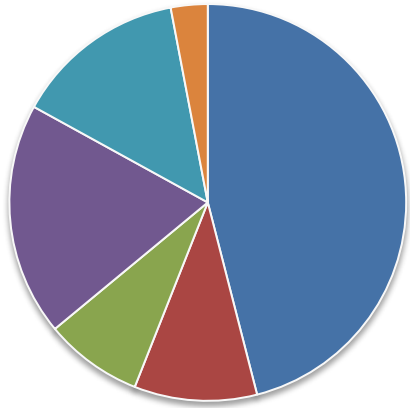
- **Xylem's SAM: \$35B**
 - *Technology Intensive*
 - *Critical Applications*
 - *Knowledge-Based Services*

UNIQUELY POSITIONED TO SOLVE THE WORLD'S GROWING WATER CHALLENGES

SERVING CRITICAL NEEDS

REVENUE BY APPLICATION

(2013 Revenue)

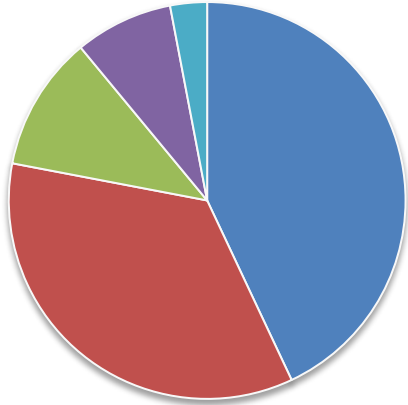


SIGNIFICANT GROWTH OPPORTUNITY IN HIGHLY FRAGMENTED INDUSTRY

DIVERSE CUSTOMER BASE

REVENUE BY END MARKET

(2013 Revenue)



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



OUR BROAD PORTFOLIO ALLOWS US TO ADDRESS A DIVERSE SET OF END MARKETS ... AND PROVIDES FOR A UNIQUE INVESTMENT OPPORTUNITY

FOCUSED ON KEY GROWTH END MARKETS

(2013 Revenue)

INDUSTRIAL (\$1.7B)



- **Diverse Water Applications**
 - *General Industrial*
 - *Mining*
 - *Oil & Gas*
 - *Construction*
 - *Food & Beverage*
 - *Marine*
- **LT Growth Opportunities**
 - *Industry Vertical Focus*
 - *Increased Regulation*
 - *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

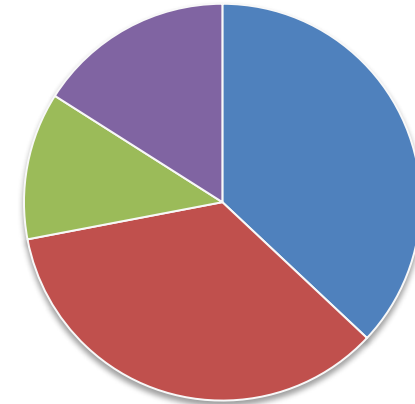
GLOBAL MARKET PRESENCE



- **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

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

- Increase Emerging Market Penetration
- Drive a Focused Industrial Growth Strategy
- Integrate & Enhance Front End Capabilities
- Differentiated Investment Strategy to Rebalance the Portfolio and Drive Innovation

Improve Operating Cost Position

- Manage General & Administrative Costs
- Expand Global Sourcing Capabilities
- Drive Lean Six Sigma More Consistently, Deeper and Across the Entire Organization

FOCUSED ON EXECUTION & DRIVING ACCOUNTABILITY

STRONG FINANCIAL POSITION

CAPITAL SUMMARY

| June 30, 2014 | (\$ Millions) |
|-------------------------|---------------|
| Cash | 450 |
| Debt | 1,242 |
| Net Debt | 792 |
| Shareholders' Equity | 2,245 |
| Net Capital | 3,037 |
| 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

Inorganic Growth Investments

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

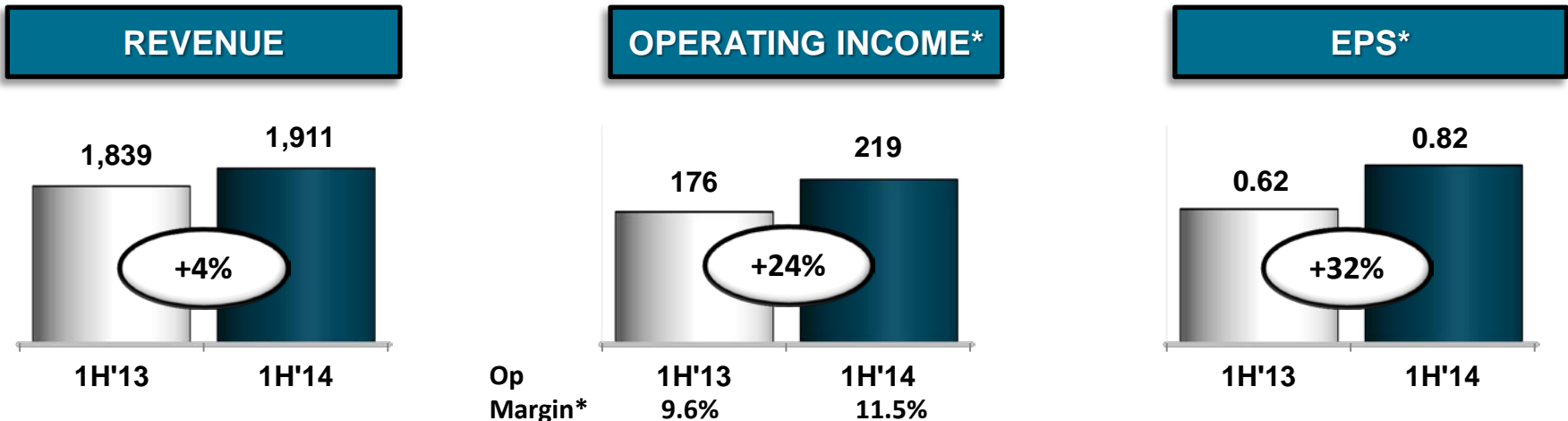
Return Capital to Shareholders

- Dividends
- Share Repurchase Programs

BALANCED CAPITAL DEPLOYMENT TO ENHANCE SHAREHOLDER RETURNS

1H PERFORMANCE HIGHLIGHTS

(Dollars, In Millions, Except per Share Data Unless Otherwise Noted)



- Solid 1H Performance ... Positive indicators & trends in some of our key markets
- Cost savings initiatives are on track, driving significant margin expansion
- Enhancing Global Sourcing capabilities
- Continuing to evaluate portfolio & investments, reactivating the M&A pipeline

SOLID 1H PERFORMANCE ... FOCUSED ON 2H EXECUTION

2014 GROWTH PROFILE (As of July 29th, 2014)

Xylem FY 2014
Organic Growth



Industrial

(45% of '13 Revenue)

- 1H up 3% ... 2H Outlook: Up LSD
- U.S. growth accelerates over the 2H
- Emerging Markets up; Europe stable

Up Low
Single Digit



Public Utility

(34% of '13 Revenue)

- 1H up 6% ... 2H Outlook: Flat to Up LSD
- Tougher 2H Comps; Project delivery timing
- 2015/2016 outlook: project pipeline growing, fundamentals improving

Up Low to
Mid Single
Digit



Commercial

(11% of '13 Revenue)

- 1H down 1%; 2H Outlook: Up LSD
- Overweight position to weak U.S. institutional building market continues to pressure overall performance

Flat



Residential

(7% of '13 Revenue)

- 1H up 2%; 2H Outlook: Flat to Down LSD
- U.S. housing recovery moderates
- Southern Europe weaker than expected through 1H; soft 2H outlook

Up Low
Single Digit



Agriculture

(3% of '13 Revenue)

- 1H up 3%; 2H Outlook: Down LSD
- Tough year-over-year comparison following strong 2013 performance

