

XYLEM INC.

Q2 2015 EARNINGS RELEASE

JULY 30, 2015



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “forecast,” “believe,” “target,” “will,” “could,” “would,” “should” and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include statements about the capitalization of Xylem Inc. (the “Company”), the Company’s restructuring and realignment, future strategic plans and other statements that describe the Company’s business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Factors that could cause results to differ materially from those anticipated include: economic, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

All forward-looking statements made herein are based on information currently available to the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

BUSINESS UPDATE

2nd Quarter Highlights

- Continued to build long-term project Backlog
- Commercial & Public Utility Revenue growth muted by Industrial (O&G) weakness
- Continuous Improvement initiatives drive cost reductions, and preserve profitability
- Updating full-year guidance; Expected Earnings per Share* of \$1.82 to \$1.87
- Named new Chief Innovation & Technology Officer and Chief Human Resources Officer

2nd Quarter Financial Summary

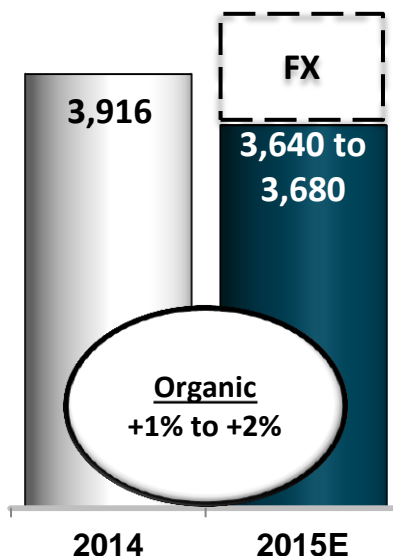
- Orders of \$944M, up 1% organically* vs. record prior year comparison
- Revenue of \$920M, organic* growth of 1%
- Operating Margin* of 12.0%, flat ex. FX translation (40 bps)
- Earnings Per Share* of \$0.43, up 2% ex. FX translation (\$0.06)
- Free Cash Flow* of \$64M, up 21% YOY

SOLID 2Q PERFORMANCE

2015 OUTLOOK

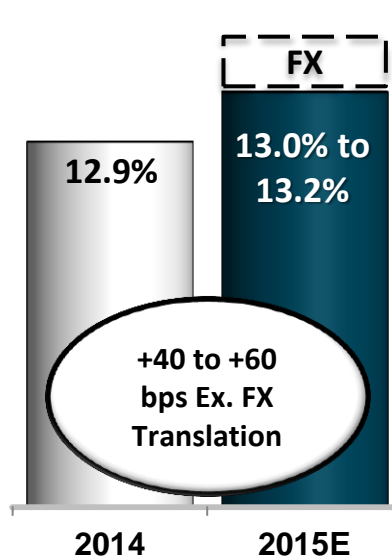
(Dollars In Millions, except EPS)

REVENUE



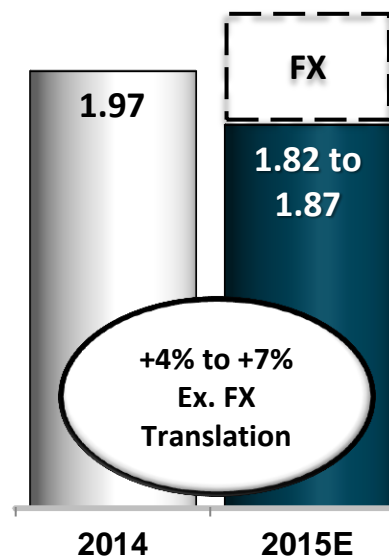
Organic Growth +1% to +2%
FX Translation - 8%

OP MARGIN*



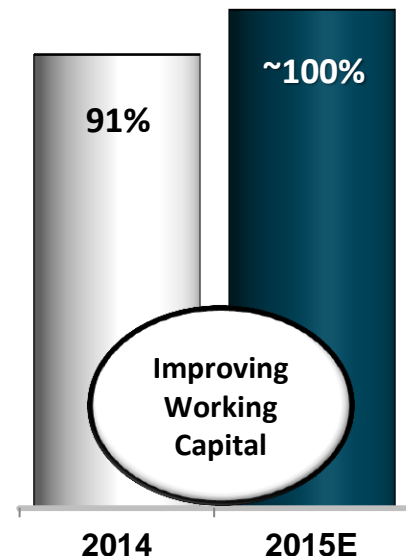
Operations +40 to +60 bps
FX Translation - 30 bps

EPS*



Operations +\$0.08 to +\$0.13
FX Translation - \$0.23

FCF CONVERSION*



Committed to Disciplined
Capital Deployment
10% Dividend Increase

FOCUSED ON EXECUTION & DRIVING PRODUCTIVITY

GUIDANCE UPDATE

(Dollars In Millions, except EPS)

