

# XYLEM INC.

Q4 2014 EARNINGS RELEASE

FEBRUARY 5, 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, 2013, 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

## 4th Quarter Highlights

- Industrial & Public Utility strength across all regions, U.S. Commercial recovering
- Record Operating Margin\* & EPS\*, despite FX translation headwind
- Solid Free Cash Flow generation

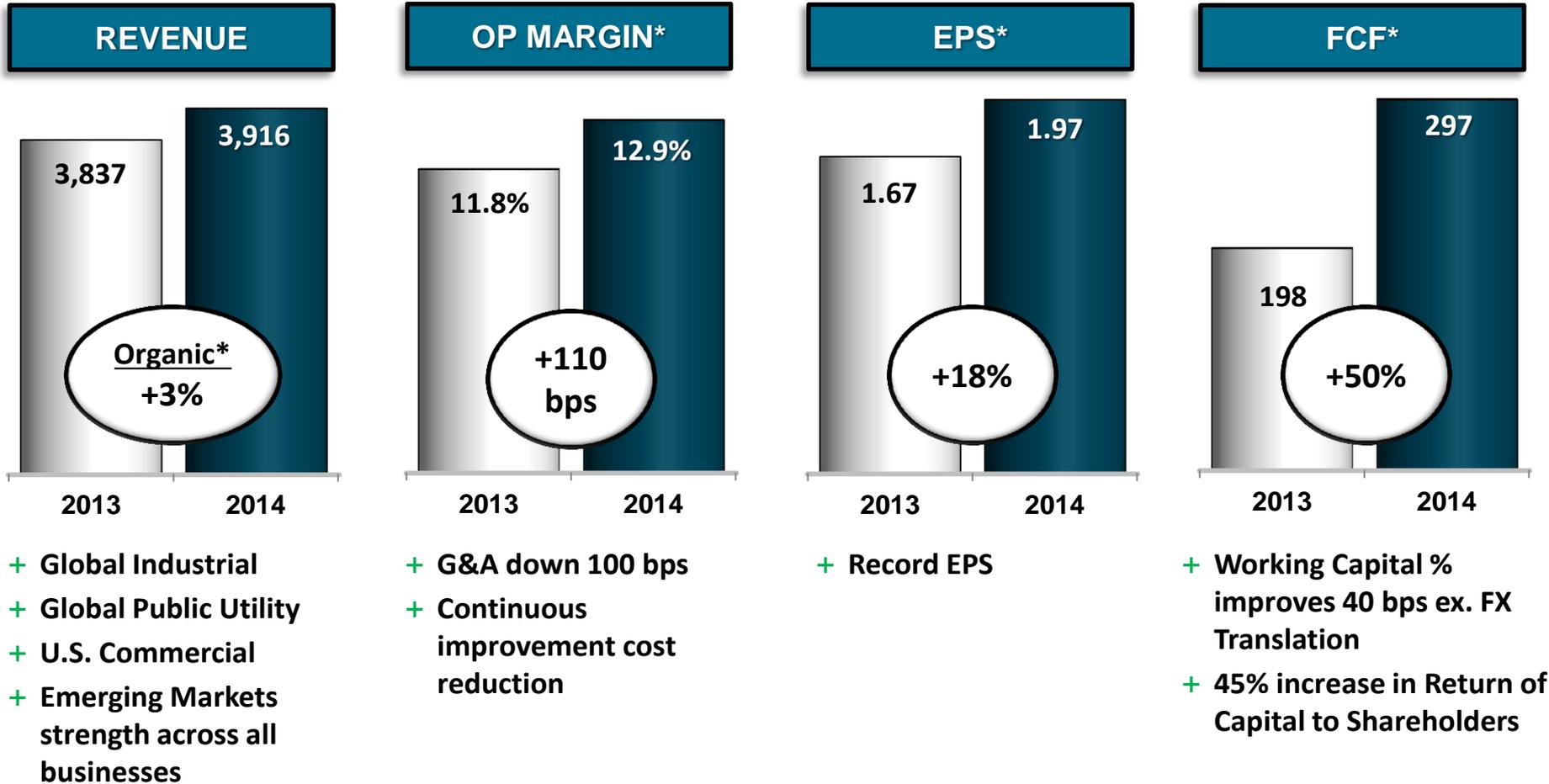
## 4<sup>th</sup> Quarter Financial Summary

- Orders of \$970M, organic\* growth of \$34M or 3%
- Revenue of \$1,042M, organic\* growth of \$64M or 6%
- Operating Margin\* of 14.7%, up 70 bps
- Earnings Per Share\* \$0.62, up 11%, including \$0.03 FX translation headwind
- Full Year Free Cash Flow\* \$297M, up \$99M or 50%

**STRONG TOP LINE PERFORMANCE, RECORD MARGIN & EPS**

# 2014 FINANCIAL SUMMARY

(Dollars, In Millions, except EPS)

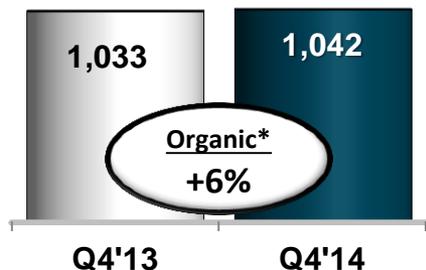


**SOLID EXECUTION DELIVERED STRONG 2014 PERFORMANCE**

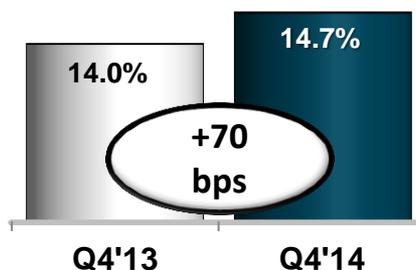
# Q4'14 XYLEM PERFORMANCE

(Dollars, in Millions, except EPS)