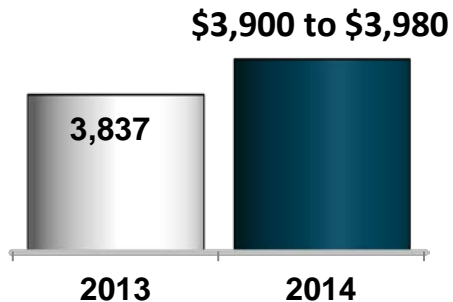
Flat

PUBLIC UTILITY OUTLOOK IMPROVING ... U.S. COMMERCIAL HEADWIND PERSISTS

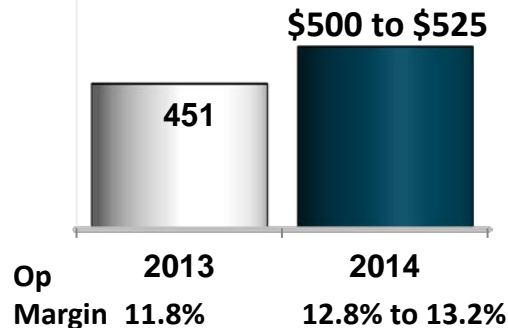
2014 XYLEM OUTLOOK (As of July 29th, 2014)

(Dollars, In Millions, except EPS)

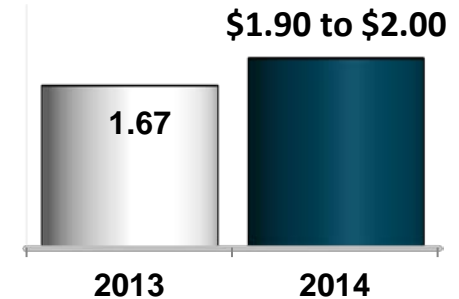
REVENUE



OPERATING INCOME*

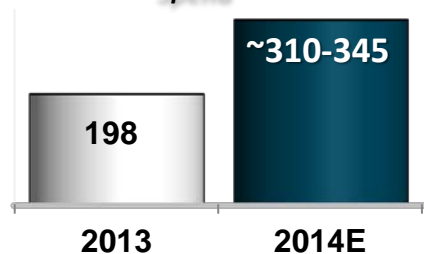


EPS*



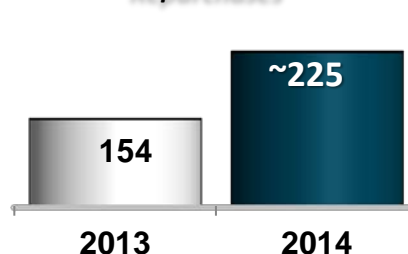
FREE CASH FLOW*

Higher Income, Working Cap Improvement, and Lower Capex Spend



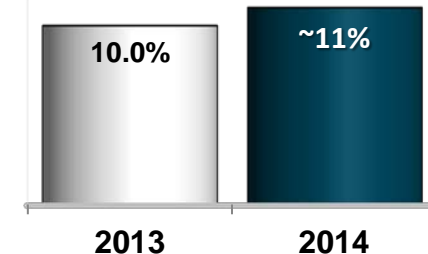
DIVIDENDS/SHARE REPURCHASES

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**

xylem
Let's Solve Water

THANK YOU FOR YOUR INTEREST

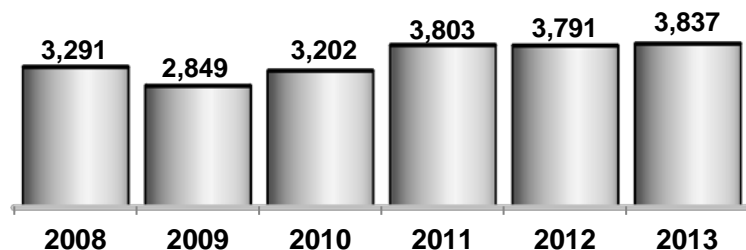
APPENDIX

FINANCIAL OVERVIEW

HISTORICAL XYLEM PERFORMANCE

REVENUE

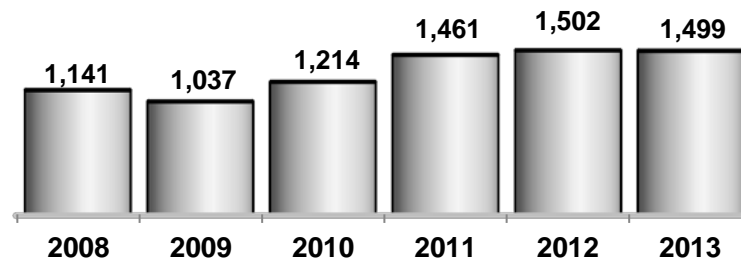
\$M



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

GROSS PROFIT & MARGIN

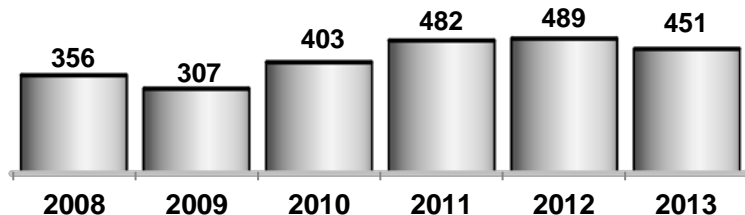
\$M



| | 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

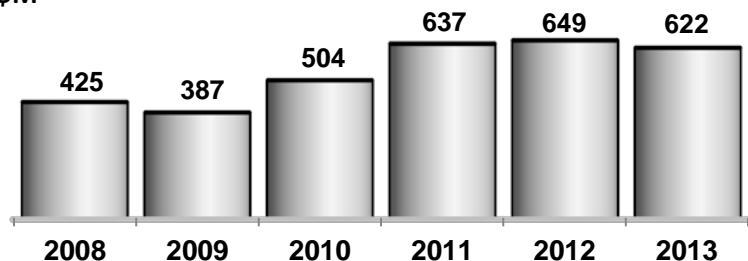
- Pricing Improvements; Lean & Global Sourcing
- Deployed ~\$100M in Restructuring
- Includes \$33M Stand-Alone Costs
- 2013 impacted by lower Public Utility CAPEX spending and weak European market conditions

OPPORTUNITY TO ACCELERATE GROWTH AND IMPROVE OPERATING PERFORMANCE

HISTORICAL XYLEM PERFORMANCE

EBITDA*

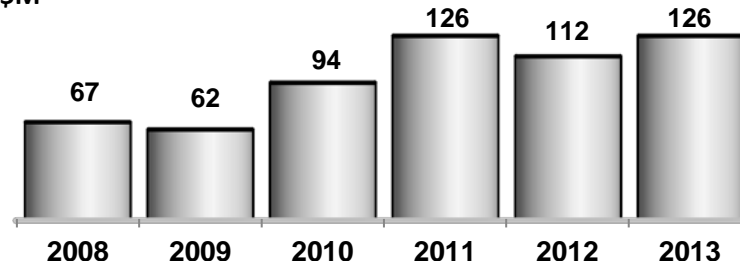
\$M



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

CAPEX

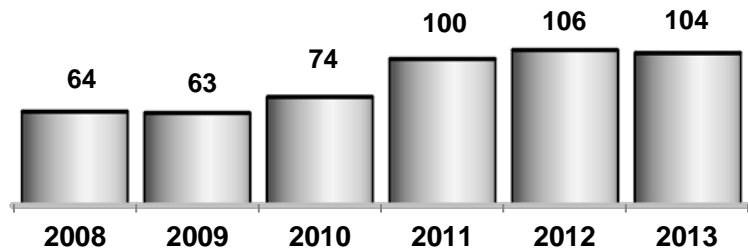
\$M



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

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 | ✓ | ✓ | ✓ | ● | ● | ✓ |
| Through 2012 | | | | Added ~200 Bps | | | | Added ~\$0.45 |
| MJK | \$13 | 2012 | ✓ | ● | ● | ● | ● | ✓ |
| Heartland | \$29 | 2012 | ✓ | ● | ● | ● | ● | ✓ |
| PIMS | \$57 | 2013 | ✓ | ● | ● | ● | ● | ✓ |
| MultiTrode | \$26 | 2013 | ✓ | ● | ● | ● | ● | ✗ |