Revenue	Low	High
Previous Guidance	\$3,620	\$3,700
<i>Volume/Price</i>		- 40
<i>Foreign Exchange</i>	+20	+ 20
Current Guidance	\$3,640	\$3,680
Organic Growth	+1%	+2%

Earnings Per Share*	Low	High
Previous Guidance	\$1.80	\$1.90
<i>Volume/Price</i>		- 0.09
<i>Mix</i>	- 0.07	- 0.03
<i>Productivity</i>	+ 0.07	+ 0.07
Op Performance	\$1.80	\$1.85
<i>Foreign Exchange</i>	+ 0.02	+ 0.02
Current Guidance	\$1.82	\$1.87

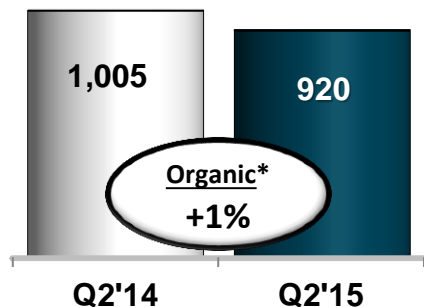
Key Assumptions

- Organic Growth of +1% to +2%; FX -8%
 - Industrial weaker than expected
 - Pricing pressure in select markets (price neutral overall)
 - + Improving Public Utility outlook
- Driving Productivity to Offset Price/Mix
 - + Increased savings from global sourcing & lean initiatives
 - + Strict discretionary cost management
 - Unfavorable mix driven primarily by decline in Dewatering forecast
- Updating full year guidance to reflect a stronger Euro/USD (\$1.10 vs. \$1.07)

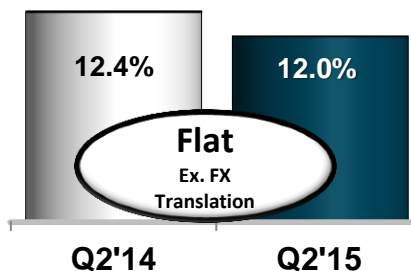
Q2'15 XYLEM PERFORMANCE

(Dollars In Millions, except EPS)

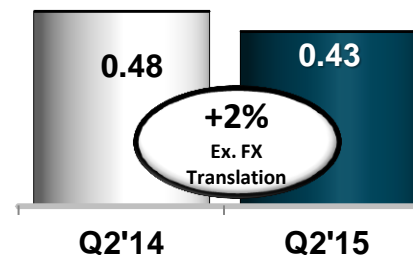
REVENUE



OPERATING MARGIN*



EPS*



Key Organic Growth Drivers

+ Commercial	+6%
+ Public Utility	+2%
+ Agriculture	+1%
= Industrial	Flat
- Residential	- 2%

Organic Growth by Region

+ Emerging	+9%
+ Australia	+10%
+ W. Europe	+1%
- Canada	- 16%
- U.S.	- 2%

Key Performance Drivers

= Operations	Flat
+ Cost Reductions	+3.5%
- Vol/Price/Mix	- 0.3%
- Inflation	- 2.5%
- Divestiture/Other	- 0.7%
- FX Translation	- 0.4%

Continuous Improvement & Restructuring Savings Reduce Cost by \$32M

Key Performance Drivers

+ Operations	+0.01
+ Cost Reductions	+\$0.14
- Inflation	-\$0.10
- Divestiture/Other	-\$0.02
- Vol/Price/Mix	-\$0.01
- FX Translation	- \$0.06

Other Information:

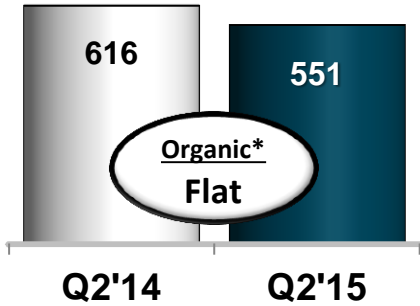
• Tax Rate	20.4%
• Share Count	182.3M

STRONG EXECUTION & COST REDUCTIONS PRESERVE PROFITABILITY

Q2'15 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars In Millions)