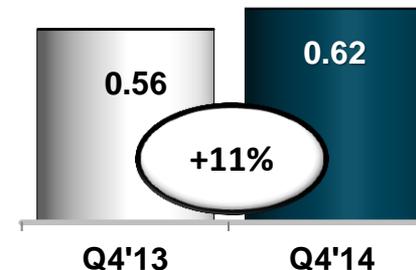
## REVENUE



## OPERATING MARGIN\*



## EPS\*



### Key Organic Growth Drivers

+ Industrial	+6%
+ Public Utility	+5%
+ Commercial	+8%
+ Agriculture	+25%

### Organic Growth by Region

+ Emerging	+14%
+ U.S.	+8%
+ Europe	+1%

### Key Performance Drivers

+ Operations	0.7%
+ Cost Reductions	4.0%
- Vol/Price/Mix/Other	-0.5%
- Cost Inflation	-2.8%

**Op Margin Expansion driven  
by Lean Six Sigma, Global  
Sourcing & Restructuring  
Savings**

### Key Performance Drivers

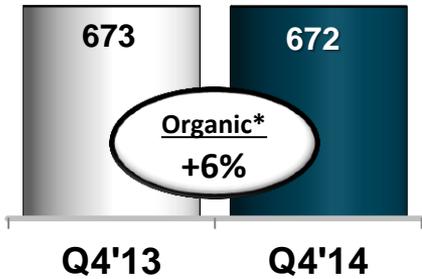
+ Operations	+\$0.09
+ Rest. Savings	+\$0.04
+ Vol/Price/Mix/Other	+\$0.02
+ Tax/Share Count	+\$0.03
- FX Translation	-\$0.03
• Tax Rate	18.6%
• Share Count	183.3M

**RECORD MARGIN & EPS DRIVEN BY ORGANIC GROWTH & COST REDUCTIONS**

# Q4'14 WATER INFRASTRUCTURE PERFORMANCE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Transport +6%
- + Treatment +4%
- + Test +5%

#### By Regions

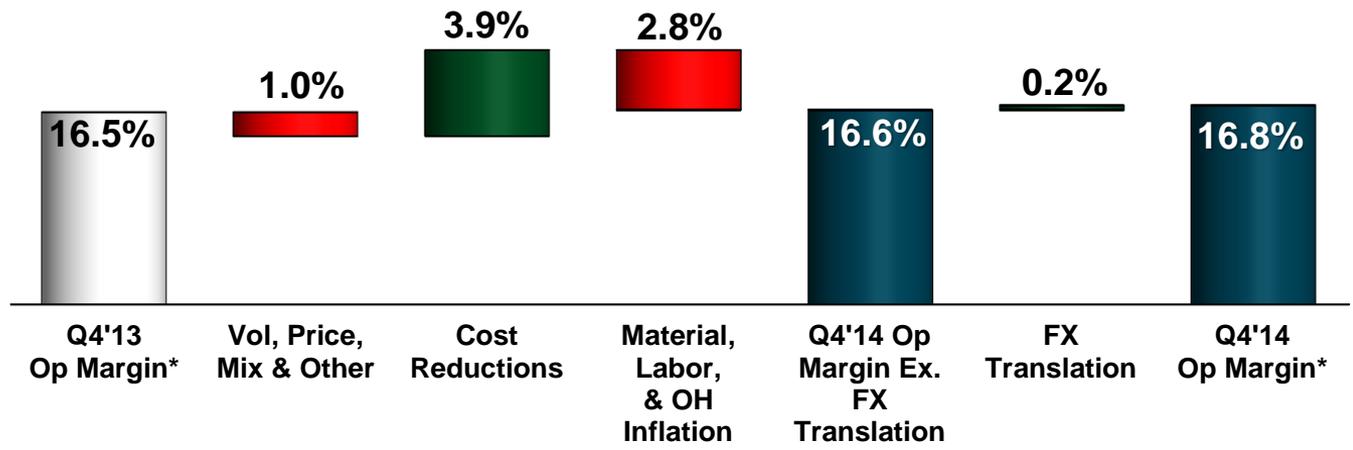
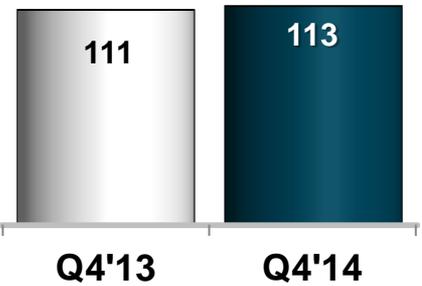
- + Emerging +13%
- + U.S. +6%
- + Europe +3%

### Highlights

- + European Public Utility Transport strength driven by Flygt pumps, aftermarket parts, and pump station projects
- + Continued strength in U.S. Industrial Transport driven by dewatering applications
- + Emerging market strength, with >35% growth in Treatment
- + Continued strength in Test applications; Record FY revenue

## OPERATING INCOME\*

(Dollars, In Millions)

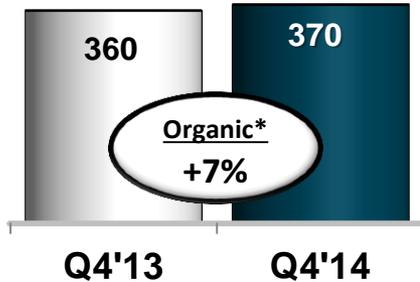


## STRENGTH ACROSS ALL BUSINESSES ... RECORD OPERATING MARGIN

# Q4'14 APPLIED WATER PERFORMANCE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Bldg Svcs +6%
- + Ind'l Water +7%
- + Irrigation +25%

