

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 8-K**

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**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): February 7, 2013**

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**XYLEM INC.**

(Exact name of registrant as specified in its charter)

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**Indiana**  
(State or other jurisdiction  
of incorporation)

**001-35229**  
(Commission  
File Number)

**45-2080495**  
(IRS Employer  
Identification No.)

**1133 Westchester Avenue, Suite N200**  
**White Plains, New York**  
(Address of principal executive offices)

**10604**  
(Zip Code)

**(914) 323-5700**  
(Registrant's telephone number, including area code)

**NOT APPLICABLE**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 2.02 Results of Operations and Financial Condition**

Attached hereto as Exhibit 99.1 and incorporated herein by reference is the news release issued by Xylem Inc. on February 7, 2013, announcing the financial results for the quarter and fiscal year ended December 31, 2012. This information shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act.

**Item 7.01 Regulation FD Disclosure**

Attached hereto as Exhibit 99.2 and incorporated herein by reference is an earnings presentation posted on Xylem Inc.'s website on February 7, 2013, summarizing Xylem Inc.'s financial results for the quarter and fiscal year ended December 31, 2012. This information is furnished pursuant to Item 7.01 Regulation FD Disclosure. This information shall not be deemed filed for purposes of Section 18 of the Exchange Act or incorporated by reference into any filing under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Item 8.01 Other Events**

The Company's Board of Directors declared a dividend in the amount of \$0.1164 per share for the first quarter of 2013, an increase of 15 percent from the dividend paid in the fourth quarter in 2012. The declared dividend is payable on March 20, 2013 to shareholders of record on February 20, 2013.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>
99.1	News Release issued by Xylem Inc. on February 7, 2013.
99.2	Presentation summarizing fourth quarter and full year 2012 financial results posted by Xylem Inc. on February 7, 2013.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

XYLEM INC.

Date: February 7, 2013

By: /s/ Michael T. Speetzen  
Michael T. Speetzen  
Senior Vice President and Chief Financial Officer  
(Authorized Officer of Registrant)

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**EXHIBIT INDEX**

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**Xylem**

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## NEWS RELEASE

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**Xylem Inc. reports fourth quarter and full year 2012 results,  
announces 15 percent dividend increase**

- **Fourth quarter 2012 adjusted net income was \$88 million or \$0.47 per share, up 21 percent on a normalized<sup>1</sup> basis over fourth quarter 2011; GAAP EPS were \$0.39 per share, up 39 percent; FY 2012 adjusted earnings were \$1.77 per share, up 7 percent on a normalized basis; GAAP EPS were \$1.59, up 6 percent**
- **Fourth quarter 2012 revenue was \$969 million, down 3 percent; FY 2012 revenue was \$3.8 billion, up 3 percent in constant currencies, flat as reported**
- **Fourth quarter 2012 adjusted operating margins up 140 basis points, up 70 points as reported**
- **Full year free cash flow was \$312 million, 100 percent of adjusted net earnings**
- **Company issues full-year 2013 financial guidance, sees FY 2013 adjusted earnings of \$1.80-\$1.90 per share, earnings growth of 2 to 7 percent on revenue growth of 3 to 4 percent**
- **Xylem Board of Directors approves a 15 percent increase in the dividend for first quarter 2013**

**WHITE PLAINS, N.Y., February 7, 2013** – Xylem Inc. (NYSE: XYL), a leading global water technology company dedicated to solving the world's most challenging water issues, today reported fourth quarter 2012 net income of \$73 million, or \$0.39 per share, up 39 percent from the fourth quarter 2011. Excluding the impact of one-time separation costs and other adjustments associated with Xylem's 2011 spinoff from ITT Corporation as well as restructuring and realignment costs, adjusted net income was \$88 million or \$0.47 per share, up 8 cents or 21 percent on a normalized basis from 2011. Fourth quarter revenue was \$969 million, down 3 percent, reflective of weakness in industrial and public utility markets. Fourth quarter adjusted operating margins improved 140 basis points driven by efficiency and cost control measures.

<sup>1</sup> The 2011 normalized earnings per share reflect adjustments (including one-time separation costs, interest expense, stand-alone costs, and special tax items) to our GAAP results to better illustrate year-over-year performance. The normalized earnings are intended to give a representation of our performance had Xylem been a stand-alone company in 2011.

“Our fourth quarter results show the impact of strategic steps we’ve taken to improve our financial performance, streamlining operations and taking aggressive cost control measures in the face of challenging market conditions,” said Gretchen McClain, president and chief executive officer of Xylem Inc. “While recognizing and addressing uncertainties in the market, we stayed focused on the needs of our customers, as illustrated during our response to the flooding following Hurricane Sandy. We have continued to invest for future growth, deploying assets to accelerate new product technology and expanding our growth in emerging markets. We also continue to acquire attractive businesses to supplement our growth platforms of analytics, dewatering and services. Our most recent acquisition, PIMS Group of the U.K., is our third since becoming an independent company, and will strengthen our aftermarket and service offering.”

For the full year 2012, Xylem revenues were \$3.8 billion, up 3 percent in constant currencies over 2011, flat as reported. Full year reported net income was \$297 million, or \$1.59 per share. Adjusted net income, excluding the impact of the spinoff and other one-time items, was \$330 million or \$1.77 per share. Full year 2012 adjusted operating margins were 12.9 percent, up 100 basis points on a normalized basis. Free cash flow was \$312 million, 100 percent of adjusted net earnings.

Xylem forecasts full year 2013 revenue growth of 3 to 4 percent to approximately \$3.9 billion. Full year 2013 adjusted net income is forecast to grow 2 to 7 percent to \$335 to \$354 million, for adjusted earnings per share of \$1.80 to \$1.90 per share. The company anticipates that restructuring and realignment costs will range from \$60 to \$70 million for the year.

“As a global company, we continually evaluate our actions based on end markets and regional economic conditions,” McClain said. “That’s why we’re taking action in Europe and elsewhere to best position our people and our facilities to meet the needs of our customers and provide economic benefit. Through these steps and with our applications expertise, market-leading brands, a large installed base and unmatched distribution in more than 150 countries around the world, our Xylem portfolio is well-positioned to deliver differentiated growth over the long term.”

Xylem today also announced that its Board of Directors declared a dividend in the amount of \$0.1164 per share for the first quarter of 2013, an increase of 15 percent, payable on March 20, 2013 to shareholders of record on February 20, 2013.

“The increased cash dividend returns value to our shareholders, and is made possible through everything we’ve done to maintain a strong balance sheet, improve operating performance significantly and grow cash flow,” McClain said.