Organic Growth

By Application

- = Transport Flat
- = Test Flat
- Treatment - 2%

By Regions

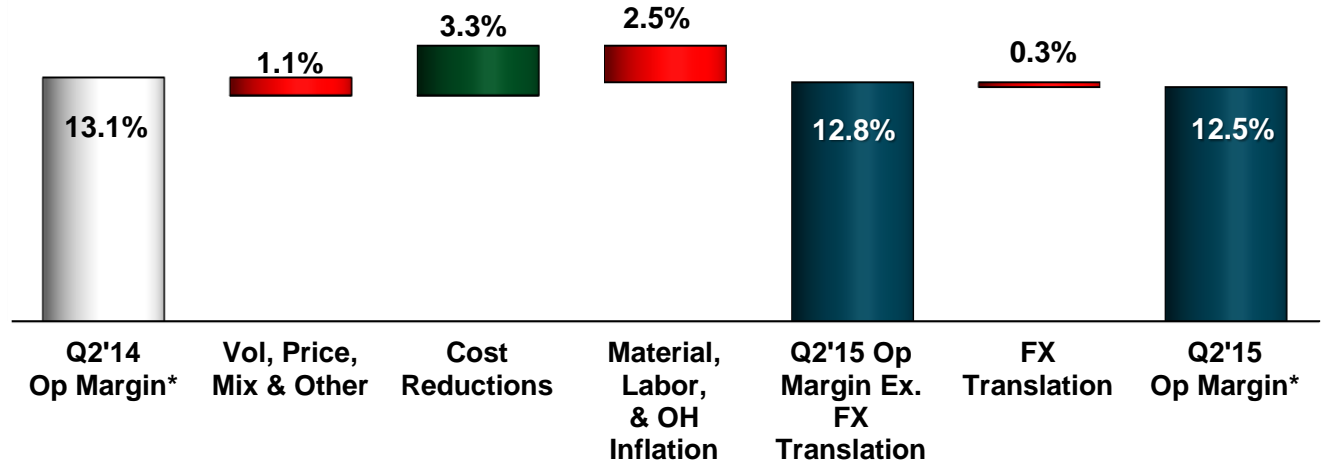
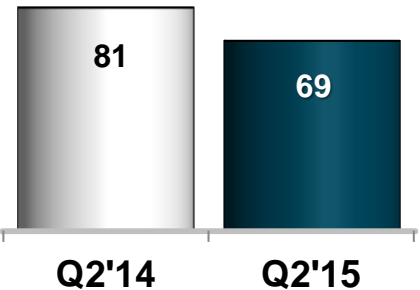
- + Emerging +8%
- + Australia +11%
- + W. Europe +1%
- U.S. / CAN - 7%

Highlights

- + Emerging Market growth driven by Dewatering Transport (Panama Canal project) & Test
- + Public Utility & Industrial Transport strength in Europe, partially offset by Treatment Capex softness
- + Public Utility & Industrial Treatment growth in Australia
- = Test flat; Brazil project shipment delayed (delivered in July)
- Dewatering Transport down high-single digits driven by weakness in O&G applications

OPERATING INCOME*

(Dollars In Millions)

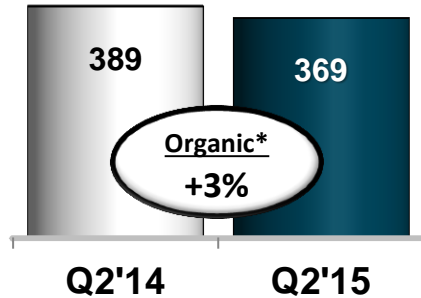


NAVIGATING THROUGH INDUSTRIAL MARKET WEAKNESS & UNFAVORABLE MIX

Q2'15 APPLIED WATER PERFORMANCE

REVENUE

(Dollars In Millions)



Organic Growth

By Application

- + Bldg Svcs +3%
- + Ind'l Water +3%
- + Irrigation +1%

By Regions

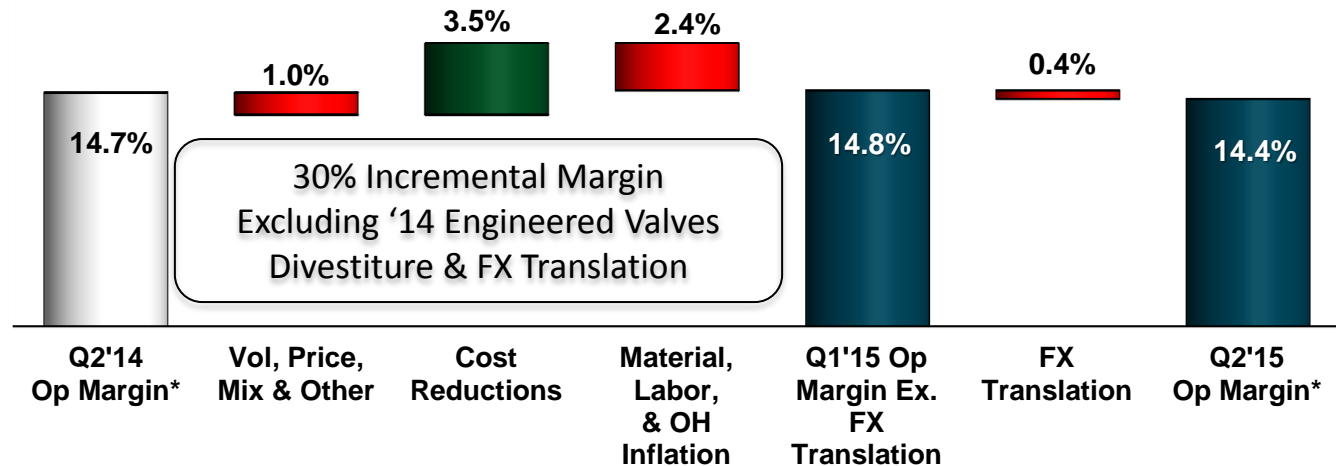
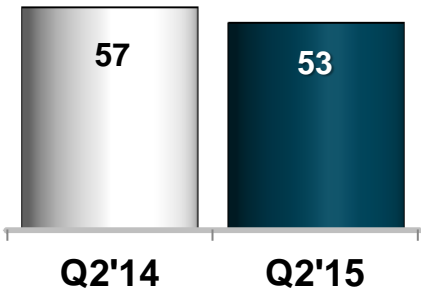
- + Emerging +13%
- + U.S. +1%
- W. Europe -1%