#### By Regions

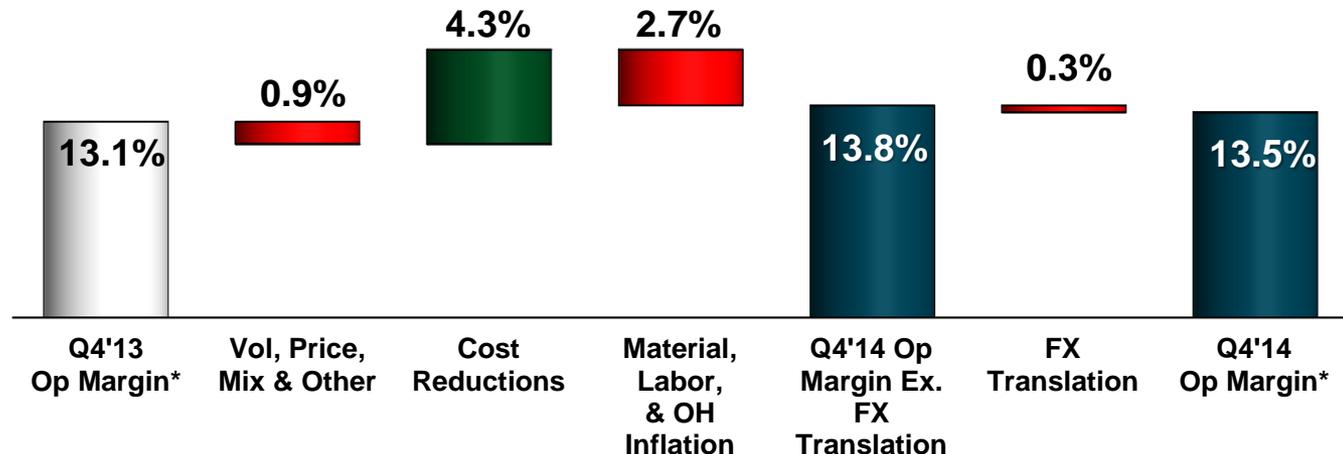
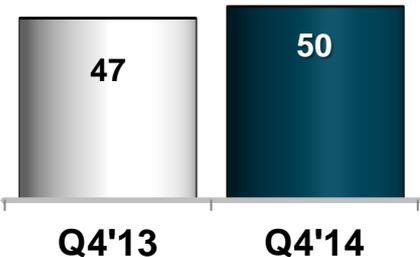
- + U.S. +9%
- + Emerging +18%
- Europe -3%

### Highlights

- + U.S. Commercial building recovery continues, solid growth driven by promotions/distributor re-stocking
- + Industrial Water portfolio growth seen across most regions
- + Irrigation strength driven timing of project shipments
- + Strong Emerging Market performance driven by Latin America & Middle East up >40%, and China +10%

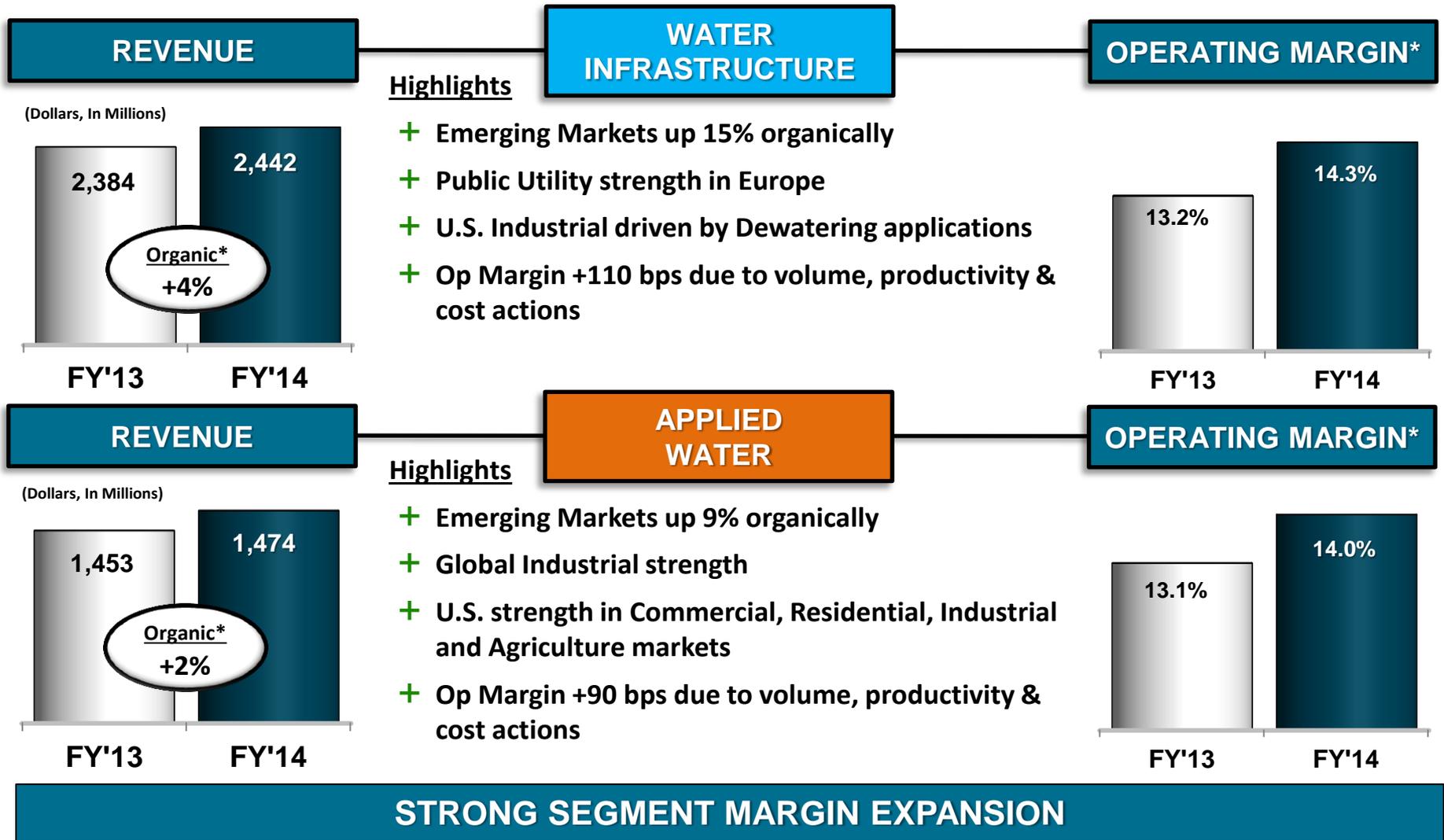
## OPERATING INCOME\*

(Dollars, In Millions)