SEGMENT OVERVIEW & FINANCIAL PERFORMANCE

SEGMENT OVERVIEW

WATER INFRASTRUCTURE

Market Size: \$20B

2013 Revenues: \$2.5B

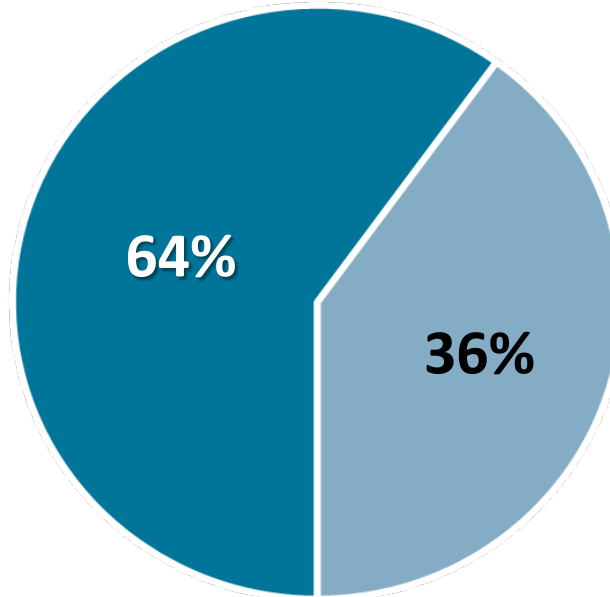
2013 Op Margin*: 13.1%

- 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
(3rd Party Revenue)



APPLIED WATER

Market Size: \$15B

2013 Revenues: \$1.4B

2013 Op Margin*: 12.7%









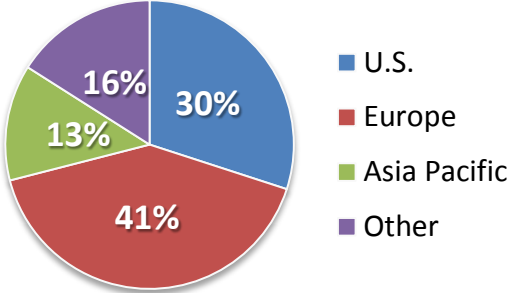
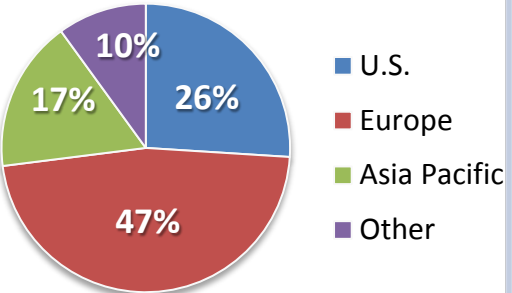
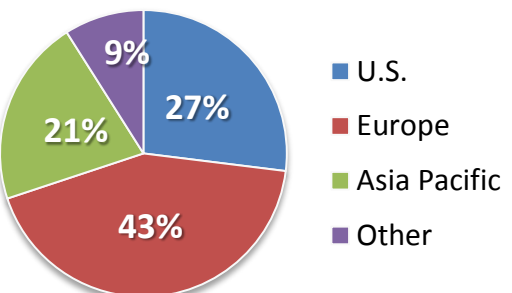
- Leading Global Provider of a Broad Range of Energy-Efficient Solutions with a Large & Diverse Customer Base
- U.S. Leader in Building Services Equipment & Solutions
- U.S. Leader in Industrial Water Technologies



BROAD PRODUCT PORTFOLIO BACKED BY APPLICATION EXPERTISE

WATER INFRASTRUCTURE

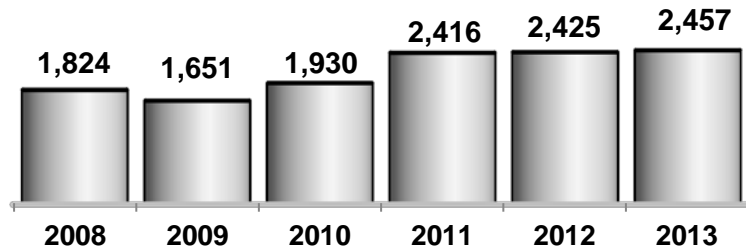
SEGMENT OVERVIEW

| | TRANSPORT | TREATMENT | TEST |
|-------------------------------------|--|--|--|
| Market Size: | \$11B | \$5B | \$4B |
| 2013 Revenues: | \$1,812M | \$329M | \$298M |
| Key Products & Services: | Water & Waste Water Pumps Dewatering (Sales & Rentals) Aftermarket Parts & Services | Biological U.V. and Ozone Disinfection Filtration | Analytical Instrumentation, Doppler and Level Measurement, Water Quality and Environmental Monitoring Systems |
| Key Brands: |   |    |    |
| Key Facilities: | Emmaboda, Sweden; Baroda, India; Shenyang, China; Bridgeport, NJ | Herford, Germany; Brown Deer, WI; Zelienople, PA | Yellow Springs, OH; Weilheim, Germany; Bergen, Norway |
| 2013 Revenues by Geography: |  <ul style="list-style-type: none"> U.S. 30% Europe 41% Asia Pacific 13% Other 16% |  <ul style="list-style-type: none"> U.S. 26% Europe 47% Asia Pacific 17% Other 10% |  <ul style="list-style-type: none"> U.S. 27% Europe 43% Asia Pacific 21% Other 9% |

WATER INFRASTRUCTURE

REVENUE

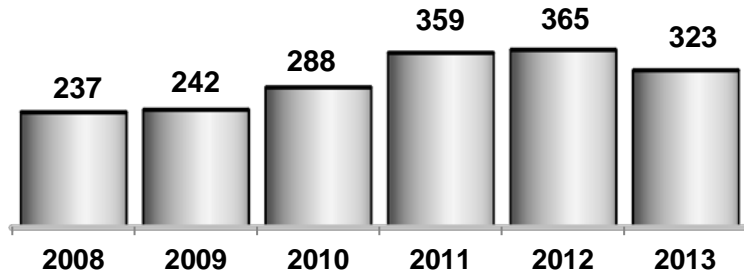
\$M



| | 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 |

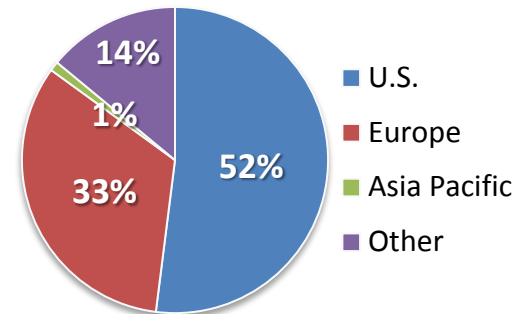
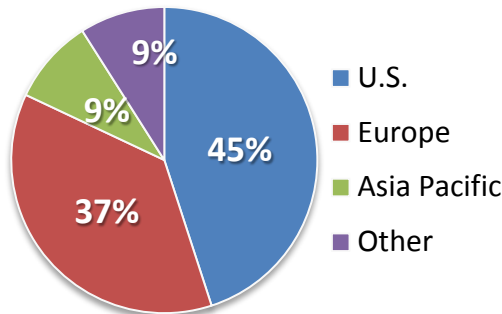
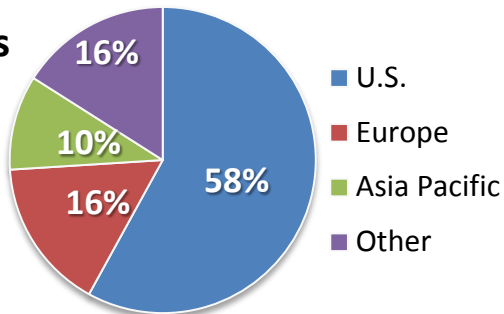
Key Brands:



Key Facilities:

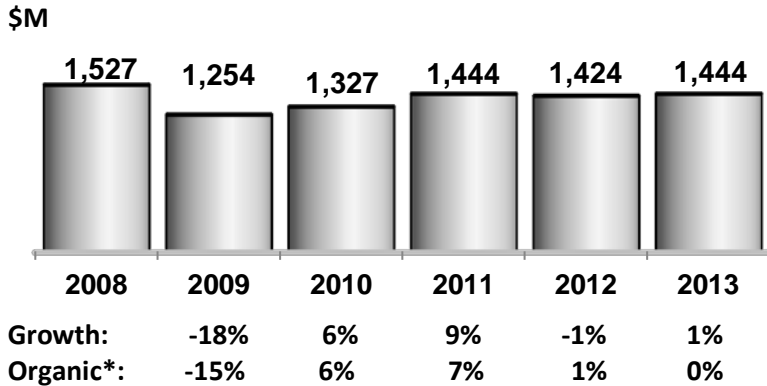
Auburn, NY; Buffalo, NY; Cegled, Hungary; Chihuahua, Mexico; Dallas, TX; Hoddesdon, UK; Montecchio, Italy; Morton Grove, IL; Nanjing, China; Stockerau, Austria; Strzelin, Poland; Wolverhampton, UK

