

XYLEM INC.

Q3 2014 EARNINGS RELEASE

OCTOBER 28, 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 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, 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 for the year ended December 31, 2013, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

BUSINESS UPDATE

3rd Quarter Highlights

- Strong Order growth, Book-to-Bill 1.07 ... Entering 4Q with solid backlog
- Organic Revenue growth in line with expectations
- Record 3rd quarter Operating Margin & Earnings Per Share
- Tightening guidance range ... Maintaining Earnings Per Share mid-point at \$1.95

3rd Quarter Financial Summary

- Orders of \$1,027M, organic* growth of \$79M or 8%
- Revenue of \$963M, organic* growth of \$7M or 1%
- Operating Margin* of 13.9%, up 40 bps
- Earnings Per Share* \$0.53 up 8%
- YTD Free Cash Flow* \$176M up \$104M ... Conversion 77%

ON TRACK TO DELIVER ON OUR 2014 FINANCIAL COMMITMENTS

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

3rd Quarter Update

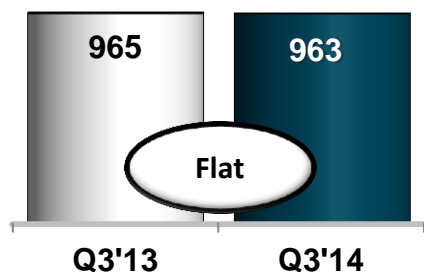
- Commenced Customer Relationship Management software roll-out
- Operating improvements remain on track to deliver full year savings
- Deploying capital, increasing returns to shareholders
- Continuing to develop M&A pipeline

FOCUSED ON ACHIEVING OUR GOALS

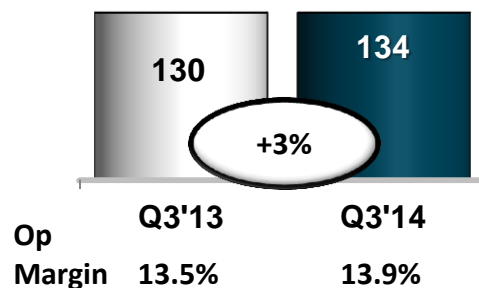
Q3'14 XYLEM PERFORMANCE

(Dollars, in Millions, except EPS)

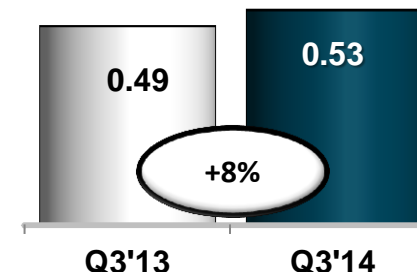
REVENUE



OPERATING INCOME*



EPS*



Org. Revenue Growth* +1%

Key Organic Growth Drivers

+ Industrial	+3%
+ Commercial	+6%
- Public Utility	-3%
- Residential	-5%

Organic Growth by Region

+ U.S.	+4%
+ Emerging	+10%
- Europe	-6%

Key Performance Drivers

+ Core Operations	+0.3%
+ Cost Reductions	+4.8%
- Cost Inflation	-2.7%
- Vol/Price/Mix/Other	-1.8%
+ FX	0.1%

**Segment Margin* up 110 Bps
Partially Offset By Tough PY
Corporate Spend Comparison**

Key Performance Drivers

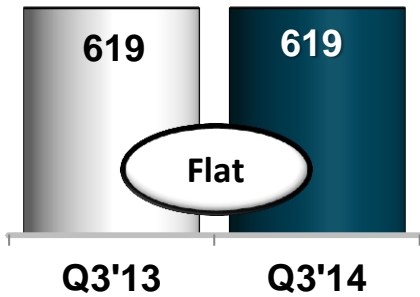
+ Core Operations	+\$0.03
+ Rest. Savings	+\$0.04
+ Vol/Price/Mix/Other	+\$0.02
- Corp Spend	-\$0.03
+ Share Count	+\$0.01
• Tax Rate	19.8%
• Share Count	183.4M