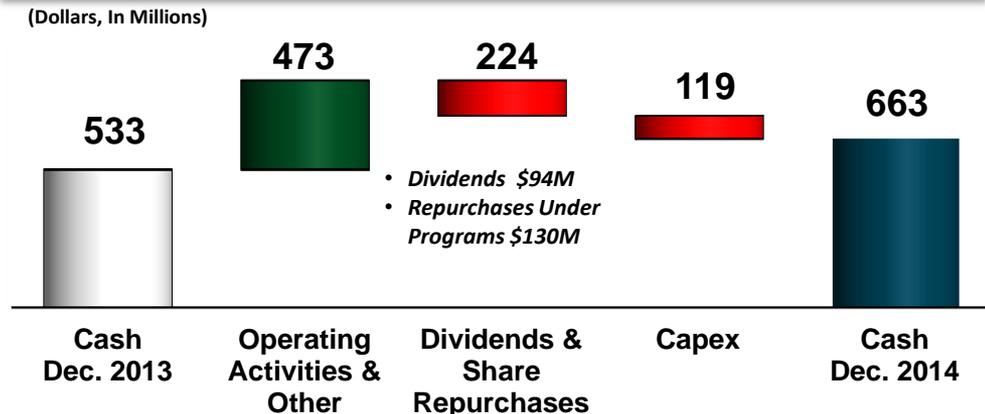
**STRONG PERFORMANCE ... ORGANIC GROWTH +7%, OP MARGIN +70 bps Ex. FX**

# FULL YEAR 2014 SEGMENT PERFORMANCE



# XYLEM FINANCIAL POSITION

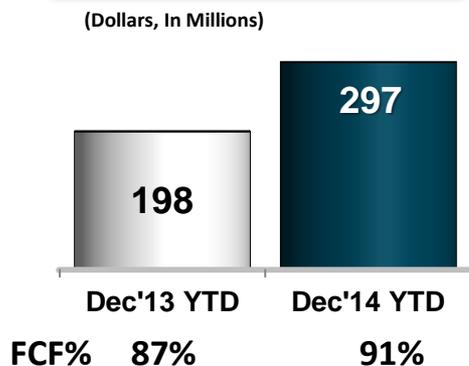
## CASH DRIVERS



## CAPITAL SUMMARY

December 31, 2014	(Dollars, In Millions)
Cash	663
Debt	1,288
Net Debt	625
Shareholders' Equity	2,127
Net Capital	2,752
Net Debt to Net Capital	22.7%

## FREE CASH FLOW \*



## ROIC\*\*



- Strong cash position
- 45% Increase in return to shareholders
  - Dividends of \$94M; up 10% per share
  - Share repurchases of \$130M; up \$63M or 94% vs. prior year
- Improved Free Cash Flow performance, largely reflecting higher income and \$7M of lower Capex spend

# 2015 OUTLOOK

## Long – Term Strategic Initiatives

Accelerate profitable growth

Build a culture of continuous improvement

Build a culture of execution & accountability

Create superior leadership & talent development

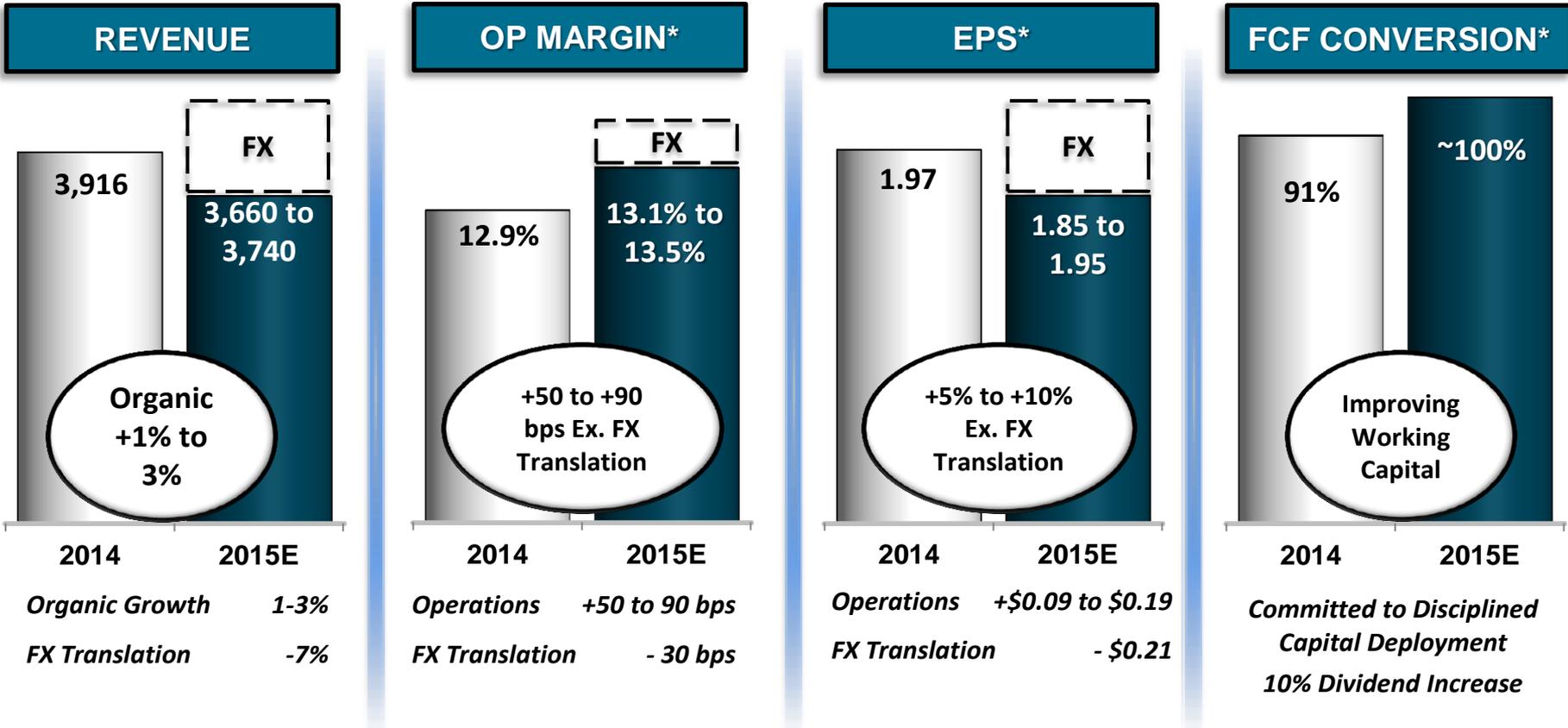
## Top 2015 Priorities

- Advance focused emerging market growth strategy
- Develop industry vertical marketing capabilities
- Develop business simplification roadmap
- Improve working capital performance
- Evaluate and pursue M&A