2013 Revenues by Geography:

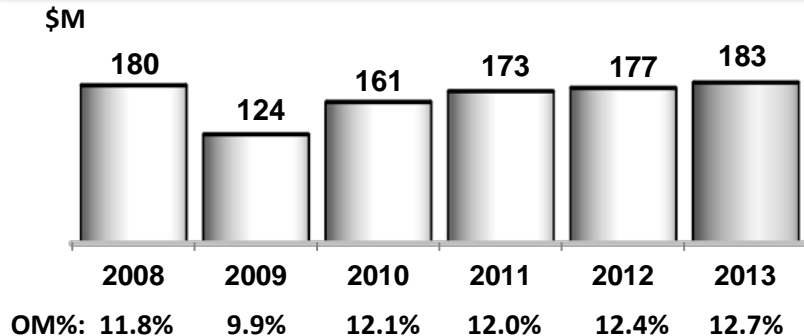


APPLIED WATER

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

REVIEW OF 2Q EARNINGS PERFORMANCE & 2014 OUTLOOK

Note: Forward Looking information presented on slides 30-36 were as of July 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

2nd Quarter Highlights

- Solid top line performance ... Growth across most regions; Mixed end market dynamics
- Volume & cost actions drive significant Op Margin expansion & Earnings growth
- Operating improvements remain on track to deliver full year savings
- Increasing lower end of EPS guidance to reflect 1H Performance

2nd Quarter Financial Summary

- Orders of \$1,031M, up 2%, Organic* up 1%
- Revenue of \$1,005M, up 5%, Organic* up 4%
- Operating Margin* of 12.4%, up 220 bps; Strong incremental margin performance
- Earnings Per Share* \$0.48 up 33%
- Free Cash Flow* \$50M ... Conversion 37%

STRONG 2nd QUARTER PERFORMANCE

CEO UPDATE

2014 Goals

- Deliver on our financial commitments
- Optimize integrated front end to accelerate growth
- Reignite the Xylem Management System
- Rebalance portfolio and product investments
- Develop stronger global sourcing and Lean/Six Sigma capability

2nd Quarter Update

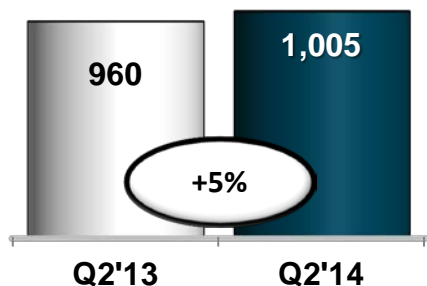
- On track to deliver 2014 commitments
- Investing in Customer Relationship Management tool to enable front end
- Continuing to evaluate and execute against cost savings initiatives
- UK Valves divestiture; Reactivating M&A pipeline

FOCUSED ON ACHIEVING OUR OBJECTIVES

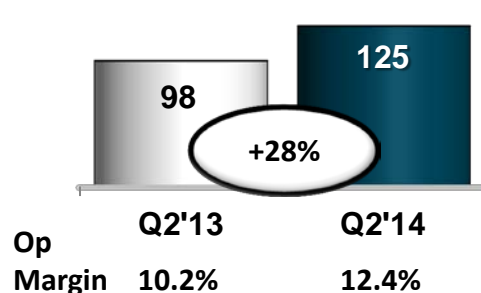
Q2'14 XYLEM PERFORMANCE

(Dollars, in Millions, except EPS)

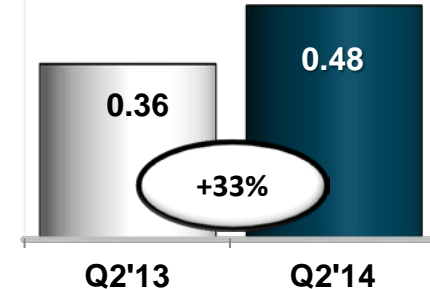
REVENUE



OPERATING INCOME*



EPS*



Org. Revenue Growth* +4%

Key Organic Growth Drivers

| | |
|------------------|-----|
| + Public Utility | +7% |
| + Industrial | +5% |
| - Commercial | -3% |

Organic Growth by Region

| | |
|------------|------|
| + Emerging | +11% |
| + Europe | +3% |
| + U.S. | +1% |

Key Performance Drivers

| | |
|-------------------|-------|
| + Core Operations | +2.4% |
| + Vol/Price/Mix | +0.5% |
| + Cost Reductions | +3.9% |
| - Cost Inflation | -2.0% |
| - FX | -0.2% |

**60% Incremental Margin
Driven by Volume Growth
& Cost Reductions**

Key Performance Drivers

| | |
|-------------------|---------|
| + Core Operations | +\$0.13 |
| + Vol/Price/Mix | +\$0.05 |
| + Rest. Savings | +\$0.05 |
| - FX | -\$0.01 |

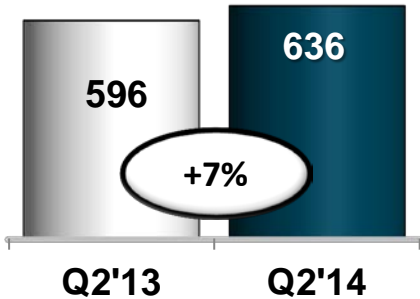
- Tax Rate 22.1%
- Share Count 184.5M

**VOLUME GROWTH & COST REDUCTIONS DRIVE
220 BPS MARGIN EXPANSION AND 33% EARNINGS GROWTH**

Q2'14 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* +7%

By Application

- + Transport +6%
- + Treatment +15%
- + Test +5%

By Regions

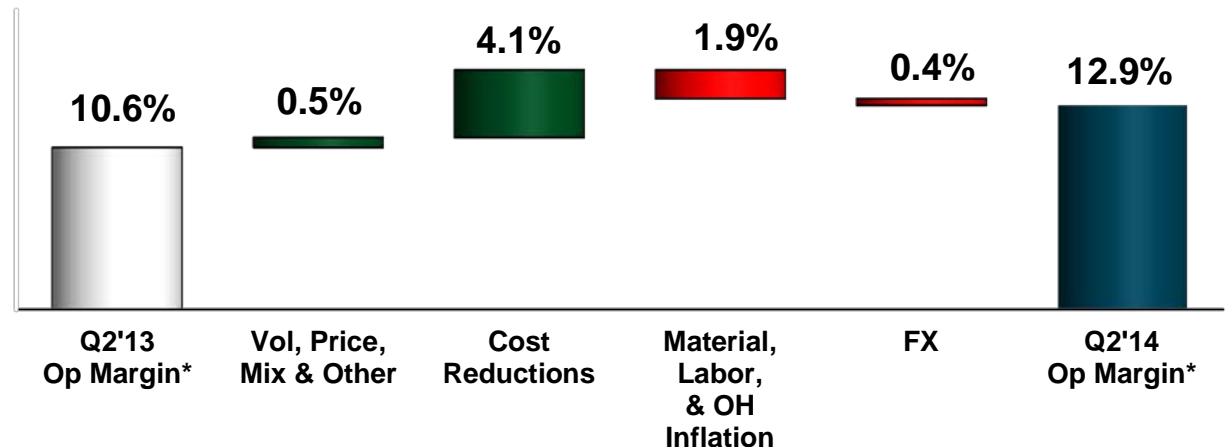
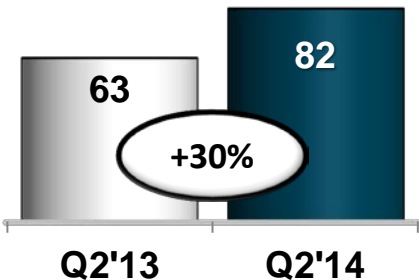
- + Emerging +16%
- + Europe +5%
- + U.S. +5%