Highlights

- + Double-digit Emerging Market growth driven by focus on Commercial & Industrial market expansion
- + U.S. Commercial up mid-single digits driven by Institutional building market recovery (distributor stocking)
- + Irrigation strength in U.S. and Latin America
- U.S. Industrial Water applications down mid-single digits
- Residential down low-single digits due to softness in Europe

OPERATING INCOME*

(Dollars In Millions)

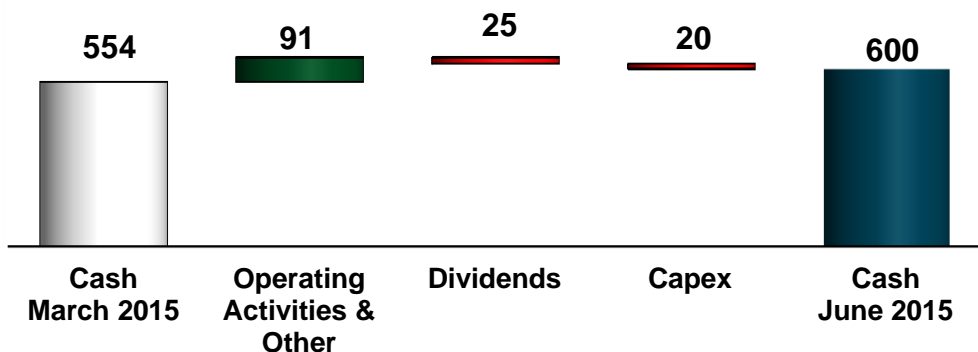


STRONG OPERATING PERFORMANCE ... RECORD OP MARGIN EX. FX

XYLEM FINANCIAL POSITION

(Dollars In Millions)

CASH DRIVERS

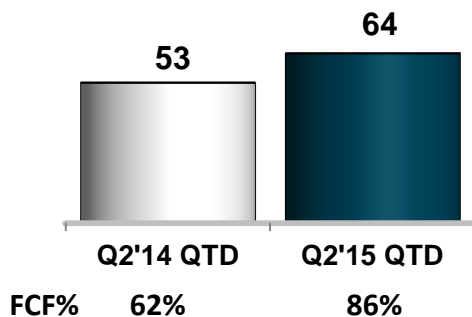


CAPITAL SUMMARY

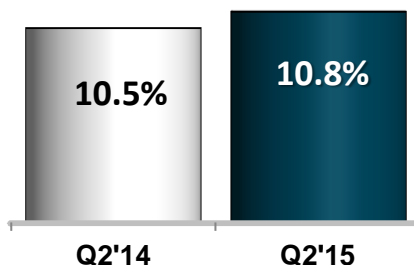
June 30, 2015

Cash	600
Debt	1,277
Net Debt	677
Shareholders' Equity	2,080
Net Capital	2,757
Net Debt to Net Capital	24.6%

FREE CASH FLOW*



ROIC**








- Strong cash position
- Investment grade credit (BBB / Baa2)
- Continue to return of capital to shareholders
 - Dividends \$25 (2Q); \$51 (YTD)
 - Share repurchases of \$50 (YTD)
- Improved Free Cash Flow performance
 - Improved working capital (YOY) and lower capex spend