**FOCUSED ON BUILDING CAPABILITY & DRIVING CONTINUOUS IMPROVEMENT**

# 2015 OUTLOOK

(Dollars, In Millions, except EPS)



**STRONG OPERATIONAL PERFORMANCE**

# 2015 OUTLOOK

Xylem 2015  
Organic Growth



## Industrial

(44% of '14 Revenue)

- U.S. strength continues
- Emerging Market growth decelerates
- O&G weaker (<5% of Total Revenue)

Up Low  
Single Digits



## Public Utility

(33% of '14 Revenue)

- Emerging Market growth continues
- Improving U.S. market / municipal funding
- Europe stable ... MRO exposure ~70%

Up Low  
Single Digits



## Commercial

(13% of '14 Revenue)

- U.S. market slowly recovering
- Emerging Markets growth continues
- European market softness

Up Low-to-  
Mid Single  
Digits



## Residential

(7% of '14 Revenue)

- U.S. growth moderates
- European market softness

Down Low-  
Single Digits  
to Flat



## Agriculture

(3% of '14 Revenue)

- Tough YOY comps ... Europe stabilizes
- U.S. slows ... Emerging market strength continues

Flat

**DIVERSIFIED PORTFOLIO WITH STABLE 2015 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 (Dollars, In Millions, except EPS)

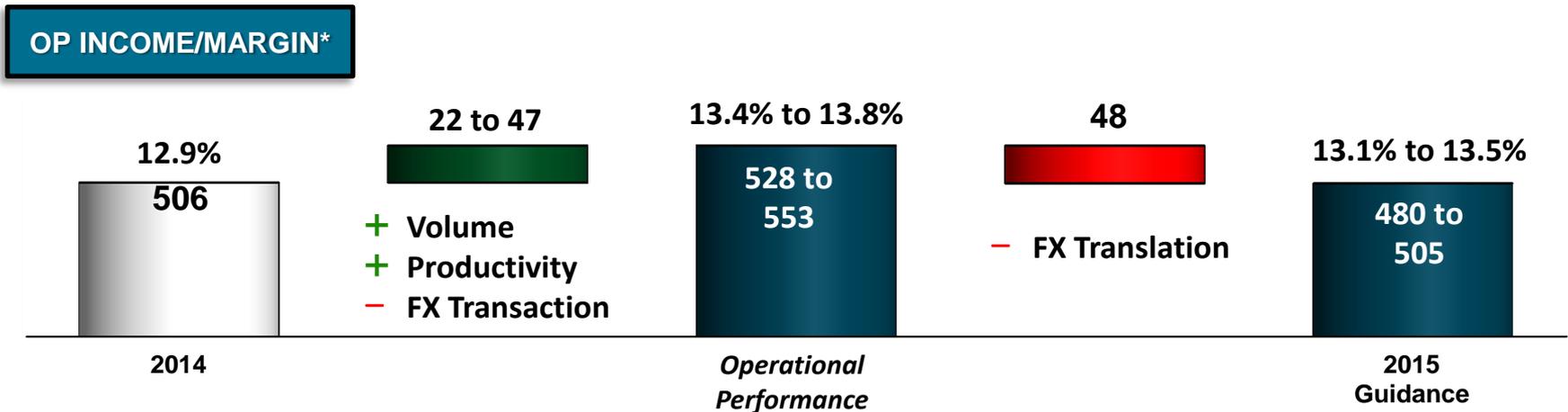
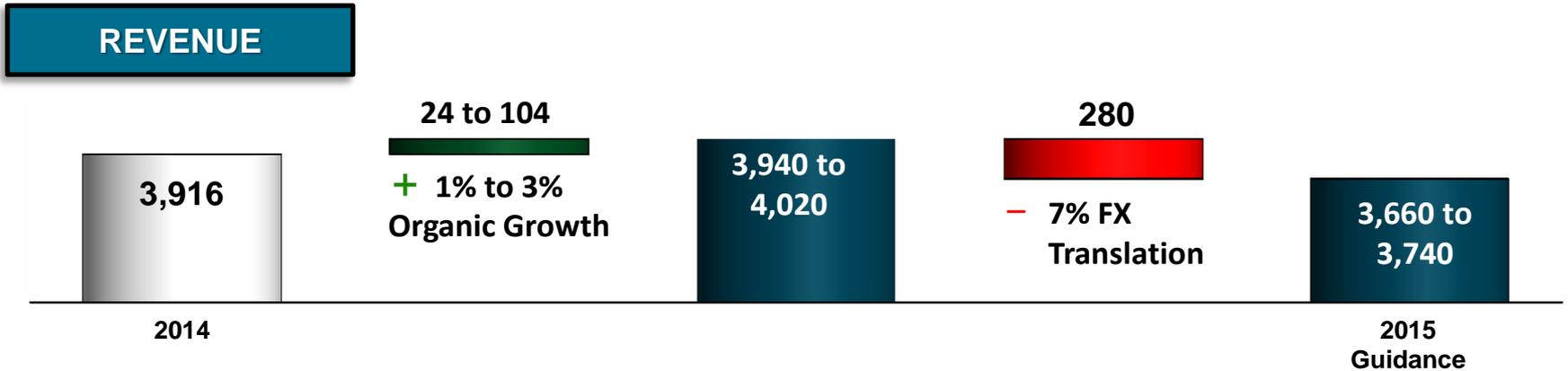
Currency Exchange	2014 Average Rate	2015 Guidance Rate	Impact on 2015 Revenue	Impact on 2015 Op Income	Revenue Impact of 5% Decrease* in Rate	EPS Impact of 5% Decrease* in Rate
Euro	1.33	1.12	~ (\$135)	~ (\$60)	~ (\$40)	~ (\$0.09)
SEK	0.145	0.121	~ (\$25)	~ \$15	~ (\$7)	~ \$0.02
GBP	1.65	1.50	~ (\$25)	~ (\$3)	~ (\$14)	N.M.
AUD	0.90	0.79	~ (\$15)		~ (\$6)	
CAD	0.91	0.81	~ (\$15)		~ (\$8)	
All Others	N/A	N/A	~ (\$65)		~ (\$31)	
<b>Total</b>			~ (\$280)	~ (\$48)		

\* Increase in rate would have inverse impact on results.