RECORD 3rd QUARTER OP MARGIN DRIVEN BY COST REDUCTION INITIATIVES

Q3'14 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* +1%

By Application

- + Test +4%
- + Transport +3%
- Treatment -15%

By Regions

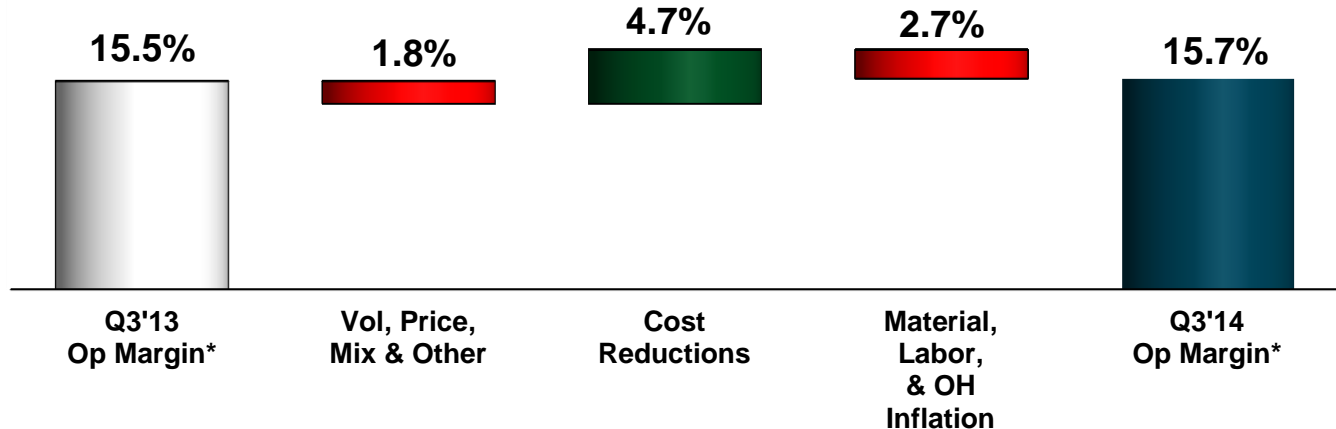
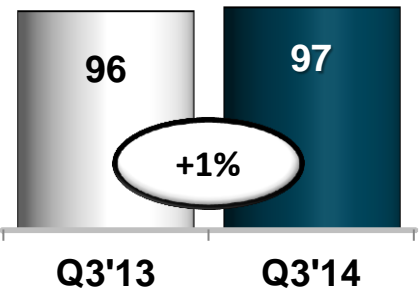
- + Emerging +13%
- + U.S. +7%
- Europe -7%

Highlights

- + Emerging Markets up with strength across most applications
- + Strength in Test applications; Tracking to record FY revenue
- + U.S. Transport up due to strength in Industrial dewatering applications, and Public Utility pump & aftermarket sales
- European Transport weak due to low book & bill activity in France & slowing U.K. AMP cycle
- Treatment down reflecting lower level of deliverable project backlog & project delays; Project pipeline & backlog growing

OPERATING INCOME*

(Dollars, In Millions)