2015 OUTLOOK

(Dollars In Millions, Except per Share Data)	2015 Full Year Financial Outlook	Growth 2015 vs. 2014
Revenue Xylem Consolidated Water Infrastructure Applied Water	\$3,640 to \$3,680 \$2,240 to \$2,270 \$1,400 to \$1,410	Organic growth 1% to 2% Organic growth 1% to 2% Organic growth 1% to 2%
Segment Margin * Operating Margin * EPS *	14.3% to 14.5% 13.0% to 13.2% \$1.82 to \$1.87	+40 bps to +60 bps, excluding FX translation +4% to +7%, excluding FX translation
Free Cash Flow Conversion ROIC ** Guidance Assumptions: Operating Tax Rate * Share Count	~100% ~ 11% ~21% ~183M	Working capital improvement; Capex of \$120 to \$130 ~ +50 bps, excluding FX translation Unfavorable regional mix vs. 2014
Restructuring & Realignment Costs	~\$20	\$18 of savings (\$15 carry-over from 2014 actions)

UPDATED GUIDANCE ... MAINTAINING \$1.85 EPS MID-POINT

2015 OUTLOOK

Key End Markets		1H'15 Actual	FY'15 Outlook	Outlook Update	Key Assumptions
	Industrial (44% of '14 Revenue)	-1%	Flat	↓	<ul style="list-style-type: none"> • General Industrial negatively impacted by Oil & Gas market headwinds • O&G down ~40% (<5% of Revenue)
	Public Utility (33% of '14 Revenue)	+2%	Up Low to Mid Single Digits	↑	<ul style="list-style-type: none"> • Stronger 2H U.S. market outlook • Emerging Market growth continues • Europe stable
	Commercial (13% of '14 Revenue)	+7%	Up Low to Mid Single Digits	=	<ul style="list-style-type: none"> • 2H U.S. distributor destocking • Growth in China moderates • New products drive 2H growth in Europe
	Residential (7% of '14 Revenue)	Flat	Flat	↑	<ul style="list-style-type: none"> • Stable conditions in U.S. • European market softness, partially offset by new product launches
	Agriculture (3% of '14 Revenue)	-6%	Down Low Single Digits	↓	<ul style="list-style-type: none"> • Tough U.S. YOY comparisons; Weather impacts • Europe market weakness

**PUBLIC UTILITY MARKET CONDITIONS CONTINUE TO IMPROVE ...
OFFSET BY WEAKER INDUSTRIAL MARKET OUTLOOK**

2015 OUTLOOK

Foreign Exchange Transaction

- Hedge up to 75% of net cash flows on a rolling twelve-month basis for 7 largest currency exposures
- Hedge balance sheet mark-to-market on a monthly basis with currency forward instruments
- Include foreign currency transaction impacts as part of “Operational Performance”

Foreign Exchange Translation

- FY'15 Unfavorable YOY impact YOY: Revenue ~\$(300) / Op Income ~\$(54)
 - 1H'15 Unfavorable YOY impact: Revenue \$(162) / Op income \$(25)
 - 2H'15 Unfavorable YOY impact: Revenue ~\$(138) / Op income ~\$(29)

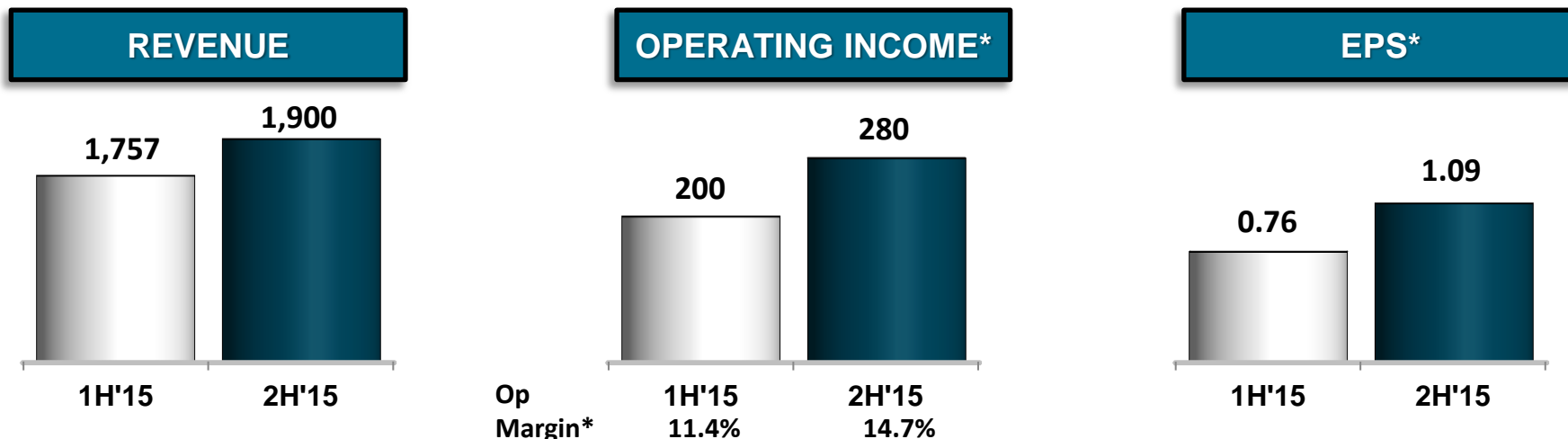
* Reflects impact on 2H results.
Increase in rate would have inverse impact on results.