**ANTICIPATING SIGNIFICANT TRANSLATION IMPACT ...  
HEDGE PROGRAM PROACTIVELY MITIGATES MOST TRANSACTION RISK**

# 2015 OUTLOOK

(Dollars, In Millions)



**STRONG OPERATIONAL PERFORMANCE**

# 2015 OUTLOOK

(Dollars In Millions, Except per Share Data)	2015 Full Year Financial Outlook	Growth 2015 vs. 2014
<b>Revenue</b> <b>Xylem Consolidated</b> <b>Water Infrastructure</b> <b>Applied Water</b>	<b>\$3,660 to \$3,740</b> <b>\$2,275 to \$2,325</b> <b>\$1,385 to \$1,415</b>	<b>Organic growth 1% to 3%</b> <b>Organic growth 1% to 3%</b> <b>Organic growth 0% to 2%</b>
<b>Segment Margin *</b> <b>Operating Margin *</b> <b>EPS *</b>	<b>14.5% to 14.9%</b> <b>13.1% to 13.5%</b> <b>\$1.85 to \$1.95</b>	<b>+50 bps to +90 bps, excluding FX translation</b> <b>+5% to +10%, excluding FX translation</b>
<b>Free Cash Flow Conversion</b> <b>ROIC **</b> <b>Guidance Assumptions:</b> <b>Operating Tax Rate *</b> <b>Share Count</b>	<b>~100%</b> <b>~ 11%</b>  <b>~21%</b> <b>~183M</b>	<b>Working capital improvement; Capex of \$120 to \$130</b> <b>~ +50 bps, excluding FX translation</b>  <b>Unfavorable regional mix vs. 2014</b>
<b>Restructuring &amp; Realignment Costs</b>	<b>~\$20</b>	<b>\$20 of savings (\$18 carry-over from 2014 actions)</b>

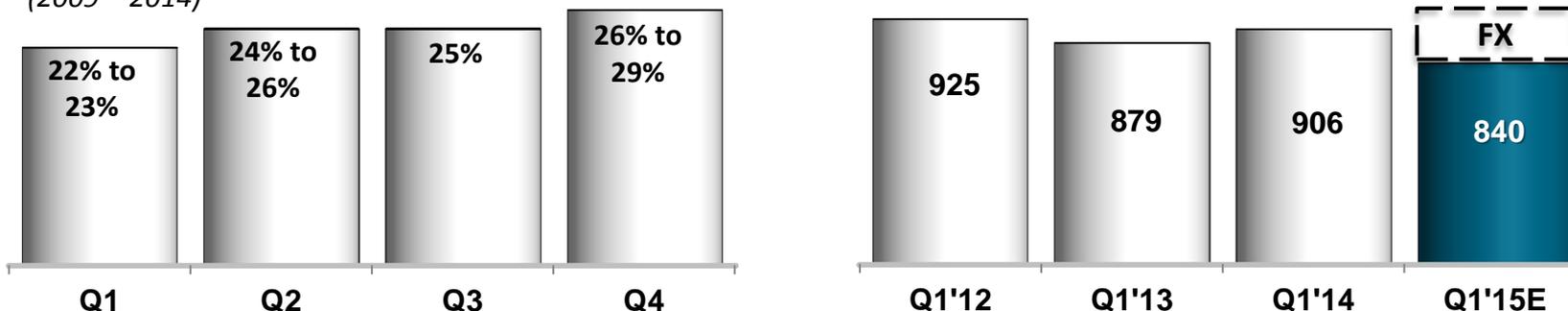
## STRONG OPERATIONAL PERFORMANCE

# Q1'15 OUTLOOK

(Dollars, In Millions)

## HISTORIC REVENUE PROFILE

As a % of Full Year  
(2009 – 2014)



- **1Q Revenue ~22% of Full Year ... Organic growth ~1% (yoy)**
  - Unfavorable FX Translation ~\$75
  - 1 less day in reporting quarter ~\$15 impact (~1.5% less organic growth)
- **1Q Op Income down (yoy) driven primarily by FX**
  - Unfavorable FX Translation ~\$12
  - Continuous improvement activities & restructuring savings funding strategic initiatives
  - Expected Corporate run-rate cost \$12 to \$13 per quarter

**1Q OUTLOOK: 1% ORGANIC GROWTH ... EARNINGS DOWN YOY DUE TO FX**

# SUMMARY

- **2014: Strong year of “Transition”**
  - Raised level of execution & advanced key strategic initiatives
  - Improved profitability & achieved record earnings per share
  - Significantly increased return of capital to shareholders
- **2015 Outlook: Improving operational performance**
  - Strategic initiatives to drive above market growth
  - Advancing “Continuous Improvement” to increase productivity
  - Focusing on improving cash performance
  - Driving disciplined capital deployment strategy

# APPENDIX

## Xylem Inc. Non-GAAP Measures

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

**“Organic revenue” and “Organic orders”** defined as revenue and orders, respectively, excluding the impact of foreign currency fluctuations 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, 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 non-recurring restructuring and realignment costs, gain on sale of business, 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 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.