Highlights

- + Transport driven by Public Utility infrastructure investment across most regions; Dewatering up in U.S. (hydraulic fracturing and equipment sales)
- + Treatment up double digits primarily due to Emerging Market strength and timing of project deliveries
- + Test up in both U.S. and European markets

OPERATING INCOME*

(Dollars, In Millions)

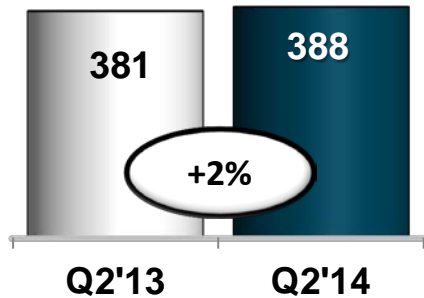


**STRONG OPERATING PERFORMANCE ... OP MARGIN UP 230 BPS
FUELED BY 7% ORGANIC GROWTH & EXECUTION OF COST REDUCTION INITIATIVES**

Q2'14 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* -1%

By Application

- Bldg Svcs -2%
- + Ind'l Water 2%
- = Irrigation Flat

By Regions

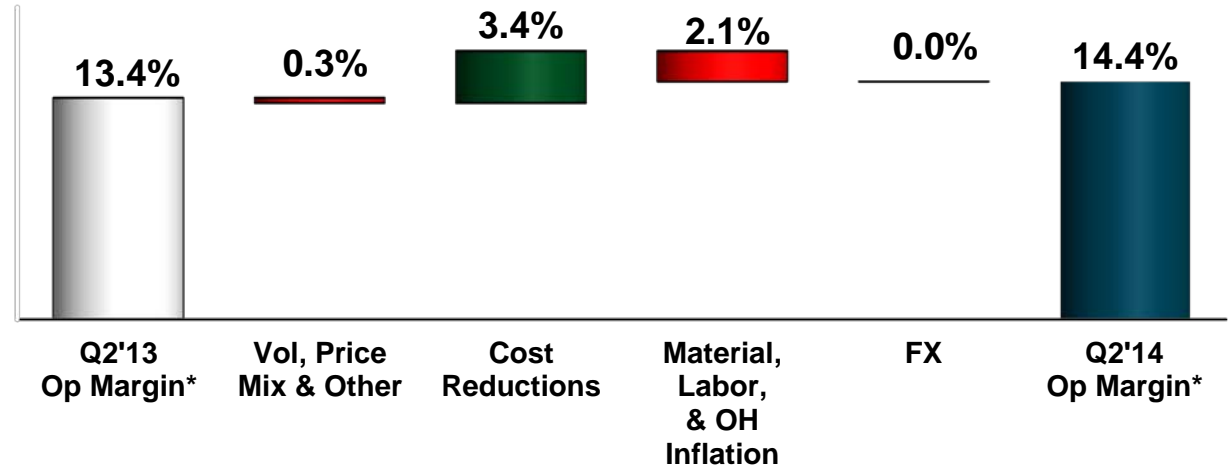
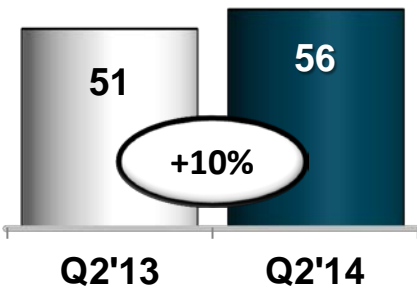
- U.S. -2%
- Europe -1%
- + Emerging +2%

Highlights

- U.S. Commercial Building Services down mid-single digits primarily due to continued Institutional Building market weakness
- Southern European Residential weakness persists
- + U.S. Residential was up low single digits against double digit PY growth
- + Emerging Market strength driven by continued growth in China

OPERATING INCOME*

(Dollars, In Millions)

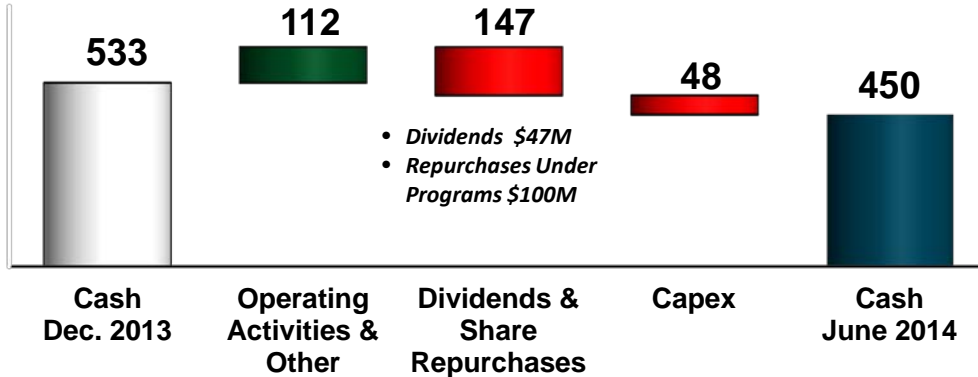


COST REDUCTIONS DRIVE 100 BPS OPERATING MARGIN IMPROVEMENT

XYLEM FINANCIAL POSITION

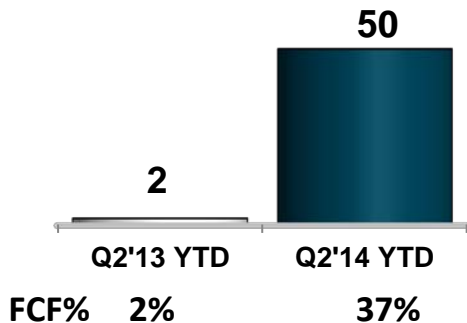
(Dollars, In Millions)

CASH DRIVERS



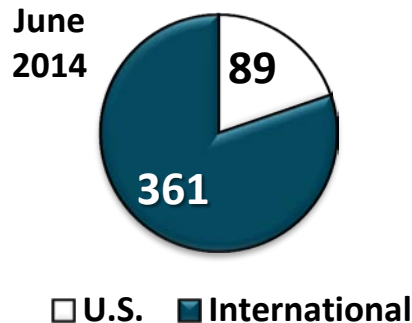
FREE CASH FLOW *

(Dollars, In Millions)



CASH BALANCE (GEOGRAPHIC)

(Dollars, In Millions)



CAPITAL SUMMARY

June 30, 2014

(Dollars, In Millions)

| | |
|-------------------------|-------|
| Cash | 450 |
| Debt | 1,242 |
| Net Debt | 792 |
| Shareholders' Equity | 2,245 |
| Net Capital | 3,037 |
| Net Debt to Net Capital | 26% |

- Strong cash position
- Increased return to shareholders
 - Dividends of \$47M; up 10% per share
 - Share repurchases of \$100M
- Improved Free Cash Flow performance
 - Higher income & lower Capex spend
 - Higher Working Capital
 - Receivable increase due to timing of Q2 sales/project terms
 - Inventory build ahead of 2H ramp
 - Timing of annual bonus payments

2014 FINANCIAL GUIDANCE SUMMARY

As of July 29th, 2014

| (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/Acq/Div</u> |
| Revenue | | | | |
| Xylem Consolidated | \$3,900 to \$3,980 | 2% to 4% | 2% to 4% | 0% |
| Water Infrastructure | \$2,520 to \$2,560 | 3% to 4% | 3% to 4% | 0% |
| Applied Water | \$1,450 to \$1,470 | Flat to 1% | Flat to 1% | 0% |
| Segment Margin * | 14.2% to 14.6% | +100 bps to +140 bps | | |
| Operating Margin * | 12.8% to 13.2% | +100 bps to +140 bps | | |
| EPS * | \$1.90 to \$2.00 | Up 14% to 20% | | |
| Free Cash Flow Conversion | ~100% | | | |
| Guidance Assumptions: | | | | |
| Operating Tax Rate * | ~21% | Unchanged from 2013 | | |
| Share Count | ~185M | ~\$130M for Share Repurchases in 2014 | | |
| Restructuring & Realignment Costs | ~\$40 to \$50 | '14 Rest. Savings ~\$17M; Realignment Cost \$10-\$15 | | |