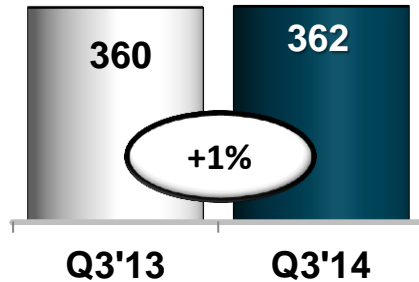


COST REDUCTION INITIATIVES DRIVE MODEST MARGIN EXPANSION DESPITE MIXED REGIONAL MARKET CONDITIONS

Q3'14 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth* +1%

By Application

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

By Regions

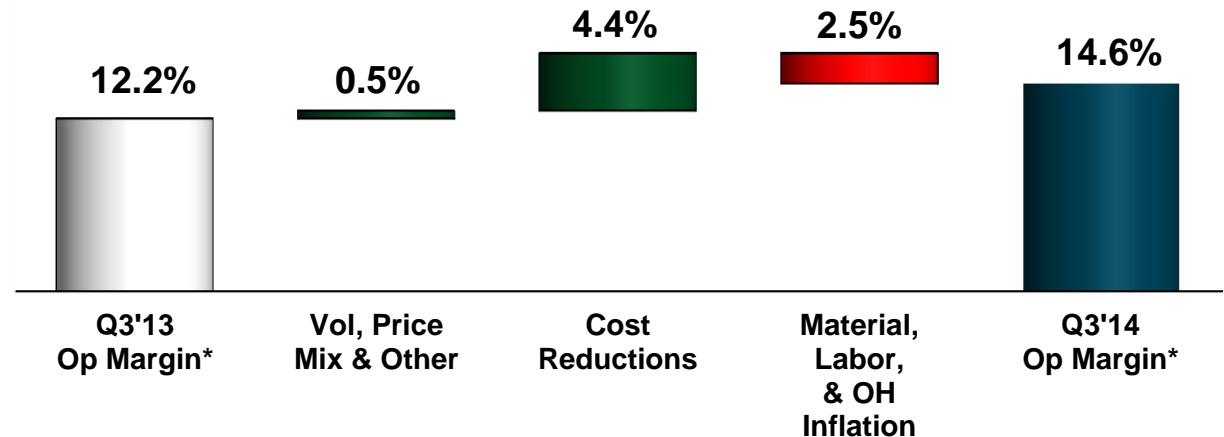
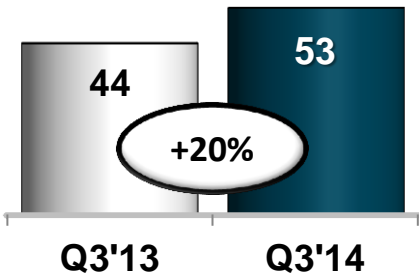
- + U.S. +2%
- + Emerging +2%
- Europe -1%

Highlights

- + Strength across all U.S. end markets, including Commercial and Industrial Water applications
- + Emerging market performance driven by China (key account growth), partially offset by weakness in Eastern Europe and Latin America
- Europe down overall ... weakness in Residential and General Industrial markets, partially offset by Commercial strength driven by new high energy efficient product launches

OPERATING INCOME*

(Dollars, In Millions)

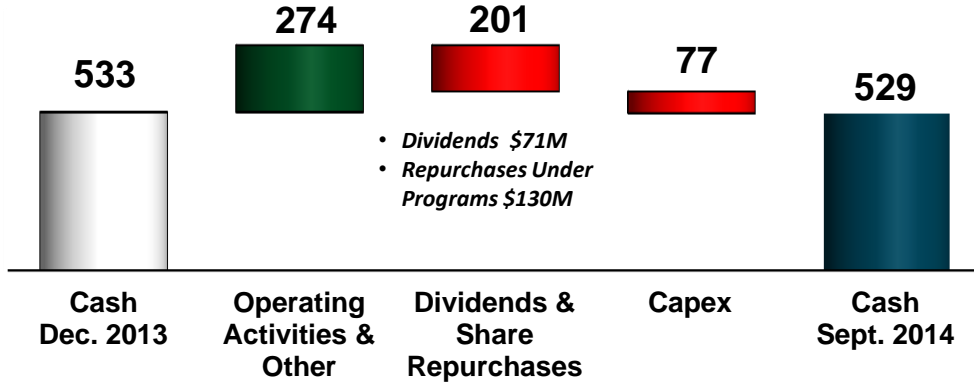


RECORD OPERATING MARGIN PERFORMANCE OF 14.6%, UP 240 BPS

XYLEM FINANCIAL POSITION

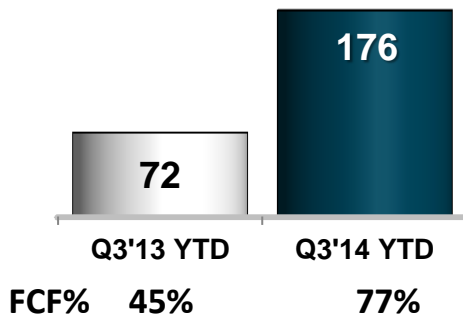
CASH DRIVERS

(Dollars, In Millions)