Currency Exchange	2014 Average Rate	Prior Guidance Rate	1H'15 Average Rate	2H'15 Guidance Update	FY'15 Revenue Impact (YOY)	FY'15 Op Income Impact (YOY)	Revenue Impact of 5% Decrease*	EPS Impact of 5% Decrease*
Euro	1.33	1.07	1.12	1.10	~ \$(145)	~ \$(68)	~ \$(19)	~ \$(0.05)
SEK	0.145	0.115	0.120	0.117	~ \$(30)	~ \$20	~ \$(3)	~ \$0.01
GBP	1.65	1.49	1.52	1.56	~ \$(20)	~ \$(6)	~ \$(5)	N.M.
AUD	0.90	0.77	0.78	0.74	~ \$(20)		~ \$(3)	
CAD	0.91	0.82	0.81	0.77	~ \$(20)		~ \$(4)	
All Others	N/A	N/A	N/A	N/A	~ \$(65)		~ \$(14)	
Total					~ \$(300)	~ \$(54)		

FX TRANSLATION IMPACT UPDATE REFLECTS STRONGER EURO

2015 OUTLOOK (Mid-Point Illustration)

(Dollars In Millions, except EPS)



Planning Assumptions

- **2H Revenue in line with historic seasonal profile**
 - Expected 2H Organic growth of +1% to +2%
 - 3Q Organic growth ~+1% (YOY); FX Impact -\$80M
- **2H Op Income profile in line with historic seasonal profile**
 - 2H sequential 56% incremental margin (vs. 72% incremental margin 2H'14 vs. 1H'14) reflecting unfavorable mix
 - 3Q Operating Margin -20 bps vs. prior year

2015 EPS Outlook (Mid-Point Illustration)	
PY EPS*	\$1.97
1H Performance	+0.05
2H Performance	+0.06
2015 EPS Ex. FX Translation	+2.08
FX Translation	-0.23
2015 EPS	\$1.85

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

SUMMARY

- **Solid 1H execution ... Managing through near-term headwinds**
- **Remain focused on our Top 2015 Priorities**
 - ❑ Advance focused emerging market growth strategy
 - ❑ Develop industry vertical marketing capabilities
 - ❑ Develop business simplification roadmap
 - ❑ Improve working capital performance
 - ❑ Actively pursue strategic M&A
- **2015 Investor & Analyst Day**
 - Date: September 24, 2015
 - Location: Grand Hyatt Hotel, New York City
 - Expect full details/agenda in August

APPENDIX

NON-GAAP MEASURES

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

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

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

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

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

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

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

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

NON-GAAP MEASURES

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) = B+C+D	(F) = E/A	(G) = (E - C) / A		
	Orders 2015	Orders 2014	Change 2015 v. 2014	% Change 2015 v. 2014	Acquisitions / Divestitures	FX Contribution	Change Adj. 2015 v. 2014	% Change Adj. 2015 v. 2014	
Six Months Ended June 30									
Xylem Inc.	1,859	2,024	(165)	-8%	10	169	14	1%	0%
Water Infrastructure	1,147	1,251	(104)	-8%	-	124	20	2%	2%
Applied Water	712	773	(61)	-8%	10	45	(6)	-1%	-2%
Quarter Ended June 30									
Xylem Inc.	944	1,031	(87)	-8%	5	92	10	1%	0%
Water Infrastructure	585	654	(69)	-11%	-	69	-	0%	0%
Applied Water	359	377	(18)	-5%	5	24	11	3%	2%
Quarter Ended March 31									
Xylem Inc.	915	993	(78)	-8%	5	77	4	0%	0%
Water infrastructure	562	597	(35)	-6%	-	56	21	4%	4%
Applied Water	353	396	(43)	-11%	5	21	(17)	-4%	-6%