RAISING LOWER END OF EPS GUIDANCE

2014 GROWTH PROFILE (As of July 29th, 2014)

Xylem FY 2014
Organic Growth



Industrial

(45% of '13 Revenue)

- 1H up 3% ... 2H Outlook: Up LSD
- U.S. growth accelerates over the 2H
- Emerging Markets up; Europe stable

Up Low
Single Digit



Public Utility

(34% of '13 Revenue)

- 1H up 6% ... 2H Outlook: Flat to Up LSD
- Tougher 2H Comps; Project delivery timing
- 2015/2016 outlook: project pipeline growing, fundamentals improving

Up Low to
Mid Single
Digit



Commercial

(11% of '13 Revenue)

- 1H down 1%; 2H Outlook: Up LSD
- Overweight position to weak U.S. institutional building market continues to pressure overall performance

Flat



Residential

(7% of '13 Revenue)

- 1H up 2%; 2H Outlook: Flat to Down LSD
- U.S. housing recovery moderates
- Southern Europe weaker than expected through 1H; soft 2H outlook

Up Low
Single Digit



Agriculture

(3% of '13 Revenue)

- 1H up 3%; 2H Outlook: Down LSD
- Tough year-over-year comparison following strong 2013 performance

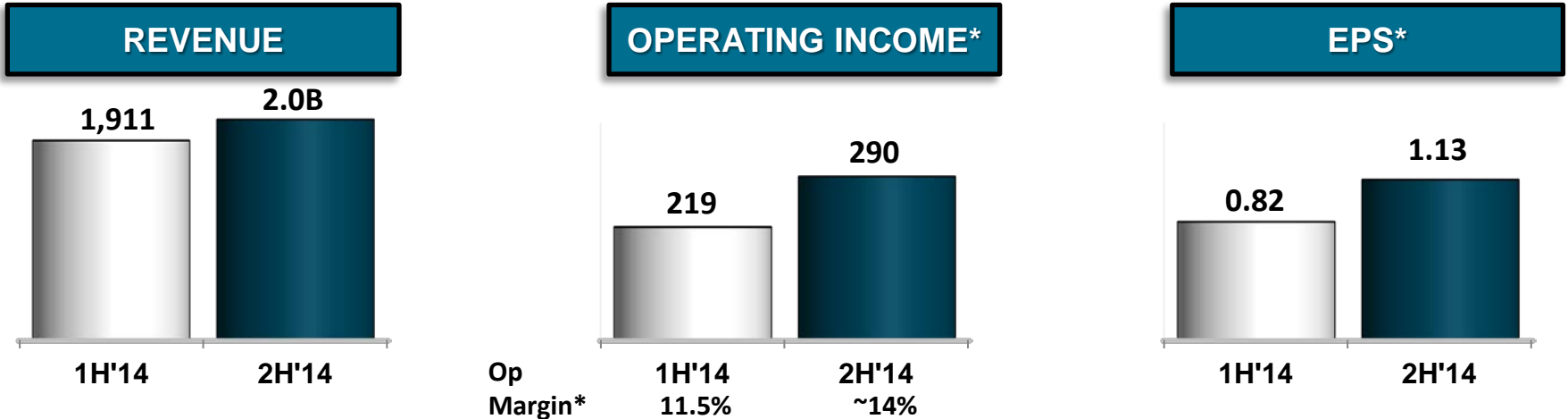
Flat

PUBLIC UTILITY OUTLOOK IMPROVING ... U.S. COMMERCIAL HEADWIND PERSISTS

2014 BUSINESS OUTLOOK (Mid-Point Illustration)

As of July 29th, 2014

(Dollars, In Millions, Except per Share Data Unless Otherwise Noted)



Planning Assumptions

- 1H/2H Revenue split reflects typical seasonal profile
 - 3Q sequential decline of 2% to 3% reflects European holiday season, AWS 2Q Peak, and project shipment variability
- 2H Op Income reflects modest revenue growth YOY (tough comp), unfavorable mix & price, and increased investment
 - 3Q Op Margin improvement of 80 bps to 130 bps sequentially

| 2014 EPS (Mid-Point Illustration) | |
|-----------------------------------|---------------|
| PY EPS* | \$1.67 |
| 1H Performance | +0.20 |
| 2H Rest. Savings | +0.08 |
| 2H Vol/Mix/Price/Other | +0.03 |
| 2H Investment | -0.03 |
| 2014 EPS | \$1.95 |

SOLID 1H PERFORMANCE ... FOCUSED ON 2H EXECUTION

SUMMARY

- **Solid 1H Performance ... Raising lower end of full year EPS guidance**
- **Continue to see positive indicators & trends in some of our key markets**
- **Cost savings initiatives are on track, driving significant margin expansion**
- **Enhancing Global Sourcing capabilities**
- **Continuing to evaluate portfolio & investments, reactivating the M&A pipeline**

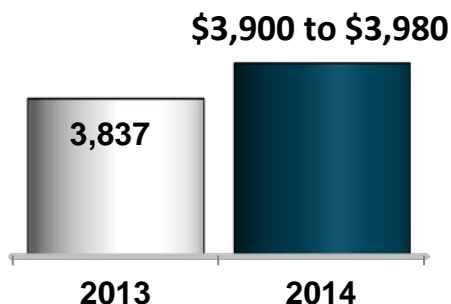
FOCUSED ON ACHIEVING OUR COMMITMENTS

APPENDIX

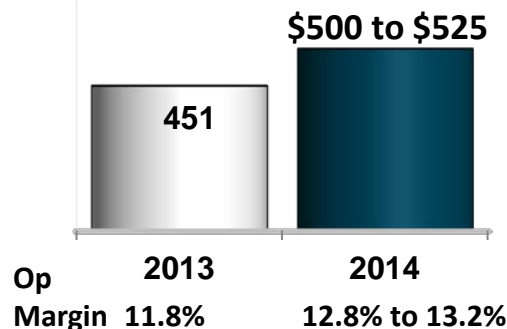
FY'14 XYLEM OUTLOOK (As of July 29th, 2014)

(Dollars, In Millions, except EPS)

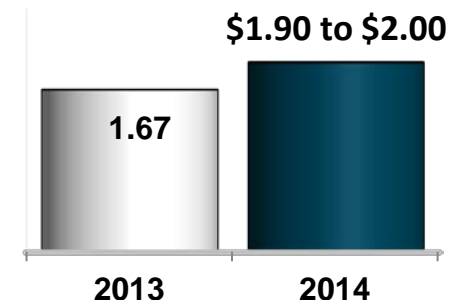
REVENUE



OPERATING INCOME*



EPS*



Highlights

- Revenue Growth 2% to 4%
- Organic Growth 2% to 4%
 - Water Infrastructure 3% to 4%
 - Applied Water Flat to 1%
- FX/Acquisition 0%

Volume Increase Partially Offset by Negative Mix/Price

Strong Incremental Margin Performance Driven by Restructuring Savings

- Partially offset by Price Headwind, & Mix
- Lean & Global Sourcing Offsets Cost Inflation
- Restructuring Savings of \$42M

Highlights

EPS Growth 14% to 20%

Key Performance Drivers

- + Core Ops \$0.23 to \$0.33
- + 1x/Rest. Savings \$0.20
- Tax Rate ~21%
- Share Count ~185M

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

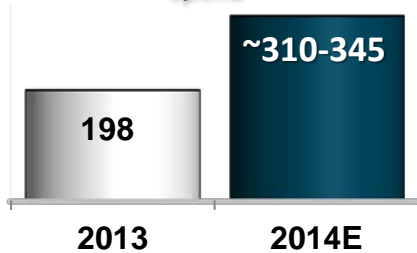
DISCIPLINED CAPITAL DEPLOYMENT

As of July 29th, 2014

(Dollars, In Millions, except EPS)