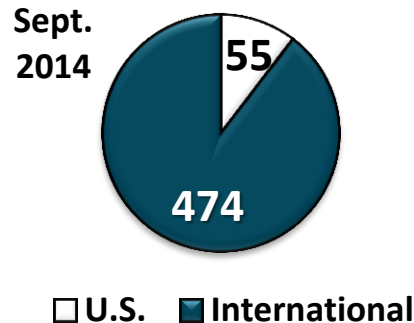
FREE CASH FLOW *

(Dollars, In Millions)



CASH BALANCE (GEOGRAPHIC)

(Dollars, In Millions)



CAPITAL SUMMARY

Sept 30, 2014

(Dollars, In Millions)

Cash	529
Debt	1,240
Net Debt	711
Shareholders' Equity	2,193
Net Capital	2,904
Net Debt to Net Capital	24%

- Strong cash position
- Increased return to shareholders
 - Dividends of \$71M; up 10% per share
 - Share repurchases of \$130M; up \$88M or 210% vs. prior year
- Improved Free Cash Flow performance, largely reflecting higher income and \$14M in lower Capex spend

2014 FINANCIAL GUIDANCE SUMMARY

(Dollars In Millions, Except per Share Data)	2014 Full Year Financial Outlook	Growth 2014E vs. 2013		
		<u>Total Growth</u>	<u>Organic</u>	<u>FX/Acq/Div</u>
Revenue				
Xylem Consolidated	\$3,885 to \$3,915	1% to 2%	2% to 3%	-1%
Water Infrastructure	\$2,500 to \$2,520	2% to 3%	3% to 4%	-1%
Applied Water	\$1,450 to \$1,460	Flat to 1%	Flat to 1%	-1% to Flat
Segment Margin *	14.3% to 14.6%	+110 bps to +140 bps (vs. prior year 13.2%)		
Operating Margin *	12.9% to 13.2%	+110 bps to +140 bps (vs. prior year 11.8%)		
EPS *	\$1.92 to \$1.98	Up 15% to 19% (vs. prior year \$1.67)		
Free Cash Flow Conversion	~100%	September 2014 year-to-date conversion of 77%		
Guidance Assumptions:				
Operating Tax Rate *	~21%	September 2014 year-to-date ~21%		
Share Count	~184.5M			
Restructuring & Realignment Costs	~\$40 to \$50	'14 Rest. Savings ~\$17; Realignment Cost \$10-\$15		

GUIDANCE RANGE TIGHTENED ... MAINTAINING \$1.95 EPS MID-POINT

2014 GROWTH PROFILE

Xylem FY 2014
Organic Growth



Industrial

(45% of '13 Revenue)

- Strength in U.S. & Emerging Markets
- Monitoring European conditions

Up Low
Single Digit



Public Utility

(34% of '13 Revenue)

- Stable U.S. & Europe Opex
- 4Q project timing/shipment risk
- 2015 Outlook remains positive

Up Low
Single Digit



Commercial

(11% of '13 Revenue)

- New product launches & improved U.S. Commercial outlook
- Monitoring European conditions

Flat



Residential

(7% of '13 Revenue)

- U.S. market strength continues
- Expecting continued weakness in Southern Europe

Up Low
Single Digit



Agriculture

(3% of '13 Revenue)

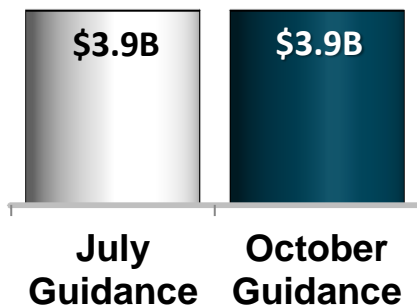
- Tough year-over-year comparison following strong 2013 performance

Flat

**MARKET CONDITIONS MIXED BY REGION;
U.S. NON-RES CONSTRUCTION IMPROVING ... MONITORING EUROPE CLOSELY**

XYLEM GUIDANCE UPDATE (Mid-Point Illustration)