#### **Fourth Quarter Segment Results**

##### **Water Infrastructure**

Xylem’s Water Infrastructure segment consists of its businesses serving clean water delivery, wastewater transport and treatment, dewatering and analytical instrumentation.

- Fourth quarter 2012 revenue was \$637 million, down 6 percent compared with the fourth quarter 2011, reflecting weakness in the public utility and industrial dewatering markets.
- Fourth quarter adjusted segment operating income, which excludes \$1 million of one-time separation-related costs and \$15 million of restructuring and realignment costs, was \$105 million, up 1 percent over the same period in 2011. Adjusted operating margin for the quarter grew 120 basis points, though after factoring in separation, restructuring and realignment costs, posted a decline of 40 basis points.

### **Applied Water**

Xylem's Applied Water segment consists of its portfolio of businesses in residential and commercial building services, industrial and agricultural applications.

- Fourth quarter 2012 revenue was \$346 million, up 3 percent compared with the fourth quarter 2011, with growth coming in residential and commercial building services and irrigation.
- Fourth quarter adjusted segment operating income, which excludes \$5 million of restructuring and realignment costs, was \$40 million, 29 percent higher than the comparable period last year. Adjusted operating margin grew 240 basis points; including separation costs, as well as restructuring and realignment costs, operating margin grew 210 basis points.

Supplemental information on Xylem's fourth quarter and full year 2012 earnings and reconciliations for certain non-GAAP items is posted at [investors.xylem.com](http://investors.xylem.com).

### **About Xylem**

Xylem (NYSE: XYL) is a leading global water technology provider, enabling customers to transport, treat, test and efficiently use water in public utility, residential and commercial building services, industrial and agricultural settings. The company does business in more than 150 countries through a number of market-leading product brands, and its people bring broad applications expertise with a strong focus on finding local solutions to the world's most challenging water and wastewater problems. Xylem is headquartered in White Plains, N.Y., with 2012 annual revenues of \$3.8 billion and 12,500 employees worldwide. In 2012, Xylem was named to the Dow Jones Sustainability World Index for advancing sustainable business practices and solutions worldwide.

The name Xylem is derived from classical Greek and is the tissue that transports water in plants, highlighting the engineering efficiency of our water-centric business by linking it with the best water transportation of all — that which occurs in nature. For more information, please visit us at [www.xylem.com](http://www.xylem.com).

### **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, sales, 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 in our Annual Report on Form 10-K, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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**XYLEM INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In Millions, except per share amounts)

December 31,	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 504	\$ 318
Receivables, less allowances for discounts and doubtful accounts of \$34 and \$37 in 2012 and 2011, respectively	776	756
Inventories, net	443	433
Prepaid and other current assets	110	97
Deferred income tax assets	41	45
<b>Total current assets</b>	<b>1,874</b>	<b>1,649</b>
Property, plant and equipment, net	487	463
Goodwill	1,647	1,610
Other intangible assets, net	484	505
Other non-current assets	187	170
<b>Total assets</b>	<b>\$4,679</b>	<b>\$4,397</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 332	\$ 322
Accrued and other current liabilities	443	490
Short-term borrowings and current maturities of long-term debt	6	5
<b>Total current liabilities</b>	<b>781</b>	<b>817</b>
Long-term debt	1,199	1,201
Accrued postretirement benefits	400	316
Deferred income tax liabilities	173	165
Other non-current accrued liabilities	52	67
<b>Total liabilities</b>	<b>2,605</b>	<b>2,566</b>
Stockholders' equity:		
Common Stock — par value \$0.01 per share:		
Authorized 750.0 shares, issued 184.6 shares	2	2
Capital in excess of par value	1,706	1,663
Retained earnings	264	44
Treasury stock – at cost 0.5 shares and 0 shares in 2012 and 2011, respectively	(13)	—
Accumulated other comprehensive income	115	122
<b>Total stockholders' equity</b>	<b>2,074</b>	<b>1,831</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$4,679</b>	<b>\$4,397</b>

**XYLEM INC. AND SUBSIDIARIES**  
**CONSOLIDATED AND COMBINED INCOME STATEMENTS**  
(In Millions, except per share data)

Year Ended December 31,	2012	2011	2010
Revenue	<b>\$3,791</b>	\$3,803	\$3,202
Cost of revenue	<b>2,289</b>	2,342	1,988
Gross profit	<b>1,502</b>	1,461	1,214
Selling, general and administrative expenses	<b>914</b>	877	737
Research and development expenses	<b>106</b>	100	74
Separation costs	<b>22</b>	87	—
Restructuring and asset impairments charges, net	<b>17</b>	2	15
Operating income	<b>443</b>	395	388
Interest expense	<b>55</b>	17	—
Other non-operating income, net	<b>—</b>	5	—
Income before taxes	<b>388</b>	383	388
Income tax expense	<b>91</b>	104	59
Net income	<b>\$ 297</b>	\$ 279	\$ 329
Earnings per share:			
Basic	<b>\$ 1.60</b>	\$ 1.51	\$ 1.78
Diluted	<b>\$ 1.59</b>	\$ 1.50	\$ 1.78
Weighted average number of shares – Basic	<b>185.8</b>	185.1	184.6
Weighted average number of shares – Diluted	<b>186.2</b>	185.3	184.6

**XYLEM INC. AND SUBSIDIARIES**  
**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**  
(In Millions)

Year Ended December 31,	2012	2011	2010
<b>Operating Activities</b>			
Net income	\$ 297	\$ 279	\$ 329
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	142	137	92
Deferred income taxes	1	8	(31)
Share-based compensation	22	13	9
Non-cash separation costs	—	10	—
Restructuring and asset impairment charges, net	17	2	15
Payments of restructuring	(9)	(7)	(22)
Contributions to postretirement benefit plans	(46)	(16)	(3)
Changes in assets and liabilities (net of acquisitions):			
Changes in receivables	2	(61)	(45)
Changes in inventories	5	(18)	7
Changes in accounts payable	(4)	(9)	41
Changes in accrued liabilities	(28)	53	12
Changes in accrued taxes	(17)	56	(17)
Net changes in other assets and liabilities	14	2	8
<b>Net Cash — Operating activities</b>	<b>396</b>	<b>449</b>	<b>395</b>
<b>Investing Activities</b>			
Capital expenditures	(112)	(126)	(94)
Proceeds from the sale of property, plant and equipment	5	11	4
Acquisitions of businesses and assets, net of cash acquired	(41)	(309)	(1,004)
Other, net	1	1	1
<b>Net Cash — Investing activities</b>	<b>(147)</b>	<b>(423)</b>	<b>(1,093)</b>
<b>Financing Activities</b>			
Net transfer to former parent	(9)	(995)	745
Issuance of short-term debt	13	5	—
Issuance of senior notes, net of discount	—	1,198	—
Principal payments of debt and capital lease obligations	(14)	(8)	—
Purchase of Xylem common stock	(13)	—	—
Proceeds from exercise of employee stock options	24	1	—
Payments of debt issuance costs	—	(10)	—
Dividends paid	(75)	(19)	—
<b>Net Cash — Financing activities</b>	<b>(74)</b>	<b>172</b>	<b>745</b>
<b>Effect of exchange rate changes on cash</b>	<b>11</b>	<b>(11)</b>	<b>3</b>
Net change in cash and cash equivalents	186	187	50
Cash and cash equivalents at beginning of year	318	131	81
<b>Cash and cash equivalents at end of year</b>	<b>\$ 504</b>	<b>\$ 318</b>	<b>\$ 131</b>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 53	\$ —	\$ —
Income taxes (net of refunds received)	\$ 104	\$ 64	\$ 110