# NON-GAAP MEASURES

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

	<b>(As Reported - GAAP)</b>				<b>(As Adjusted - Organic)</b>				<b>Constant Currency</b>		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders 2014	Orders 2013	Change 2014 v. 2013	% Change 2014 v. 2013	Acquisitions / Divestitures	FX Contribution	Change Adj. 2014 v. 2013	% Change Adj. 2014 v. 2013			
<b><u>Year Ended December 31</u></b>											
<b>Xylem Inc.</b>	4,021	3,912	109	3%	1	43	153	4%		4%	
Water Infrastructure	2,511	2,443	68	3%	(8)	40	100	4%		4%	
Applied Water	1,510	1,469	41	3%	9	3	53	4%		3%	
<b><u>Quarter Ended December 31</u></b>											
<b>Xylem Inc.</b>	970	986	(16)	-2%	4	46	34	3%		3%	
Water Infrastructure	596	630	(34)	-5%	-	35	1	0%		0%	
Applied Water	374	356	18	5%	4	11	33	9%		8%	
<b><u>Quarter Ended September 30</u></b>											
<b>Xylem Inc.</b>	1,027	955	72	8%	5	2	79	8%		8%	
Water Infrastructure	664	601	63	10%	-	-	63	10%		10%	
Applied Water	363	354	9	3%	5	2	16	5%		3%	
<b><u>Quarter Ended June 30</u></b>											
<b>Xylem Inc.</b>	1,031	1,009	22	2%	(1)	(8)	13	1%		1%	
Water Infrastructure	654	629	25	4%	(1)	1	25	4%		4%	
Applied Water	377	380	(3)	-1%	-	(8)	(11)	-3%		-3%	
<b><u>Quarter Ended March 31</u></b>											
<b>Xylem Inc.</b>	993	962	31	3%	(7)	3	27	3%		4%	
Water Infrastructure	597	583	14	2%	(7)	4	11	2%		3%	
Applied Water	396	379	17	4%	-	(2)	15	4%		4%	

# NON-GAAP MEASURES

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

	<b>(As Reported - GAAP)</b>				<b>(As Adjusted - Organic)</b>				<b>Constant Currency</b>		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue 2014	Revenue 2013	Change 2014 v. 2013	% Change 2014 v. 2013	Acquisitions / Divestitures	FX Contribution	Change Adj. 2014 v. 2013	% Change Adj. 2014 v. 2013			
<b><u>Year Ended December 31</u></b>											
<b>Xylem Inc.</b>	3,916	3,837	79	2%	6	49	134	3%		3%	
Water Infrastructure	2,442	2,384	58	2%	(6)	47	99	4%		4%	
Applied Water	1,474	1,453	21	1%	12	2	35	2%		2%	
<b><u>Quarter Ended December 31</u></b>											
<b>Xylem Inc.</b>	1,042	1,033	9	1%	5	50	64	6%		6%	
Water Infrastructure	672	673	(1)	0%	-	39	38	6%		6%	
Applied Water	370	360	10	3%	5	11	26	7%		6%	
<b><u>Quarter Ended September 30</u></b>											
<b>Xylem Inc.</b>	963	965	(2)	0%	7	2	7	1%		0%	
Water Infrastructure	602	602	-	0%	-	1	1	0%		0%	
Applied Water	361	363	(2)	-1%	7	-	5	1%		-1%	
<b><u>Quarter Ended June 30</u></b>											
<b>Xylem Inc.</b>	1,005	960	45	5%	(1)	(7)	37	4%		4%	
Water Infrastructure	616	577	39	7%	(1)	2	40	7%		7%	
Applied Water	389	383	6	2%	-	(7)	(1)	0%		0%	
<b><u>Quarter Ended March 31</u></b>											
<b>Xylem Inc.</b>	906	879	27	3%	(5)	4	26	3%		4%	
Water Infrastructure	552	532	20	4%	(5)	5	20	4%		5%	
Applied Water	354	347	7	2%	-	(2)	5	1%		1%	

# NON-GAAP MEASURES

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

	Q1		Q2		Q3		Q4		YTD	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>Total Revenue</b>										
• Total Xylem	906	879	1,005	960	963	965	1,042	1,033	3,916	3,837
• Water Infrastructure	552	532	616	577	602	602	672	673	2,442	2,384
• Applied Water	354	347	389	383	361	363	370	360	1,474	1,453
<b>Operating Income</b>										
• Total Xylem	76	66	116	70	130	98	141	129	463	363
• Water Infrastructure	46	39	76	40	95	85	104	99	321	263
• Applied Water	41	43	53	46	51	43	48	43	193	175
• Total Segments	87	82	129	86	146	128	152	142	514	438
<b>Operating Margin</b>										
• Total Xylem	8.4%	7.5%	11.5%	7.3%	13.5%	10.2%	13.5%	12.5%	11.8%	9.5%
• Water Infrastructure	8.3%	7.3%	12.3%	6.9%	15.8%	14.1%	15.5%	14.7%	13.1%	11.0%
• Applied Water	11.6%	12.4%	13.6%	12.0%	14.1%	11.8%	13.0%	11.9%	13.1%	12.0%
• Total Segments	9.6%	9.3%	12.8%	9.0%	15.2%	13.3%	14.6%	13.7%	13.1%	11.4%
<b>Special Charges</b>										
• Total Xylem	-	-	-	-	-	20	-	4	-	24
• Water Infrastructure	-	-	-	-	-	-	-	4	-	4
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Total Segments	-	-	-	-	-	-	-	4	-	4
<b>Restructuring &amp; Realignment Costs</b>										
• Total Xylem	18	12	9	28	4	12	12	12	43	64
• Water Infrastructure	12	10	5	22	3	8	9	8	29	48
• Applied Water	6	2	4	6	1	4	2	4	13	16
• Total Segments	18	12	9	28	4	12	11	12	42	64
<b>Adjusted Operating Income*</b>										
• Total Xylem	94	78	125	98	134	130	153	145	506	451
• Water Infrastructure	58	49	81	62	98	93	113	111	350	315
• Applied Water	47	45	57	52	52	47	50	47	206	191
• Total Segments	105	94	138	114	150	140	163	158	556	506
<b>Adjusted Operating Margin*</b>										
• Total Xylem	10.4%	8.9%	12.4%	10.2%	13.9%	13.5%	14.7%	14.0%	12.9%	11.8%
• Water Infrastructure	10.5%	9.2%	13.1%	10.7%	16.3%	15.4%	16.8%	16.5%	14.3%	13.2%
• Applied Water	13.3%	13.0%	14.7%	13.6%	14.4%	12.9%	13.5%	13.1%	14.0%	13.1%
• Total Segments	11.6%	10.7%	13.7%	11.9%	15.6%	14.5%	15.6%	15.3%	14.2%	13.2%