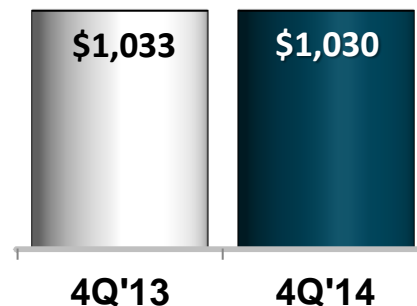
FY REVENUE



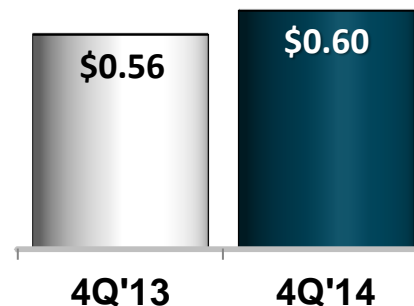
FY EPS



4Q REVENUE



4Q EPS



Full Year Guide Rollforward

• Original Mid-Point	\$1.93
• 1H Performance	\$0.03
• UK Valves Divestiture	-\$0.01
• Mid-Point – July 2014 Guide	\$1.95
• 3Q FX Translation Headwind	-\$0.01
• 4Q FX Translation Headwind	-\$0.03
• 2H Performance	\$0.04
• Mid-Point – October Guide	\$1.95

Key Fourth Quarter Assumptions

• Foreign Exchange Rates	
• Euro FX Rate	\$1.27
• Organic Growth Rates:	
• U.S.	Up LSD
• Europe	Down LSD to Flat
• Emerging Markets	10%+
• Other Assumptions:	
• Tax Rate	21%
• Share Count	~183M

MAINTAINING MID-POINT EPS GUIDANCE

SUMMARY

- **Solid execution across all businesses**
- **On track to deliver record full year Revenue & EPS**
- **Tightening guidance range ... Maintaining EPS mid-point at \$1.95**
- **Focused on efficient capital deployment; increasing returns to shareholders**

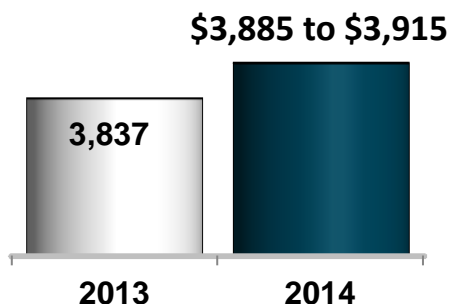
FOCUSED ON MEETING 2014 COMMITMENTS ... SETTING THE STAGE FOR 2015

APPENDIX

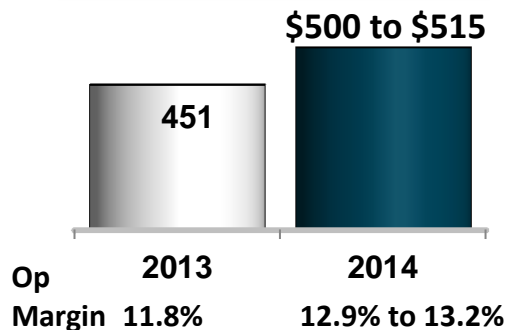
FY'14 XYLEM OUTLOOK

(Dollars, In Millions, except EPS)

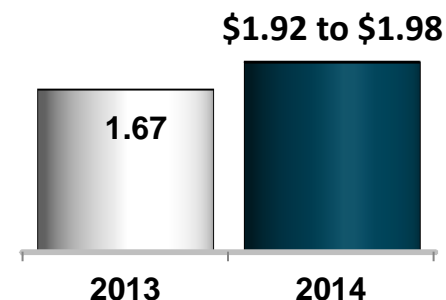
REVENUE



OPERATING INCOME*



EPS*



Highlights

- Revenue Growth 1% to 2%
- Organic Growth 2% to 3%
 - Water Infrastructure 3% to 4%
 - Applied Water Flat to 1%
- FX/Acq./Divest. -1%

Volume Increase Partially Offset by Negative Mix/Price and FX

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 15% to 19%

Key Performance Drivers

- + Core Ops \$0.28 to \$0.34
- + 1x/Rest. Savings \$0.20
- 4Q FX Translation - \$0.03
- Tax Rate ~21%
- Share Count ~184.5M