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## 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, 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 separation costs associated with the Xylem spin-off from ITT Corporation as well as non-recurring restructuring and realignment costs.

**“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS”** defined as operating income and earnings per share, adjusted to exclude non-recurring separation costs associated with the Xylem spin-off from ITT Corporation, non-recurring restructuring and realignment costs and tax-related special items.

**“Normalized EPS”** defined as adjusted earnings per share, as well as adjustments to reflect the incremental current period amount of interest expense and stand alone costs in the prior comparable period.

**“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.

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) = (B + D) / A
	Orders 2012	Orders 2011	Change 2012 v. 2011	% Change 2012 v. 2011	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2012 v. 2011	% Change Adj. 2012 v. 2011	
<b>Year Ended</b>										
<b>December 31, 2012</b>										
Xylem Inc.	3,782	3,847	(65)	-1.7%	(95)	114	—	(46)	-1.2%	1.3%
Water infrastructure	2,421	2,454	(33)	-1.3%	(95)	87	1	(40)	-1.6%	2.2%
Applied Water	1,423	1,452	(29)	-2.0%	—	31	(8)	(6)	-0.4%	0.1%
<b>Quarter Ended</b>										
<b>December 31, 2012</b>										
Xylem Inc.	926	905	21	2.3%	(7)	6	—	20	2.2%	3.0%
Water infrastructure	602	589	13	2.2%	(7)	5	1	12	2.0%	3.1%
Applied Water	337	330	7	2.1%	—	1	—	8	2.4%	2.4%
<b>Quarter Ended</b>										
<b>September 30, 2012</b>										
Xylem Inc.	882	966	(84)	-8.7%	(21)	39	—	(66)	-6.8%	-4.7%
Water infrastructure	564	621	(57)	-9.2%	(21)	29	—	(49)	-7.9%	-4.5%
Applied Water	334	358	(24)	-6.7%	—	12	(5)	(17)	-4.7%	-3.4%
<b>Quarter Ended</b>										
<b>June 30, 2012</b>										
Xylem Inc.	970	998	(28)	-2.8%	(30)	51	—	(7)	-0.7%	2.3%
Water infrastructure	617	632	(15)	-2.4%	(30)	40	—	(5)	-0.8%	4.0%
Applied Water	370	383	(13)	-3.4%	—	13	(2)	(2)	-0.5%	0.0%
<b>Quarter Ended</b>										
<b>March 31, 2012</b>										
Xylem Inc.	1,004	978	26	2.7%	(37)	18	—	7	0.7%	4.5%
Water infrastructure	638	612	26	4.2%	(37)	13	—	2	0.3%	6.4%
Applied Water	382	381	1	0.3%	—	5	(1)	5	1.3%	1.6%

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)

	<u>(As Reported - GAAP)</u>				<u>(As Adjusted - Organic)</u>					<u>Constant Currency</u>
	(A)	(B)	(B)	(B)	(C)	(D)	(E)	(F) = B+C+D+E	(G) = F/A	(H) = (B + D) / A
	Revenue	Revenue	Change	% Change	Acquisitions	FX Contribution	Eliminations	Change	% Change	
	2012	2011	2012 v. 2011	2012 v. 2011	Divestitures			Adj. 2012 v. 2011	Adj. 2012 v. 2011	
<b><u>Year Ended December 31, 2012</u></b>										
<b>Xylem Inc.</b>	3,791	3,803	(12)	-0.3%	(94)	108	—	2	0.1%	2.5%
Water infrastructure	2,425	2,416	9	0.4%	(94)	80	(1)	(6)	-0.2%	3.7%
Applied Water	1,424	1,444	(20)	-1.4%	—	32	(3)	9	0.6%	0.8%
<b><u>Quarter Ended December 31, 2012</u></b>										
<b>Xylem Inc.</b>	969	1,003	(34)	-3.4%	(7)	7	—	(34)	-3.4%	-2.7%
Water Infrastructure	637	679	(42)	-6.2%	(7)	5	(1)	(45)	-6.6%	-5.4%
Applied Water	346	336	10	3.0%	—	2	—	12	3.6%	3.6%
<b><u>Quarter Ended September 30, 2012</u></b>										
<b>Xylem Inc.</b>	931	939	(8)	-0.9%	(21)	38	—	9	1.0%	3.2%
Water infrastructure	595	584	11	1.9%	(21)	28	—	18	3.1%	6.7%
Applied Water	350	368	(18)	-4.9%	—	12	(2)	(8)	-2.2%	-1.6%
<b><u>Quarter Ended June 30, 2012</u></b>										
<b>Xylem Inc.</b>	966	971	(5)	-0.5%	(32)	49	—	12	1.2%	4.5%
Water infrastructure	609	602	7	1.2%	(32)	37	(1)	11	1.8%	7.3%
Applied Water	373	385	(12)	-3.1%	—	13	(1)	—	0.0%	0.3%
<b><u>Quarter Ended March 31, 2012</u></b>										
<b>Xylem Inc.</b>	925	890	35	3.9%	(34)	14	—	15	1.7%	5.5%
Water infrastructure	584	551	33	6.0%	(34)	10	1	10	1.8%	7.8%
Applied Water	355	355	—	0.0%	—	5	—	5	1.4%	1.4%

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

Xylem Inc. Non-GAAP Reconciliation  
Adjusted Diluted EPS  
2012 and 2011  
(\$ Millions, except per share amounts)