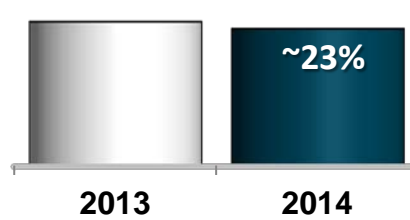
FREE CASH FLOW*

Higher Income, Working Cap Improvement, and Lower Capex Spend



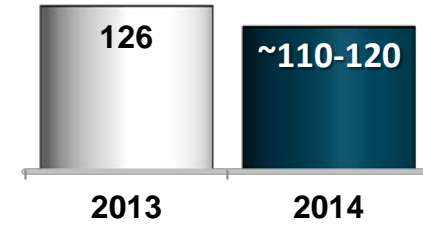
WORKING CAPITAL As % of Revenue**

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



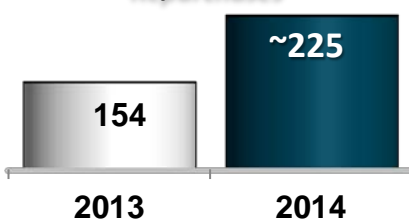
CAPEX

Approximately 3% of Revenue, Funds Growth & Maintenance



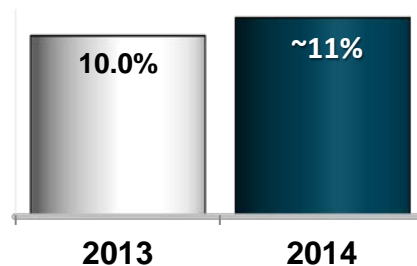
DIVIDENDS/SHARE REPURCHASES

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



ROIC***

Targeting 100 Bps Improvement



2014 Capital Deployment Strategy

- 1) Invest in Organic Growth Initiatives
- 2) Enhance Shareholder Returns
- 3) Cultivate and Acquire Bolt-On Acquisitions

EFFICIENT CAPITAL ALLOCATION TO DRIVE VALUE CREATION

* See appendix for non-GAAP reconciliations

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

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

NON-GAAP MEASURES

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

“Organic revenue” and “Organic orders” defined as revenue and orders, respectively, excluding the impact of foreign currency fluctuations, intercompany transactions, and contributions from acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for classification as a discontinued operation or insignificant portions of our business that we did not classify as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.

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

“EBITDA” defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **“Adjusted EBITDA”** reflects the adjustment to EBITDA to exclude for non-recurring restructuring and realignment costs and special charges (where applicable).

“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS” defined as operating income, segment operating income and earnings per share, respectively, adjusted to exclude non-recurring restructuring and realignment costs, special charges (where applicable) 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.

“Special charges” defined as costs incurred by the Company associated with the settlement of legal proceedings with Xylem Group LLC and certain costs incurred for the change in chief executive officer made during the third quarter of 2013, as well as costs incurred in the fourth quarter of 2013 for the contractual indemnification of federal tax obligations to ITT and costs associated with a legal judgment arising from a historical acquisition matter.

Xylem Inc. Non-GAAP Reconciliation
Reported vs. Organic & Constant Currency 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 2014 | Orders 2013 | Change 2014 v. 2013 | % Change 2014 v. 2013 | Acquisitions / Divestitures | FX Contribution | Eliminations | Change Adj. 2014 v. 2013 | % Change Adj. 2014 v. 2013 | | | | | | | |
| <u>Six Months Ended June 30</u> | | | | | | | | | | | | | | | | |
| Xylem Inc. | 2,024 | 1,971 | 53 | 3% | (8) | (5) | - | 40 | 2% | | | 2% | | | | |
| Water infrastructure | 1,293 | 1,248 | 45 | 4% | (8) | 3 | 2 | 42 | 3% | | | 4% | | | | |
| Applied Water | 772 | 756 | 16 | 2% | - | (9) | (9) | (2) | 0% | | | 0% | | | | |
| <u>Quarter Ended June 30</u> | | | | | | | | | | | | | | | | |
| Xylem Inc. | 1,031 | 1,009 | 22 | 2% | (1) | (8) | - | 13 | 1% | | | 1% | | | | |
| Water infrastructure | 674 | 647 | 27 | 4% | (1) | (3) | - | 23 | 4% | | | 4% | | | | |
| Applied Water | 378 | 378 | - | 0% | - | (5) | (6) | (11) | -3% | | | -3% | | | | |
| <u>Quarter Ended March 31</u> | | | | | | | | | | | | | | | | |
| 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 2014 v. 2013 | % Change 2014 v. 2013 | Acquisitions / Divestitures | FX Contribution | Eliminations | Change Adj. 2014 v. 2013 | % Change Adj. 2014 v. 2013 | | | |
| 2014 | 2013 | | | | | | | | | | | |
| <u>Six Months Ended June 30</u> | | | | | | | | | | | | |
| Xylem Inc. | 1,911 | 1,839 | 72 | 4% | (6) | (3) | - | 63 | 3% | | 4% | |
| Water infrastructure | 1,204 | 1,147 | 57 | 5% | (6) | 5 | 3 | 59 | 5% | | 6% | |
| Applied Water | 743 | 726 | 17 | 2% | - | (9) | (4) | 4 | 1% | | 1% | |
| <u>Quarter Ended June 30</u> | | | | | | | | | | | | |
| Xylem Inc. | 1,005 | 960 | 45 | 5% | (1) | (7) | - | 37 | 4% | | 4% | |
| Water infrastructure | 636 | 596 | 40 | 7% | (1) | (2) | 2 | 39 | 7% | | 7% | |
| Applied Water | 388 | 381 | 7 | 2% | - | (6) | (3) | (2) | -1% | | -1% | |
| <u>Quarter Ended March 31</u> | | | | | | | | | | | | |
| 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)

| | Q1 | | Q2 | | YTD | |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Total Revenue | | | | | | |
| • Total Xylem | 906 | 879 | 1,005 | 960 | 1,911 | 1,839 |
| • Water Infrastructure | 568 | 551 | 636 | 596 | 1,204 | 1,147 |
| • Applied Water | 355 | 345 | 388 | 381 | 743 | 726 |
| Operating Income | | | | | | |
| • Total Xylem | 76 | 66 | 116 | 70 | 192 | 136 |
| • Water Infrastructure | 46 | 42 | 77 | 41 | 123 | 83 |
| • Applied Water | 41 | 40 | 52 | 45 | 93 | 85 |
| Operating Margin | | | | | | |
| • Total Xylem | 8.4% | 7.5% | 11.5% | 7.3% | 10.0% | 7.4% |
| • Water Infrastructure | 8.1% | 7.6% | 12.1% | 6.9% | 10.2% | 7.2% |
| • Applied Water | 11.5% | 11.6% | 13.4% | 11.8% | 12.5% | 11.7% |
| Restructuring & Realignment Costs | | | | | | |
| • Total Xylem | 18 | 12 | 9 | 28 | 27 | 40 |
| • Water Infrastructure | 12 | 10 | 5 | 22 | 17 | 32 |
| • Applied Water | 6 | 2 | 4 | 6 | 10 | 8 |
| Adjusted Operating Income* | | | | | | |
| • Total Xylem | 94 | 78 | 125 | 98 | 219 | 176 |
| • Water Infrastructure | 58 | 52 | 82 | 63 | 140 | 115 |
| • Applied Water | 47 | 42 | 56 | 51 | 103 | 93 |
| Adjusted Operating Margin* | | | | | | |
| • Total Xylem | 10.4% | 8.9% | 12.4% | 10.2% | 11.5% | 9.6% |
| • Water Infrastructure | 10.2% | 9.4% | 12.9% | 10.6% | 11.6% | 10.0% |
| • Applied Water | 13.2% | 12.2% | 14.4% | 13.4% | 13.9% | 12.8% |

*Adjusted Operating Income excludes restructuring & realignment costs.