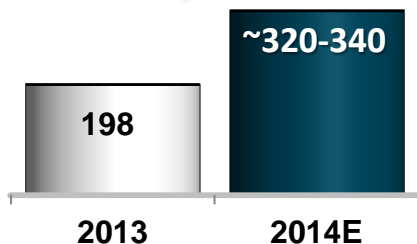
COST FOCUS EXPECTED TO DRIVE SOLID EARNINGS GROWTH

DISCIPLINED CAPITAL DEPLOYMENT

(Dollars, In Millions, except EPS)

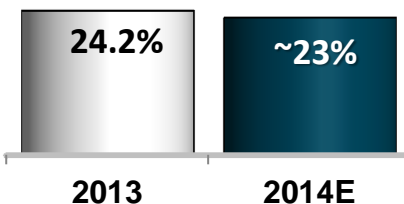
FREE CASH FLOW*

Higher Income, Working Cap Improvement, and Lower Capex Spend



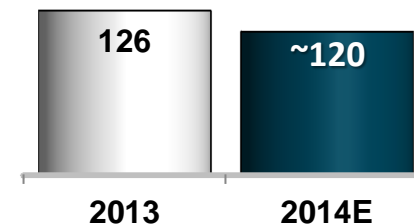
WORKING CAPITAL As % of Revenue**

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



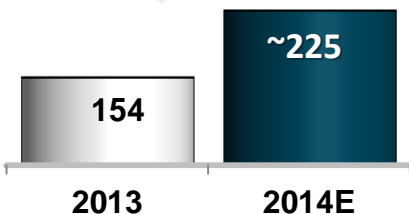
CAPEX

Approximately 3% of Revenue, Funds Growth & Maintenance



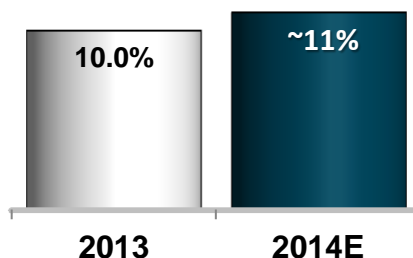
DIVIDENDS/SHARE REPURCHASES

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

NON-GAAP MEASURES

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

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

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

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

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>Nine Months Ended September 30</u>										
Xylem Inc.	3,051	2,926	125	4%	(3)	(3)	-	119	4%	4%
Water infrastructure	1,973	1,865	108	6%	(8)	7	3	110	6%	6%
Applied Water	1,135	1,111	24	2%	5	(11)	(9)	9	1%	0%
<u>Quarter Ended September 30</u>										
Xylem Inc.	1,027	955	72	8%	5	2	-	79	8%	8%
Water infrastructure	680	617	63	10%	-	4	1	68	11%	11%
Applied Water	363	355	8	2%	5	(2)	-	11	3%	2%
<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>Nine Months Ended September 30</u>													
Xylem Inc.	2,874	2,804	70	2%	1	(1)	-	70	2%	2%			
Water infrastructure	1,823	1,766	57	3%	(6)	9	3	63	4%	4%			
Applied Water	1,105	1,086	19	2%	7	(11)	(7)	8	1%	0%			
<u>Quarter Ended September 30</u>													
Xylem Inc.	963	965	(2)	0%	7	2	-	7	1%	0%			
Water infrastructure	619	619	-	0%	-	4	-	4	1%	1%			
Applied Water	362	360	2	1%	7	(2)	(3)	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		Q3		YTD	
	2014	2013	2014	2013	2014	2013	2014	2013
Total Revenue								
• Total Xylem	906	879	1,005	960	963	965	2,874	2,804
• Water Infrastructure	568	551	636	596	619	619	1,823	1,766
• Applied Water	355	345	388	381	362	360	1,105	1,086
Operating Income								
• Total Xylem	76	66	116	70	130	98	322	234
• Water Infrastructure	46	42	77	41	94	88	217	171
• Applied Water	41	40	52	45	52	40	145	125
• Total Segments	87	82	129	86	146	128	362	296
Operating Margin								
• Total Xylem	8.4%	7.5%	11.5%	7.3%	13.5%	10.2%	11.2%	8.3%
• Water Infrastructure	8.1%	7.6%	12.1%	6.9%	15.2%	14.2%	11.9%	9.7%
• Applied Water	11.5%	11.6%	13.4%	11.8%	14.4%	11.1%	13.1%	11.5%
• Total Segments	9.6%	9.3%	12.8%	9.0%	15.2%	13.3%	12.6%	10.6%
Special Charges								
• Total Xylem	-	-	-	-	-	20	-	20
Restructuring & Realignment Costs								
• Total Xylem	18	12	9	28	4	12	31	52
• Water Infrastructure	12	10	5	22	3	8	20	40
• Applied Water	6	2	4	6	1	4	11	12
• Total Segments	18	12	9	28	4	12	31	52
Adjusted Operating Income*								
• Total Xylem	94	78	125	98	134	130	353	306
• Water Infrastructure	58	52	82	63	97	96	237	211
• Applied Water	47	42	56	51	53	44	156	137
• Total Segments	105	94	138	114	150	140	393	348
Adjusted Operating Margin*								
• Total Xylem	10.4%	8.9%	12.4%	10.2%	13.9%	13.5%	12.3%	10.9%
• Water Infrastructure	10.2%	9.4%	12.9%	10.6%	15.7%	15.5%	13.0%	11.9%
• Applied Water	13.2%	12.2%	14.4%	13.4%	14.6%	12.2%	14.1%	12.6%
• Total Segments	11.6%	10.7%	13.7%	11.9%	15.6%	14.5%	13.7%	12.4%