	<u>Q1 2012</u>	<u>Q2 2012</u>	<u>Q3 2012</u>	<u>Q4 2012</u>	<u>YTD 2012</u>
Net Income	63	89	72	73	297
Separation Costs, Net of Tax	4	4	3	5	16
Restructuring & Realignment, Net of Tax	—	—	4	13	17
Adjusted Net Income before Special Tax Items	67	93	79	91	330
Special Tax Items	—	(1)	4	(3)	—
Adjusted Net Income	67	92	83	88	330
Diluted Earnings per Share	\$ 0.34	\$ 0.48	\$ 0.38	\$ 0.39	\$ 1.59
Separation Costs per Share	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.09
Restructuring & Realignment Costs per Share	\$ 0.00	\$ 0.00	\$ 0.02	\$ 0.07	\$ 0.09
Adjusted Diluted EPS before Special Tax Items	\$ 0.36	\$ 0.50	\$ 0.42	\$ 0.49	\$ 1.77
Special Tax Items per Share	\$ 0.00	(\$0.01)	\$ 0.02	(\$0.02)	\$ 0.00
<b>Adjusted Diluted EPS</b>	<u>\$ 0.36</u>	<u>\$ 0.49</u>	<u>\$ 0.44</u>	<u>\$ 0.47</u>	<u>\$ 1.77</u>
	<u>Q1 2011</u>	<u>Q2 2011</u>	<u>Q3 2011</u>	<u>Q4 2011</u>	<u>YTD 2011</u>
Net Income	78	72	77	52	279
Separation Costs, Net of Tax	2	27	25	18	72
Adjusted Net Income before Special Tax Items	80	99	102	70	351
Special Tax Items	—	4	(1)	4	7
Adjusted Net Income	80	103	101	74	358
Diluted Earnings per Share	\$ 0.42	\$ 0.39	\$ 0.42	\$ 0.28	\$ 1.50
Separation Costs per Share	\$ 0.01	\$ 0.15	\$ 0.13	\$ 0.10	\$ 0.39
Adjusted Diluted EPS before Special Tax Items	\$ 0.43	\$ 0.54	\$ 0.55	\$ 0.38	\$ 1.89
Special Tax Items per Share	\$ 0.00	\$ 0.02	(\$0.01)	\$ 0.02	\$ 0.04
<b>Adjusted Diluted EPS</b>	<u>\$ 0.43</u>	<u>\$ 0.56</u>	<u>\$ 0.54</u>	<u>\$ 0.40</u>	<u>\$ 1.93</u>

Note: YTD EPS amounts may not equal the sum of the quarterly EPS amounts due to rounding.

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

	Q4		YTD	
	'12	'11	'12	'11
<b>Total Revenue</b>				
• Total Xylem	969	1,003	3,791	3,803
• Water Infrastructure	637	679	2,425	2,416
• Applied Water	346	336	1,424	1,444
<b>Operating Income</b>				
• Total Xylem	104	100	443	395
• Water Infrastructure	89	98	342	343
• Applied Water	35	27	170	160
<b>Operating Margin</b>				
• Total Xylem	10.7%	10.0%	11.7%	10.4%
• Water Infrastructure	14.0%	14.4%	14.1%	14.2%
• Applied Water	10.1%	8.0%	11.9%	11.1%
<b>Separation Costs</b>				
• Total Xylem	7	20	22	87
• Water Infrastructure	1	6	4	16
• Applied Water	—	4	2	13
<b>Restructuring &amp; Realignment Costs</b>				
• Total Xylem	19	—	24	—
• Water Infrastructure	15	—	19	—
• Applied Water	5	—	5	—
<b>Adjusted Operating Income*</b>				
• Total Xylem	130	120	489	482
• Water Infrastructure	105	104	365	359
• Applied Water	40	31	177	173
<b>Adjusted Operating Margin*</b>				
• Total Xylem	13.4%	12.0%	12.9%	12.7%
• Water Infrastructure	16.5%	15.3%	15.1%	14.9%
• Applied Water	11.6%	9.2%	12.4%	12.0%

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

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

	Q4 2011					Q4 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	1,003		1,003		1,003	969		969
Operating Income	100	20a	120	(2)c	118	104	26f	130
Operating Margin	10.0%		12.0%		11.8%	10.7%		13.4%
Interest Expense	(15)		(15)		(15)	(14)		(14)
Other Non-Operating Income (Expense)	—		—		—	(1)		(1)
Income before Taxes	85	20	105	(2)	103	89	26	115
Provision for Income Taxes	(33)	2b	(31)	0e	(31)	(16)	(11)g	(27)
Net Income	52	22	74	(2)	72	73	15	88
Diluted Shares	185.3		185.3		185.3	186.5		186.5
<b>Diluted EPS</b>	<b>\$ 0.28</b>	<b>\$ 0.12</b>	<b>\$ 0.40</b>	<b>\$ (0.01)</b>	<b>\$ 0.39</b>	<b>\$ 0.39</b>	<b>\$ 0.08</b>	<b>\$ 0.47</b>
	YTD 2011					YTD 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	3,803		3,803		3,803	3,791		3,791
Operating Income	395	87a	482	(28)c	454	443	46f	489
Operating Margin	10.4%		12.7%		11.9%	11.7%		12.9%
Interest Expense	(17)		(17)	(39)d	(56)	(55)		(55)
Other Non-Operating Income (Expense)	5		5		5	—		—
Income before Taxes	383	87	470	(67)	403	388	46	434
Provision for Income Taxes	(104)	(8)b	(112)	16e	(96)	(91)	(13)g	(104)
Net Income	279	79	358	(51)	307	297	33	330
Diluted Shares	185.3		185.3		185.3	186.2		186.2
<b>Diluted EPS</b>	<b>\$ 1.50</b>	<b>\$ 0.43</b>	<b>\$ 1.93</b>	<b>\$ (0.27)</b>	<b>\$ 1.66</b>	<b>\$ 1.59</b>	<b>\$ 0.18</b>	<b>\$ 1.77</b>

a One time separation costs

b Net tax impact of above items, plus the addition of 2011 special tax items

c Incremental stand alone costs incurred in 2012

d Incremental interest expense on long-term debt incurred in 2012

e Incremental interest expense and stand alone costs incurred in 2012 tax affected using the 2011 effective tax rate, as adjusted

f One time separation, restructuring & realignment costs

g Tax impact of one time separation, restructuring & realignment costs and special tax items

Xylem Inc. Non-GAAP Reconciliation  
Net Cash - Operating Activities vs. Free Cash Flow  
Years Ended December 31, 2012 and 2011  
(\$ Millions)

	Year Ended	
	2012	2011
<b>Net Cash - Operating Activities</b>	396	449
Capital Expenditures	(112)	(126)
Free Cash Flow, including separation costs	284	323
Cash Paid for Separation Costs (incl. Capex)	28	65
<b>Free Cash Flow, excluding separation costs</b>	<u>312</u>	<u>388</u>
Net Income	297	279
Separation Costs, net of tax (incl. tax friction)	16	72
<b>Net Income, excluding separation costs</b>	<u>313</u>	<u>351</u>
<b>Free Cash Flow Conversion</b>	<u>100%</u>	<u>111%</u>