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

| | Q2 2013 | | | Q2 2014 | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | As Reported | Adjustments | Adjusted | As Reported | Adjustments | Adjusted |
| Total Revenue | 960 | | 960 | 1,005 | | 1,005 |
| Operating Income | 70 | 28 a | 98 | 116 | 9 a | 125 |
| Operating Margin | 7.3% | | 10.2% | 11.5% | | 12.4% |
| Interest Expense | (14) | | (14) | (13) | | (13) |
| Other Non-Operating Income (Expense) | 1 | | 1 | 1 | | 1 |
| Income before Taxes | 57 | 28 | 85 | 104 | 9 | 113 |
| Provision for Income Taxes | (11) | (8) b | (19) | (18) | (7) b | (25) |
| Net Income | 46 | 20 | 66 | 86 | 2 | 88 |
| Diluted Shares | 186.1 | | 186.1 | 184.5 | | 184.5 |
| Diluted EPS | \$ 0.25 | \$ 0.11 | \$ 0.36 | \$ 0.47 | \$ 0.01 | \$ 0.48 |

| | Q2 YTD 2013 | | | Q2 YTD 2014 | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | As Reported | Adjustments | Adjusted | As Reported | Adjustments | Adjusted |
| Total Revenue | 1,839 | | 1,839 | 1,911 | | 1,911 |
| Operating Income | 136 | 40 a | 176 | 192 | 27 a | 219 |
| Operating Margin | 7.4% | | 9.6% | 10.0% | | 11.5% |
| Interest Expense | (27) | | (27) | (27) | | (27) |
| Other Non-Operating Income (Expense) | (1) | | (1) | - | | - |
| Income before Taxes | 108 | 40 | 148 | 165 | 27 | 192 |
| Provision for Income Taxes | (21) | (11) b | (32) | (30) | (11) b | (41) |
| Net Income | 87 | 29 | 116 | 135 | 16 | 151 |
| Diluted Shares | 186.3 | | 186.3 | 185.1 | | 185.1 |
| Diluted EPS | \$ 0.47 | \$ 0.15 | \$ 0.62 | \$ 0.73 | \$ 0.09 | \$ 0.82 |

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)

| | Six Months Ended | |
|--|------------------|--------------|
| | 2014 | 2013 |
| Net Cash - Operating Activities | \$ 98 | \$ 62 |
| Capital Expenditures | (48) | (60) |
| Free Cash Flow | <u>\$ 50</u> | <u>\$ 2</u> |
| Net Income | <u>\$ 135</u> | <u>\$ 87</u> |
| Free Cash Flow Conversion | <u>37%</u> | <u>2%</u> |

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

| | 2014 | |
|--------------------------------|--------------|--------------|
| | Q1 | Q2 |
| Pre-Tax Income | 61 | 104 |
| Interest Expense (Income), net | 13 | 14 |
| Depreciation | 23 | 24 |
| Amortization | 13 | 12 |
| Stock Compensation | 4 | 5 |
| EBITDA | 114 | 159 |
| Restructuring & Realignment | 18 | 9 |
| Adjusted EBITDA | 132 | 168 |
| Revenue | 906 | 1,005 |
| Adjusted EBITDA Margin | 14.6% | 16.7% |
| | 2013 | |
| | Q1 | Q2 |
| Pre-Tax Income | 51 | 57 |
| Interest Expense (Income), net | 12 | 13 |
| Depreciation | 25 | 24 |
| Amortization | 12 | 13 |
| Stock Compensation | 6 | 6 |
| EBITDA | 106 | 113 |
| Restructuring & Realignment | 12 | 28 |
| Special Charges | - | - |
| Adjusted EBITDA | 118 | 141 |
| Revenue | 879 | 960 |
| Adjusted EBITDA Margin | 13.4% | 14.7% |

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

| | 2014 | |
|--------------------------------|--------------|--------------|
| | Q1 | Q2 |
| Pre-Tax Income | 46 | 78 |
| Interest Expense (Income), net | - | |
| Depreciation | 17 | 17 |
| Amortization | 10 | 10 |
| Stock Compensation | 1 | 1 |
| EBITDA | 74 | 106 |
| Restructuring & Realignment | 12 | 5 |
| Adjusted EBITDA | 86 | 111 |
| Revenue | 568 | 636 |
| Adjusted EBITDA Margin | 15.1% | 17.5% |
| | 2013 | |
| | Q1 | Q2 |
| Pre-Tax Income | 42 | 43 |
| Interest Expense (Income), net | - | (1) |
| Depreciation | 19 | 17 |
| Amortization | 9 | 11 |
| Stock Compensation | 1 | 1 |
| EBITDA | 71 | 71 |
| Restructuring & Realignment | 10 | 22 |
| Adjusted EBITDA | 81 | 93 |
| Revenue | 551 | 596 |
| Adjusted EBITDA Margin | 14.7% | 15.6% |

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

| | 2014 | |
|-------------------------------|--------------|--------------|
| | Q1 | Q2 |
| Pre-Tax Income | 41 | 52 |
| Interest, net | - | |
| Depreciation | 6 | 6 |
| Amortization | 1 | 1 |
| Stock Compensation | - | 1 |
| EBITDA | 48 | 60 |
| Restructuring & Realignment | 6 | 4 |
| Adjusted EBITDA | 54 | 64 |
| Revenue | 355 | 388 |
| Adjusted EBITDA Margin | 15.2% | 16.5% |
| | 2013 | |
| | Q1 | Q2 |
| Pre-Tax Income | 40 | 45 |
| Interest, net | - | - |
| Depreciation | 6 | 5 |
| Amortization | 2 | 1 |
| Stock Compensation | 1 | - |
| EBITDA | 49 | 51 |
| Restructuring & Realignment | 2 | 6 |
| Adjusted EBITDA | 51 | 57 |
| Revenue | 345 | 381 |
| Adjusted EBITDA Margin | 14.8% | 15.0% |

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

| | (As Reported - GAAP) | | | | (As Adjusted - Organic) | | | | | Constant Currency |
|--|-------------------------|-----------------------|--------------------|----------------------|--------------------------------|-----------------|--------------|-------------------------|---------------------------|-------------------|
| | (A) | (B) | (B) | (B) | (C) | (D) | (E) | (F) = B+C+D+E | (G) = F/A | (H) = (F - C) / A |
| | Revenue Current Year | Revenue Prior Year | Change CY v. PY | % Change CY v. PY | Acquisitions / Divestitures | FX Contribution | Eliminations | Change Adj. CY v. PY | % Change Adj. CY v. PY | |
| <u>Year Ended December 31, 2013</u> | | | | | | | | | | |
| Xylem Inc. | 3,837 | 3,791 | 46 | 1% | (82) | (3) | - | (39) | -1% | 1% |
| Water infrastructure | 2,457 | 2,425 | 32 | 1% | (82) | 4 | - | (46) | -2% | 1% |
| Applied Water | 1,444 | 1,424 | 20 | 1% | - | (9) | (6) | 5 | 0% | 0% |
| <u>Year Ended December 31, 2012</u> | | | | | | | | | | |
| Xylem Inc. | 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% |
| <u>Year Ended December 31, 2011</u> | | | | | | | | | | |
| Xylem Inc. | 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% |
| <u>Year Ended December 31, 2010</u> | | | | | | | | | | |
| Xylem Inc. | 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% |
| <u>Year Ended December 31, 2009</u> | | | | | | | | | | |
| Xylem Inc. | 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 | <u>315</u> | <u>276</u> | <u>388</u> | <u>395</u> | <u>443</u> | <u>363</u> |
| Operating Margin | 9.6% | 9.7% | 12.1% | 10.4% | 11.7% | 9.5% |
| Restructuring & Realignment Separation Costs* | 41 - | 31 - | 15 - | - 87 | 24 22 | 64 - |
| Special Charges | - | - | - | - | - | 24 |
| Adjusted Operating Income | <u><u>356</u></u> | <u><u>307</u></u> | <u><u>403</u></u> | <u><u>482</u></u> | <u><u>489</u></u> | <u><u>451</u></u> |
| Adjusted Operating Margin | 10.8% | 10.8% | 12.6% | 12.7% | 12.9% | 11.8% |
| Standalone Costs | - | - | - | 5 | 28 | - |
| Adj. Operating Income, excl. Standalone Costs | <u><u>356</u></u> | <u><u>307</u></u> | <u><u>403</u></u> | <u><u>487</u></u> | <u><u>517</u></u> | <u><u>451</u></u> |
| Adjusted Operating Margin, excl. Standalone Costs | 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 |
| Net Cash - Operating Activities | 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 | - | - | - |
| Free Cash Flow, excluding separation costs* | <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> |
| Net Income, excluding separation costs* | <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> |
| Free Cash Flow Conversion | <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> |
| <u>Adjusted Diluted EPS</u> | <u>\$1.36</u> | <u>\$1.21</u> | <u>\$1.61</u> | <u>\$1.93</u> | <u>\$1.77</u> | <u>\$1.67</u> |

* 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

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