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

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

	Q3 2013			Q3 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	965		965	963		963
Operating Income	98	32	130	130	4	134
Operating Margin	10.2%		13.5%	13.5%		13.9%
Interest Expense	(14)		(14)	(14)		(14)
Other Non-Operating Income (Expense)	(1)		(1)	1		1
Gain on sale of business	-		-	11	(11)	-
Income before Taxes	83	32	115	128	(7)	121
Provision for Income Taxes	(10)	(13)	(23)	(22)	(2)	(24)
Net Income	73	19	92	106	(9)	97
Diluted Shares	186.0		186.0	183.4		183.4
Diluted EPS	\$ 0.39	\$ 0.10	\$ 0.49	\$ 0.58	\$ (0.05)	\$ 0.53

	Q3 YTD 2013			Q3 YTD 2014		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	2,804		2,804	2,874		2,874
Operating Income	234	72	306	322	31	353
Operating Margin	8.3%		10.9%	11.2%		12.3%
Interest Expense	(41)		(41)	(41)		(41)
Other Non-Operating Income (Expense)	(2)		(2)	1		1
Gain on sale of business	-		-	11	(11)	-
Income before Taxes	191	72	263	293	20	313
Provision for Income Taxes	(31)	(24)	(55)	(52)	(13)	(65)
Net Income	160	48	208	241	7	248
Diluted Shares	186.2		186.2	184.6		184.6
Diluted EPS	\$ 0.86	\$ 0.26	\$ 1.12	\$ 1.31	\$ 0.04	\$ 1.35

a Restructuring & realignment costs and special charges

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

c Restructuring & realignment costs

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

	Nine Months Ended	
	2014	2013
Net Cash - Operating Activities	\$ 253	\$ 163
Capital Expenditures	(77)	(91)
Free Cash Flow	<u>\$ 176</u>	<u>\$ 72</u>
Net Income	241	160
Gain on Sale of Business	<u>11</u>	<u>-</u>
Net Income, excluding gain on sale of business	<u>\$ 230</u>	<u>\$ 160</u>
Free Cash Flow Conversion	<u>77%</u>	<u>45%</u>

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

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

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

	2014		
	Q1	Q2	Q3
Pre-Tax Income	61	104	128
Interest Expense (Income), net	13	14	12
Depreciation	23	24	23
Amortization	13	12	12
Stock Compensation	4	5	5
EBITDA	114	159	180
Restructuring & Realignment	18	9	4
Gain on Sale of Business	-		(11)
Adjusted EBITDA	132	168	173
Revenue	906	1,005	963
Adjusted EBITDA Margin	14.6%	16.7%	18.0%
	2013		
	Q1	Q2	Q3
Pre-Tax Income	51	57	83
Interest Expense (Income), net	12	13	14
Depreciation	25	24	23
Amortization	12	13	13
Stock Compensation	6	6	9
EBITDA	106	113	142
Restructuring & Realignment	12	28	12
Special Charges	-	-	20
Adjusted EBITDA	118	141	174
Revenue	879	960	965
Adjusted EBITDA Margin	13.4%	14.7%	18.0%