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

**2013 Guidance**

	FY '12			Illustration of Mid Point Guidance		
				FY '13		
	As Reported	Adjustments	Adjusted	As Projected	Adjustments	Adjusted
Total Revenue	3,791		3,791	3,915		3,915
Segment Operating Income	512	30a	542	487	65d	552
Segment Operating Margin	13.5%		14.3%	12.4%		14.1%
Corporate Expense	69	(16)b	53	59	—	59
Operating Income	443	46	489	428	65	493
Operating Margin	11.7%		12.9%	10.9%		12.6%
Interest Expense	(55)		(55)	(55)		(55)
Other Non-Operating Income (Expense)	—		—	(2)		(2)
Income before Taxes	388	46	434	371	65	436
Provision for Income Taxes	(91)	(13)c	(104)	(73)	(19)c	(92)
Net Income	297	33	330	298	46	344
Diluted Shares	186.2		186.2	186.4		186.4
<b>Diluted EPS</b>	<b>\$ 1.59</b>	<b>\$ 0.18</b>	<b>\$ 1.77</b>	<b>\$ 1.60</b>	<b>\$ 0.25</b>	<b>\$ 1.85</b>

- a One time separation, restructuring and realignment costs incurred at the segment level  
b One time separation, restructuring and realignment costs incurred at the corporate level  
c Net tax impact of above items, plus the addition of special tax items  
d Restructuring and realignment costs incurred at the segment level

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Mid Point Guidance 2013E</u>
<b>Revenue</b>	3,291	2,849	3,202	3,803	3,791	3,915
<b>Operating Income</b>	315	276	388	395	443	428
<b>Operating Margin</b>	9.6%	9.7%	12.1%	10.4%	11.7%	10.9%
<b>Restructuring &amp; Realignment</b>	41	31	15	—	24	65
<b>Separation Costs</b>	—	—	—	87	22	—
<b>Adjusted Operating Income</b>	356	307	403	482	489	493
<b>Adjusted Operating Margin</b>	10.8%	10.8%	12.6%	12.7%	12.9%	12.6%
<b>Standalone Costs</b>	—	—	—	5	28	—
<b>Adj. Operating Income, excl. Standalone Costs</b>	356	307	403	487	517	493
<b>Adjusted Operating Margin, excl. Standalone Costs</b>	10.8%	10.8%	12.6%	12.8%	13.6%	12.6%



# Q4 2012 Earnings Release

February 7, 2013



# 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.

# Business Update

## Q4'12 Financial Highlights

- Orders: \$926 Million; up 3% (Constant Currency\*)
- Revenue: \$969 Million, down 3%
- Gross Margin: 39.4%, up 150 bps
- Operating Margin: 13.4%\*, up 140 bps
- EPS: \$0.47\*, up +21% on Normalized Basis

## Full Year 2012 Financial Highlights

- Orders: \$3.8 Billion; Backlog \$647 million
- Revenue: \$3.8 Billion, up 2.5% (Constant Currency\*)
- Gross Margin: 39.6%, up 120 bps
- Operating Margin: 12.9%\*, up 100 bps on a Normalized Basis
- EPS: \$1.77\*, up +7% on Normalized Basis
- FCF: \$312 Million\*, 100% Conversion

## ✓ Advancing Our Strategic Position

- PIMS Group Acquisition Enhances Global Aftermarket & Services Business
- MJK & Heartland Pump Integrations Underway; EPS Neutral in 2012
- Significant Restructuring & Realignment Actions to Primarily Reposition European Business +\$0.13 EPS in 2013

## ✓ Deploying Innovative New Product Applications & Services

- 2012 Vitality Index +25% from 2011
- Middle East Expansion –Transport, Treatment, Dewatering & Analytics Applications

## ✓ Dividend Increase +15%

**Delivered Strong Operating Performance Despite Macro Challenges**

# Acquisition Overview

## PIMS Group

### Overview

- Purchase Price \$57M
- '12 Rev \$38M
- 220 Employees
- Installation & Maintenance Services
- Municipal, Industrial & Private Sectors
- 24/7 Support >10K Sites



## Strategic Rationale

- Enhances Global AM&S
- Accelerates Expansion into Contract Services
- Increases Regional Scale & Served Market

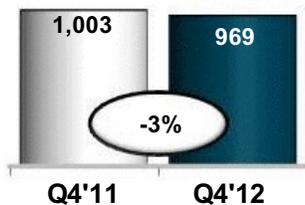


Enhances Xylem's Global Aftermarket Services

# Q4'12 Xylem Performance

## Revenue

(Dollars, In Millions)



## Q4 Growth

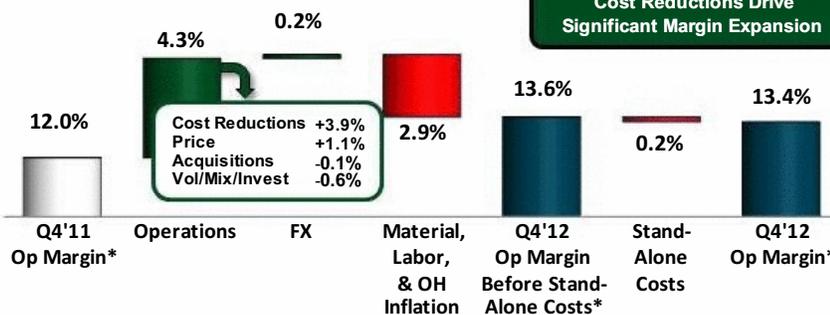
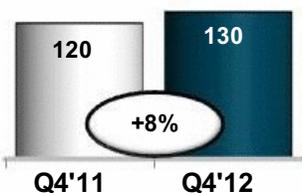
Organic	-3%
Acquisition	0%
<b>Constant Currency</b>	<b>-3%</b>
FX	0%
<b>Total</b>	<b>-3%</b>

## Organic Performance

By End Market	By Geography
- Industrial	- Europe
- Public Utility	- U.S.
+ Commercial	- Emerging Markets
+ Residential	
+ Agriculture	