NON-GAAP MEASURES

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

	(As Reported - GAAP)				(As Adjusted - Organic)			Constant Currency	
	(A)	(B)			(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Contribution	Change	% Change	
	2015	2014	2015 v. 2014	2015 v. 2014	Divestitures		Adj. 2015 v. 2014	Adj. 2015 v. 2014	
<u>Six Months Ended June 30</u>									
Xylem Inc.	1,757	1,911	(154)	-8%	11	162	19	1%	0%
Water Infrastructure	1,051	1,168	(117)	-10%	-	119	2	0%	0%
Applied Water	706	743	(37)	-5%	11	43	17	2%	1%
<u>Quarter Ended June 30</u>									
Xylem Inc.	920	1,005	(85)	-8%	6	89	10	1%	0%
Water Infrastructure	551	616	(65)	-11%	-	65	-	0%	0%
Applied Water	369	389	(20)	-5%	6	24	10	3%	1%
<u>Quarter Ended March 31</u>									
Xylem Inc.	837	906	(69)	-8%	5	73	9	1%	0%
Water infrastructure	500	552	(52)	-9%	-	54	2	0%	0%
Applied Water	337	354	(17)	-5%	5	19	7	2%	1%

NON-GAAP MEASURES

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

	Q1		Q2		YTD	
	2015	2014	2015	2014	2015	2014
Total Revenue						
• Total Xylem	837	906	920	1,005	1,757	1,911
• Water Infrastructure	500	552	551	616	1,051	1,168
• Applied Water	337	354	369	389	706	743
Operating Income						
• Total Xylem	83	76	104	116	187	192
• Water Infrastructure	47	46	65	76	112	122
• Applied Water	46	41	51	53	97	94
• Total Segments	93	87	116	129	209	216
Operating Margin						
• Total Xylem	9.9%	8.4%	11.3%	11.5%	10.6%	10.0%
• Water Infrastructure	9.4%	8.3%	11.8%	12.3%	10.7%	10.4%
• Applied Water	13.6%	11.6%	13.8%	13.6%	13.7%	12.7%
• Total Segments	11.1%	9.6%	12.6%	12.8%	11.9%	11.3%
Special Charges						
• Total Xylem	1	-	-	-	1	-
• Water Infrastructure	1	-	-	-	1	-
• Applied Water	-	-	-	-	-	-
• Total Segments	1	-	-	-	1	-
Restructuring & Realignment Costs						
• Total Xylem	6	18	6	9	12	27
• Water Infrastructure	5	12	4	5	9	17
• Applied Water	1	6	2	4	3	10
• Total Segments	6	18	6	9	12	27
Adjusted Operating Income*						
• Total Xylem	90	94	110	125	200	219
• Water Infrastructure	53	58	69	81	122	139
• Applied Water	47	47	53	57	100	104
• Total Segments	100	105	122	138	222	243
Adjusted Operating Margin*						
• Total Xylem	10.8%	10.4%	12.0%	12.4%	11.4%	11.5%
• Water Infrastructure	10.6%	10.5%	12.5%	13.1%	11.6%	11.9%
• Applied Water	13.9%	13.3%	14.4%	14.7%	14.2%	14.0%
• Total Segments	11.9%	11.6%	13.3%	13.7%	12.6%	12.7%

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

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

	Q1	Q2	2015		Total
			Q3	Q4	
Pre-Tax Income	77	91			168
Interest Expense (Income), net	13	13			26
Depreciation	24	23			47
Amortization	11	11			22
Stock Compensation	4	4			8
EBITDA	129	142	-	-	271
Restructuring & Realignment	6	6			12
Gain on sale of business	(9)	-			(9)
Special Charges	2	1			3
Adjusted EBITDA	128	149	-	-	277
Revenue	837	920			1,757
Adjusted EBITDA Margin	15.3%	16.2%	#DIV/0!	#DIV/0!	15.8%
	Q1	Q2	2014		Total
Pre-Tax Income	61	104	128	128	421
Interest Expense (Income), net	13	14	12	13	52
Depreciation	23	24	23	25	95
Amortization	13	12	12	10	47
Stock Compensation	4	5	5	4	18
EBITDA	114	159	180	180	633
Restructuring & Realignment	18	9	4	12	43
Gain on sale of business	-	-	(11)	-	(11)
Adjusted EBITDA	132	168	173	192	665
Revenue	906	1,005	963	1,042	3,916
Adjusted EBITDA Margin	14.6%	16.7%	18.0%	18.4%	17.0%

NON-GAAP MEASURES

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

	Q1	Q2	2015 Q3	Q4	Total
Pre-Tax Income	55	65			120
Interest Expense (Income), net	-	(1)			(1)
Depreciation	16	14			30
Amortization	9	9			18
Stock Compensation	1	-			1
EBITDA	81	87	-	-	168
Restructuring & Realignment	5	4			9
Gain on sale of business	(8)	-			(8)
Special Charges	1	-			1
Adjusted EBITDA	79	91	-	-	170
Revenue	500	551			1,051
Adjusted EBITDA Margin	15.8%	16.5%	#DIV/0!	#DIV/0!	16.2%