	2014		
	Q1	Q2	Q3
Pre-Tax Income	46	78	94
Interest Expense (Income), net	-		(1)
Depreciation	17	17	17
Amortization	10	10	10
Stock Compensation	1	1	-
EBITDA	74	106	120
Restructuring & Realignment	12	5	3
Adjusted EBITDA	86	111	123
Revenue	568	636	619
Adjusted EBITDA Margin	15.1%	17.5%	19.9%
	2013		
	Q1	Q2	Q3
Pre-Tax Income	42	43	87
Interest Expense (Income), net	-	(1)	-
Depreciation	19	17	16
Amortization	9	11	11
Stock Compensation	1	1	1
EBITDA	71	71	115
Restructuring & Realignment	10	22	8
Adjusted EBITDA	81	93	123
Revenue	551	596	619
Adjusted EBITDA Margin	14.7%	15.6%	19.9%

	2014		
	Q1	Q2	Q3
Pre-Tax Income	41	52	63
Interest, net	-		-
Depreciation	6	6	6
Amortization	1	1	1
Stock Compensation	-	1	1
EBITDA	48	60	71
Restructuring & Realignment	6	4	1
Gain on sale of business	-	-	(11)
Adjusted EBITDA	54	64	61
Revenue	355	388	362
Adjusted EBITDA Margin	15.2%	16.5%	16.9%
	2013		
	Q1	Q2	Q3
Pre-Tax Income	40	45	40
Interest, net	-	-	-
Depreciation	6	5	6
Amortization	2	1	1
Stock Compensation	1	-	1
EBITDA	49	51	48
Restructuring & Realignment	2	6	4
Adjusted EBITDA	51	57	52
Revenue	345	381	360
Adjusted EBITDA Margin	14.8%	15.0%	14.4%

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

	FY '13
Total Revenue	
• Total Xylem	3,837
• Water Infrastructure	2,457
• Applied Water	1,444
Operating Income	
• Total Xylem	363
• Water Infrastructure	271
• Applied Water	167
Operating Margin	
• Total Xylem	9.5%
• Water Infrastructure	11.0%
• Applied Water	11.6%
Separation Costs	
• Total Xylem	-
• Water Infrastructure	-
• Applied Water	-
Special Charges	
• Total Xylem	24
• Water Infrastructure	4
• Applied Water	-
Restructuring & Realignment Costs	
• Total Xylem	64
• Water Infrastructure	48
• Applied Water	16
Adjusted Operating Income	
• Total Xylem	451
• Water Infrastructure	323
• Applied Water	183
Adjusted Operating Margin	
• Total Xylem	11.8%
• Water Infrastructure	13.1%
• Applied Water	12.7%

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

	Q4 YTD 2013		
	As Reported	Adjustments	Adjusted
Total Revenue	3,837		3,837
Operating Income	363	88	451
Operating Margin	9.5%		11.8%
Interest Expense	(55)		(55)
Other Non-Operating Income (Expense)	(10)	8	(2)
Income before Taxes	298	96	394
Provision for Income Taxes	(70)	(13)	(83)
Net Income	228	83	311
Diluted Shares	186.0		186.0
Diluted EPS	\$ 1.22	\$ 0.45	\$ 1.67

- a One time separation costs and restructuring & realignment costs
b Net tax impact of separation costs, restructuring & realignment costs and special tax items
c Restructuring & realignment costs and special charges
d Special charges
e Net tax impact of restructuring & realignment costs, special charges and special tax items

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

	Year Ended 2013
Net Cash - Operating Activities	\$ 324
Capital Expenditures	(126)
Free Cash Flow, including separation costs	198
Cash Paid for Separation Costs (incl. Capex)	-
Free Cash Flow	\$ 198
Net Income	\$ 228
Free Cash Flow Conversion	87%

xylem

Let's Solve Water

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