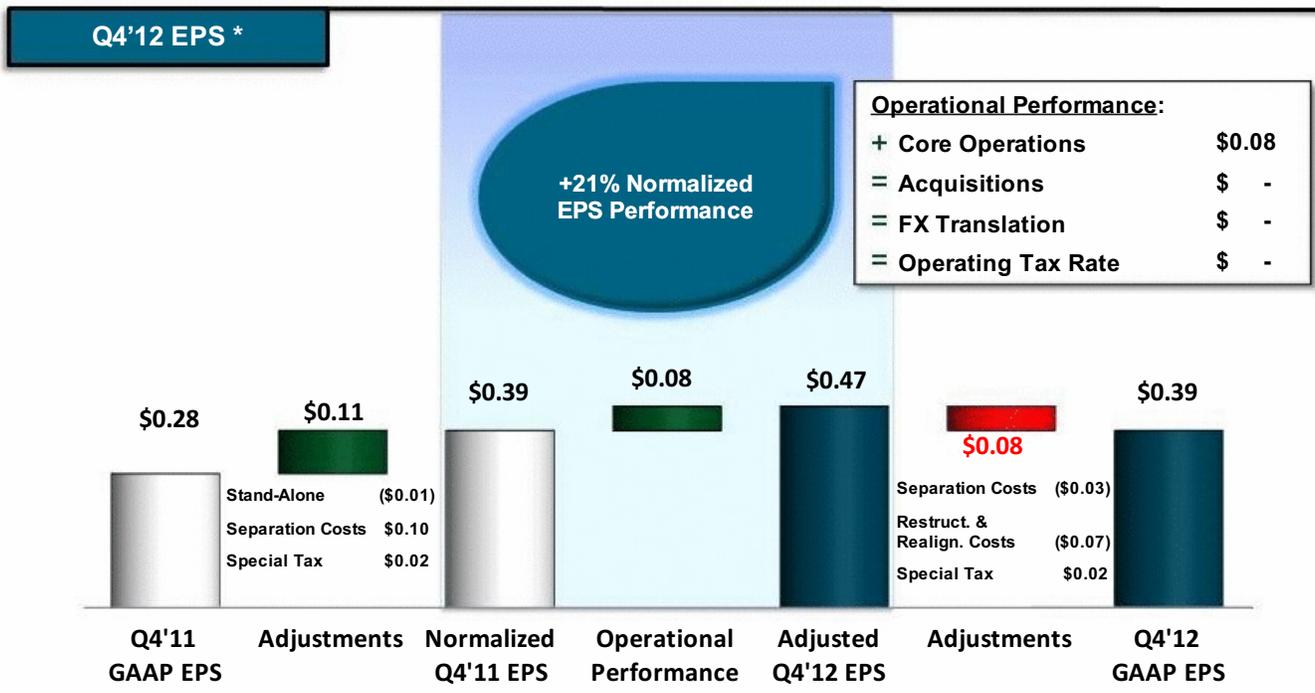
## Operating Income \*

(Dollars, In Millions)



## Operating Margin Expansion +140 Bps

# Q4'12 Xylem Performance



**Operations Drives Strong EPS Performance +21%**

# Q4'12 Water Infrastructure Performance

## Revenue

(Dollars, In Millions)



## Q4 Growth

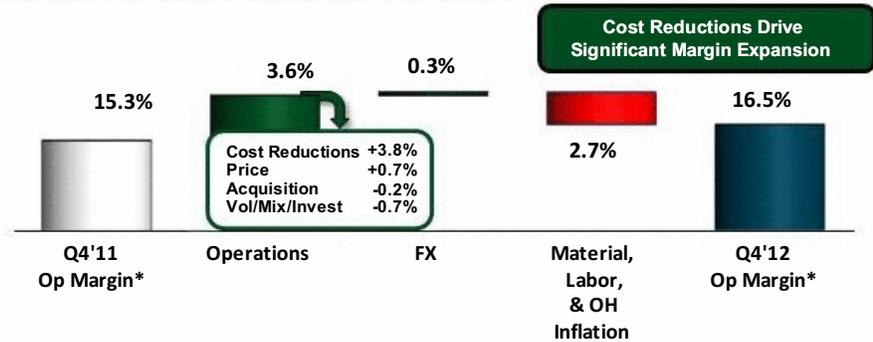
Organic	-7%
Acquisition	+2%
<b>Constant Currency</b>	<b>-5%</b>
FX	-1%
<b>Total</b>	<b>-6%</b>

(Organic Performance)

- **Transport -5%**
  - Public Utility ... Weak Capital Project Market
  - Industrial Dewatering Down ... U.S. Drought & Lower Demand for Fracking Applications
  - + Disaster Recovery for Super Storm Sandy
- **Treatment -18%**
  - Public Utility ... Weak Capital Project Market
  - Industrial ... Tough PY Comp
- **Test +1%**

## Operating Income \*

(Dollars, In Millions)

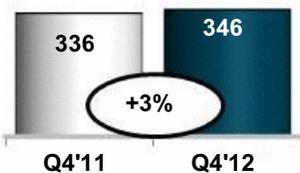


## Operating Margin Expansion +120 Bps

# Q4'12 Applied Water Performance

## Revenue

(Dollars, In Millions)



## Q4 Growth

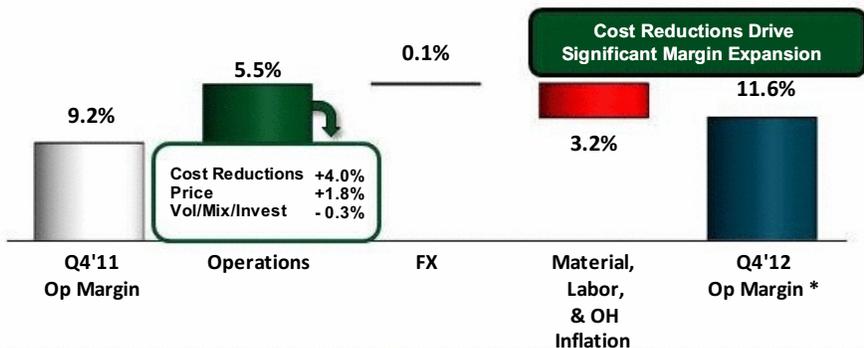
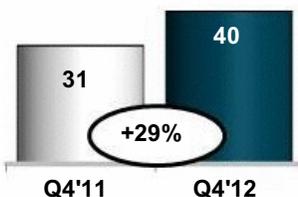
Organic	+4%
Acquisition	-%
<b>Constant Currency</b>	<b>+4%</b>
FX	-1%
<b>Total</b>	<b>+3%</b>

(Organic Performance)

- Building Services 2%
  - + U.S. Residential & Commercial
  - + Super Storm Sandy
  - Europe/Middle East Market Weakness
- Industrial Water +6%
  - + Favorable Across Most Regions
  - + Timing of Shipments ... F&B/O&G Strength
- Irrigation +4%
  - + Europe Improvement off of a Low Base