	Q1	Q2	2014 Q3	Q4	Total
Pre-Tax Income	45	77	96	105	323
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	15	15	14	17	61
Amortization	10	10	10	9	39
Stock Compensation	1	1	-	-	2
EBITDA	71	103	119	131	424
Restructuring & Realignment	12	5	3	9	29
Adjusted EBITDA	83	108	122	140	453
Revenue	552	616	602	672	2,442
Adjusted EBITDA Margin	15.0%	17.5%	20.3%	20.8%	18.6%

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

	Q1	Q2	2015 Q3	Q4	Total
Pre-Tax Income	46	51			97
Interest, net	-	-			-
Depreciation	5	5			10
Amortization	1	1			2
Stock Compensation	1	-			1
EBITDA	53	57	-	-	110
Restructuring & Realignment	1	2			3
Gain on sale of business	(1)	-			(1)
Adjusted EBITDA	53	59	-	-	112
Revenue	337	369			706
Adjusted EBITDA Margin	15.7%	16.0%	#DIV/0!	#DIV/0!	15.9%

	Q1	Q2	2014 Q3	Q4	Total
Pre-Tax Income	42	53	61	48	204
Interest, net	-	-	-	-	-
Depreciation	5	5	6	5	21
Amortization	1	1	1	1	4
Stock Compensation	-	1	1	-	2
EBITDA	48	60	69	54	231
Restructuring & Realignment	6	4	1	2	13
Gain on sale of business	-	-	(11)	-	(11)
Adjusted EBITDA	54	64	59	56	233
Revenue	354	389	361	370	1,474
Adjusted EBITDA Margin	15.3%	16.5%	16.3%	15.1%	15.8%

NON-GAAP MEASURES

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

	Q2 2014			Q2 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,005		1,005	920		920
Operating Income	116	9 a	125	104	6 a	110
Operating Margin	11.5%		12.4%	11.3%		12.0%
Interest Expense	(13)		(13)	(14)		(14)
Other Non-Operating Income (Expense)	1		1	1	1 b	2
Income before Taxes	104	9	113	91	7	98
Provision for Income Taxes	(18)	(7) c	(25)	(17)	(3) c	(20)
Net Income	86	2	88	74	4	78
Diluted Shares	184.5		184.5	182.3		182.3
Diluted EPS	\$ 0.47	\$ 0.01	\$ 0.48	\$ 0.41	\$ 0.02	\$ 0.43
Currency translation impact on current year diluted EPS				\$ (0.06)		\$ (0.06)
Diluted EPS at Constant Currency				\$ 0.47		\$ 0.49

	Q2 YTD 2014			Q2 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,911		1,911	1,757		1,757
Operating Income	192	27 a	219	187	13 a	200
Operating Margin	10.0%		11.5%	10.6%		11.4%
Interest Expense	(27)		(27)	(28)		(28)
Other Non-Operating Income (Expense)	-		-	-	2 b	2
Gain from sale of businesses	-		-	9	(9)	0
Income before Taxes	165	27	192	168	6	174
Provision for Income Taxes	(30)	(11) c	(41)	(30)	(6) c	(36)
Net Income	135	16	151	138	0	138
Diluted Shares	185.1		185.1	182.7		182.7
Diluted EPS	\$ 0.73	\$ 0.09	\$ 0.82	\$ 0.76	\$ -	\$ 0.76
Currency translation impact on current year diluted EPS				\$ (0.11)		\$ (0.11)
Diluted EPS at Constant Currency				\$ 0.87		\$ 0.87

- a Restructuring & realignment costs in 2014 and 2015 and special charges in 2015
b Special charges
c Net tax impact of restructuring & realignment costs and special charges, and special tax items

NON-GAAP MEASURES

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

	Q1		Q2		Six Months Ended	
	2015	2014	2015	2014	2015	2014
Net Cash - Operating Activities	\$ 39	\$ 22	\$ 84	\$ 76	\$ 123	\$ 98
Capital Expenditures	(37)	(25)	(20)	(23)	(57)	(48)
Free Cash Flow	<u>\$ 2</u>	<u>\$ (3)</u>	<u>\$ 64</u>	<u>\$ 53</u>	<u>\$ 66</u>	<u>\$ 50</u>
Net Income	64	49	74	86	138	135
Gain from sale of businesses	9	-	-	-	9	-
Net Income, excluding gain on sale of businesses	<u>\$ 55</u>	<u>\$ 49</u>	<u>\$ 74</u>	<u>\$ 86</u>	<u>\$ 129</u>	<u>\$ 135</u>
Free Cash Flow Conversion	<u>4%</u>	<u>-6%</u>	<u>86%</u>	<u>62%</u>	<u>51%</u>	<u>37%</u>

xylem

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