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

# NON-GAAP MEASURES

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

	Q4 2013			Q4 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,033		1,033	1,042		1,042
Operating Income	129	16 a	145	141	12 d	153
Operating Margin	12.5%		14.0%	13.5%		14.7%
Interest Expense	(14)		(14)	(13)		(13)
Other Non-Operating Income (Expense)	(8)	8 b	-	-		-
Gain on sale of business	-		-	-		-
Income before Taxes	107	24	131	128	12	140
Provision for Income Taxes	(39)	11 c	(28)	(32)	6 c	(26)
Net Income	68	35	103	96	18	114
Diluted Shares	185.6		185.6	183.3		183.3
<b>Diluted EPS</b>	<b>\$ 0.37</b>	<b>\$ 0.19</b>	<b>\$ 0.56</b>	<b>\$ 0.52</b>	<b>\$ 0.10</b>	<b>\$ 0.62</b>

	Q4 YTD 2013			Q4 YTD 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,837		3,837	3,916		3,916
Operating Income	363	88 a	451	463	43 d	506
Operating Margin	9.5%		11.8%	11.8%		12.9%
Interest Expense	(55)		(55)	(54)		(54)
Other Non-Operating Income (Expense)	(10)	8 b	(2)	1		1
Gain on sale of business	-		-	11	(11)	-
Income before Taxes	298	96	394	421	32	453
Provision for Income Taxes	(70)	(13) c	(83)	(84)	(7) c	(91)
Net Income	228	83	311	337	25	362
Diluted Shares	186.0		186.0	184.2		184.2
<b>Diluted EPS</b>	<b>\$ 1.22</b>	<b>\$ 0.45</b>	<b>\$ 1.67</b>	<b>\$ 1.83</b>	<b>\$ 0.14</b>	<b>\$ 1.97</b>

a Restructuring & realignment costs and special charges

b Special charges

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

d Restructuring & realignment costs

# NON-GAAP MEASURES

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

	Year Ended	
	2014	2013
<b>Net Cash - Operating Activities</b>	\$ 416	\$ 324
Capital Expenditures	(119)	(126)
<b>Free Cash Flow</b>	<u>\$ 297</u>	<u>\$ 198</u>
Net Income	337	228
Gain on Sale of Business	<u>11</u>	<u>-</u>
<b>Net Income, excluding gain on sale of business</b>	<u>\$ 326</u>	<u>\$ 228</u>
<b>Free Cash Flow Conversion</b>	<u>91%</u>	<u>87%</u>

# NON-GAAP MEASURES

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

	2014				Total
	Q1	Q2	Q3	Q4	
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
<b>EBITDA</b>	<b>114</b>	<b>159</b>	<b>180</b>	<b>180</b>	<b>633</b>
Restructuring & Realignment	18	9	4	12	43
Gain on Sale of Business	-	-	(11)	-	(11)
<b>Adjusted EBITDA</b>	<b>132</b>	<b>168</b>	<b>173</b>	<b>192</b>	<b>665</b>
Revenue	906	1,005	963	1,042	3,916
<b>Adjusted EBITDA Margin</b>	<b>14.6%</b>	<b>16.7%</b>	<b>18.0%</b>	<b>18.4%</b>	<b>17.0%</b>
	2013				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	51	57	83	107	298
Interest Expense (Income), net	12	13	14	13	52
Depreciation	25	24	23	27	99
Amortization	12	13	13	12	50
Stock Compensation	6	6	9	6	27
<b>EBITDA</b>	<b>106</b>	<b>113</b>	<b>142</b>	<b>165</b>	<b>526</b>
Restructuring & Realignment	12	28	12	12	64
Special Charges	-	-	20	12	32
<b>Adjusted EBITDA</b>	<b>118</b>	<b>141</b>	<b>174</b>	<b>189</b>	<b>622</b>
Revenue	879	960	965	1,033	3,837
<b>Adjusted EBITDA Margin</b>	<b>13.4%</b>	<b>14.7%</b>	<b>18.0%</b>	<b>18.3%</b>	<b>16.2%</b>

# NON-GAAP MEASURES

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

	2014				Total
	Q1	Q2	Q3	Q4	
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
<b>EBITDA</b>	<b>71</b>	<b>103</b>	<b>119</b>	<b>131</b>	<b>424</b>
Restructuring & Realignment	12	5	3	9	29
<b>Adjusted EBITDA</b>	<b>83</b>	<b>108</b>	<b>122</b>	<b>140</b>	<b>453</b>
Revenue	552	616	602	672	2,442
Adjusted EBITDA Margin	15.0%	17.5%	20.3%	20.8%	18.6%
	2013				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	39	42	84	101	266
Interest Expense (Income), net	-	(1)	-	-	(1)
Depreciation	16	15	14	17	62
Amortization	10	10	11	11	42
Stock Compensation	1	1	1	1	4
<b>EBITDA</b>	<b>66</b>	<b>67</b>	<b>110</b>	<b>130</b>	<b>373</b>
Restructuring & Realignment	10	22	8	8	48
<b>Adjusted EBITDA</b>	<b>76</b>	<b>89</b>	<b>118</b>	<b>138</b>	<b>421</b>
Revenue	532	577	602	673	2,384
Adjusted EBITDA Margin	14.3%	15.4%	19.6%	20.5%	17.7%

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

	2014				Total
	Q1	Q2	Q3	Q4	
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
<b>EBITDA</b>	<b>48</b>	<b>60</b>	<b>69</b>	<b>54</b>	<b>231</b>
Restructuring & Realignment	6	4	1	2	13
Gain on sale of business	-	-	(11)	-	(11)
<b>Adjusted EBITDA</b>	<b>54</b>	<b>64</b>	<b>59</b>	<b>56</b>	<b>233</b>
Revenue	354	389	361	370	1,474
Adjusted EBITDA Margin	15.3%	16.5%	16.3%	15.1%	15.8%
	2013				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	43	46	43	43	175
Interest, net	-	-	-	-	-
Depreciation	5	5	5	6	21
Amortization	1	2	1	1	5
Stock Compensation	1	-	1	-	2
<b>EBITDA</b>	<b>50</b>	<b>53</b>	<b>50</b>	<b>50</b>	<b>203</b>
Restructuring & Realignment	2	6	4	4	16
<b>Adjusted EBITDA</b>	<b>52</b>	<b>59</b>	<b>54</b>	<b>54</b>	<b>219</b>
Revenue	347	383	363	360	1,453
Adjusted EBITDA Margin	15.0%	15.4%	14.9%	15.0%	15.1%

# xylem

## Let's Solve Water

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