## Operating Income \*

(Dollars, In Millions)

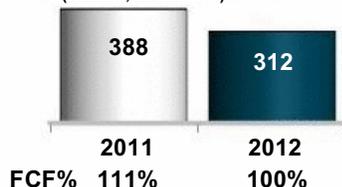


## Operating Margin Expansion +240 Bps

# 2012 Xylem Financial Position

## Free Cash Flow \*

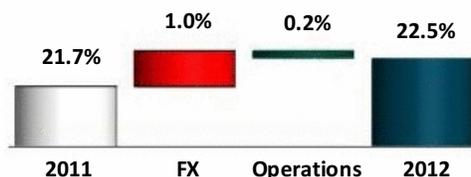
(Dollars, In Millions)



## Free Cash Flow Growth

- Higher Cash Taxes
- Full Year of Interest
- Stand-Alone Costs
- Capex > 1 reinvestment ratio

## Working Capital as % Revenue \*\*



December 31, 2012

(Dollars, In Millions)

Cash	504
Debt	1,205
Net Debt	701
Shareholders' Equity	2,074
Net Capital	2,775
Net Debt to Net Capital	25%

## Capital Summary/Liquidity

- Strong cash position
  - No Significant Debt Maturities Until 2016
- 25% Net Debt to Net Capital
- 1.1x Net Debt/Adj. TTM EBITDA
- \$600M Revolving Credit Facility - Unutilized
- Access to Commercial Paper - Unutilized

**Strong Cash Flow Performance ...Healthy Balance Sheet Provides Flexibility**

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# 2013 Guidance

## 2013 Key Focus Areas

### Deliver Customer Value

- Customer Excellence
- Xylem Total Care
- Application Expertise

### Drive Growth Initiatives

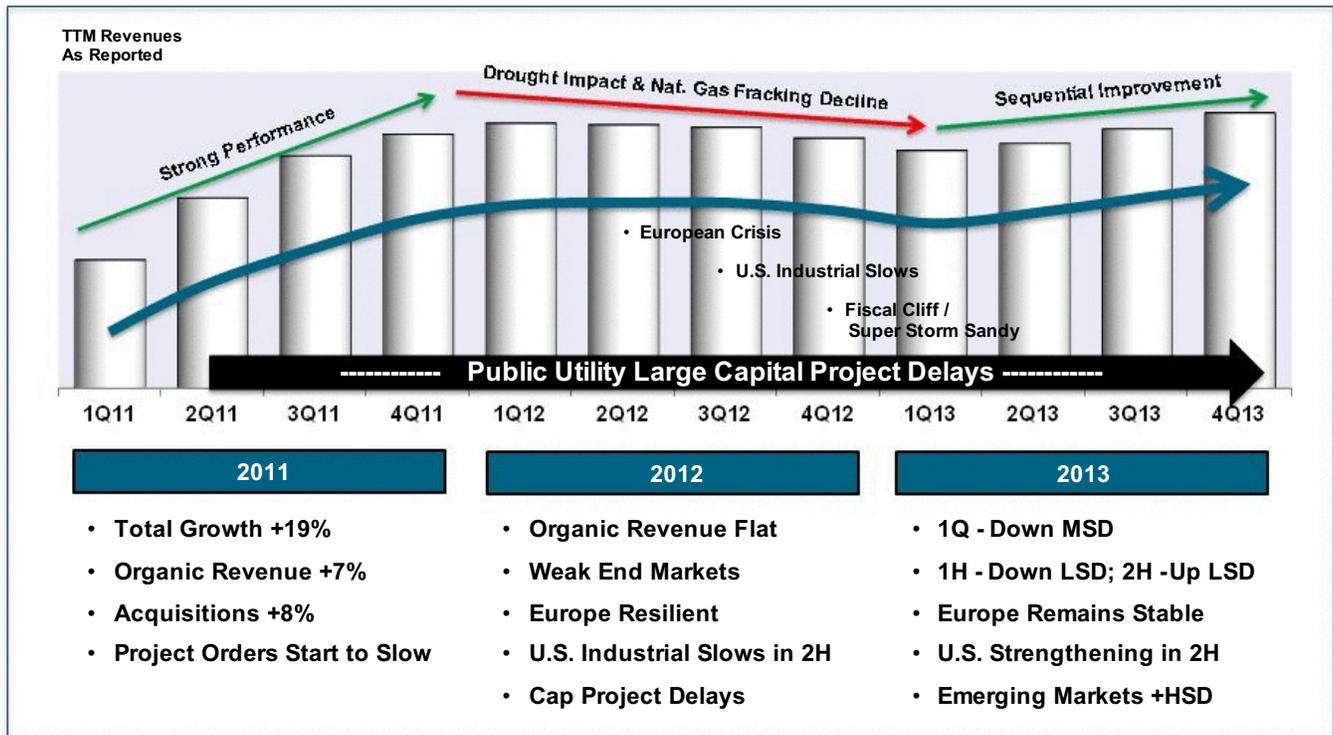
- Deploy Innovative Solutions
- Invest in Growth Platforms
- Accelerate Geographic Expansion

### Improve Business Sustainability

- Cost Structure Optimization
- Business Simplification
- Operational Excellence

**Balanced Goals to Position Xylem for Sustained Profitable Growth**

# Revenue Profile



## Gaining Momentum Through 2013

# End Markets

Projected '13  
XYL Growth



## Industrial

(~ 43% of '12 Revenue)

Flat to Up  
Low Single  
Digit

- U.S. Slight 2H Improvement
- Europe Challenged



## Public Utility

(~ 35% of '12 Revenue)

Flat

- Stable OPEX Market
- No Change in Capital Projects



## Commercial

(~ 11% of '12 Revenue)

Flat to Up  
Low Single  
Digit

- U.S. Flat Through 3Q of '13
- Europe Challenged



## Residential

(~ 8% of '12 Revenue)

Flat to Up  
Low Single  
Digit

- Continued Slow Growth Environment
- U.S. Driven by Replacement



## Agriculture

(~ 3% of '12 Revenue)

Flat

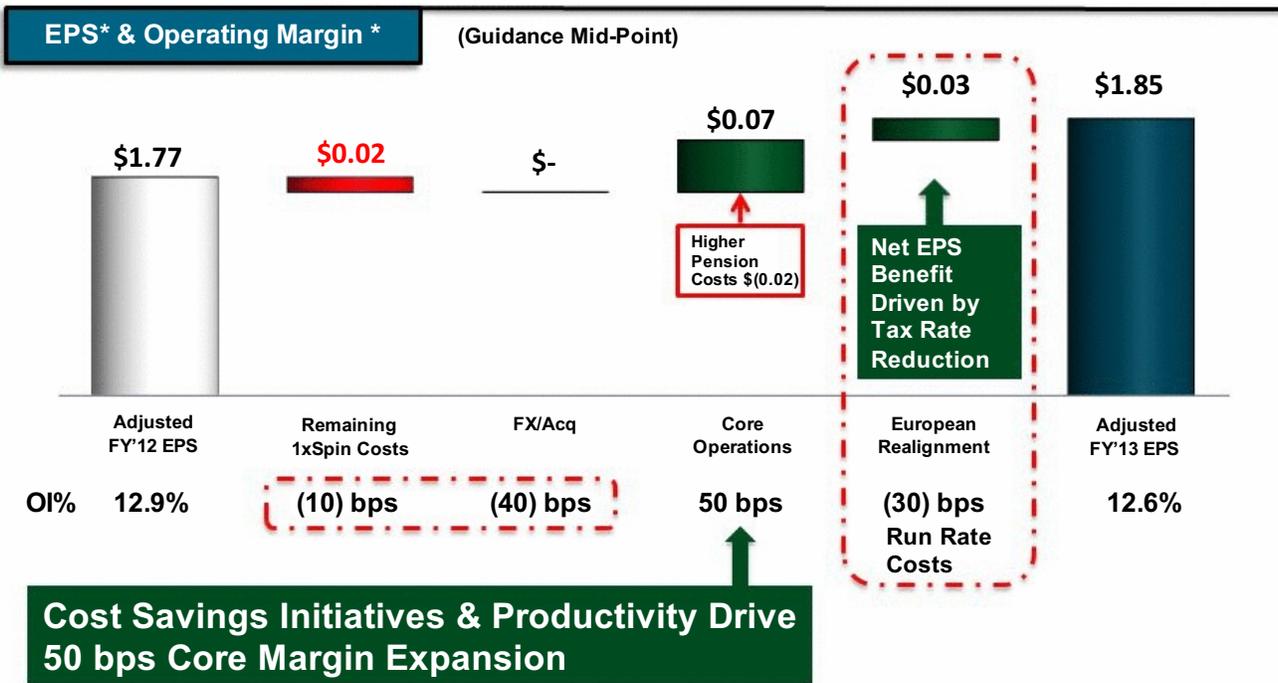
- Tough 2012 Compare in U.S.  
Driven by Drought Conditions

## Challenging Market Conditions Exiting 2012

# 2013 Financial Guidance Summary

	2013 Full Year Financial Outlook	Growth 2013E vs. 2012			
		Total Growth	Organic	Acquisition	FX
<b>Revenue</b>	(Mid-Point)				
Xylem Consolidated	~\$3,915M	~3 - 4%	0 -1%	2%	1%
Water Infrastructure	~\$2,530M	~4 - 5%	0 -1%	3%	1%
Applied Water	~\$1,450M	~1 - 2%	0 -1%	0%	1%
<b>Segment Margin *</b>	13.8% - 14.3%	-50 bps to Flat			
<b>Operating Margin *</b>	12.3% - 12.8%	-60 to -10 bps			
<b>EPS *</b>	\$1.80 - \$1.90	\$1.85 Mid Point			
<b>Free Cash Flow Conversion</b>	~95%	Restructuring Pmts, Realignment Capex, & CHQ Relocation			
<b>Guidance Assumptions:</b>					
Operating Tax Rate	~21%	1H'13 Rate: ~22%; 2H'13 Rate: ~20%			
Share Count	~186.4M	Share Repurchase Program to Maintain Current Share Count			
<b>Items Excluded from EPS:</b>					
Restructuring & Realignment Costs	~\$60M - \$70M	Restructuring Costs: ~\$40M to \$50M			

# 2013 Guidance



## Realignment Delivers Additional EPS Growth ...Top Line Provides Upside

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# Summary

## ✓ 2012 Performance

- **Advanced Our Strategic Position**
- **Deployed Innovative New Products & Services**
- **Delivered Strong Financial Performance Despite Macro Challenges**

## ✓ Looking Ahead to 2013

- **Investing for Long-Term Growth**
- **Restructuring & Realignment Actions Improve Competitive Position & Increase Efficiency & Effectiveness**
- **Strong Financial Position Provides Flexibility**

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# Appendix

# Quarterly Financial Performance

(\$M, Except EPS)	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12
Revenue	3,202	890	971	939	1,003	3,803	925	966	931	969	3,791
COGS	1,988	553	592	574	623	2,342	562	583	557	587	2,289
Gross Profit	1,214	337	379	365	380	1,461	363	383	374	382	1,502
SG&A	737	210	219	215	233	877	231	220	231	232	914
R&D	74	24	26	23	27	100	28	28	24	26	106
Separation Costs	-	3	18	46	20	87	5	6	4	7	22
Restructuring & Asset Impairment Charges, net	15	-	-	2	-	2	-	-	4	13	17
Op Income	388	100	116	79	100	395	99	129	111	104	443
Interest Expense	-	-	1	1	15	17	14	13	14	14	55
Other Non-Op	-	1	-	4	-	5	(1)	(1)	3	(1)	-
Income before Tax	388	101	115	82	85	383	84	115	100	89	388
Tax	59	23	43	5	33	104	21	26	28	16	91
Net Income	329	78	72	77	52	279	63	89	72	73	297
EPS –Diluted *	\$1.78	\$0.42	\$0.39	\$0.42	\$0.28	\$1.50	\$0.34	\$0.48	\$0.38	\$0.39	\$1.59

\* On October 31, 2011, Xylem Inc. completed the spin-off through a tax-free stock dividend to ITT Corporation's shareholders. ITT Corporation shareholders received one share of our common stock for each share of ITT common stock. As a result on October 31, 2011, we had 184.6 million shares of common stock outstanding and this share amount is being utilized to calculate earnings per share for all periods presented prior to the spin-off.

# 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 separation costs associated with the Xylem spin-off from ITT Corporation as well as non-recurring restructuring and realignment costs.

**"Adjusted Operating Income", "Adjusted Segment Operating Income", and "Adjusted EPS"** defined as operating income and earnings per share, adjusted to exclude non-recurring separation costs associated with the Xylem spin-off from ITT Corporation, non-recurring restructuring and realignment costs and tax-related special items.

**"Normalized EPS"** defined as adjusted earnings per share, as well as adjustments to reflect the incremental current period amount of interest expense and stand alone costs in the prior comparable period.

**"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.

# Non-GAAP Reconciliation: Organic & Constant Currency Revenue Growth

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) = (B+D)/A
	Revenue 2012	Revenue 2011	Change 2012 v. 2011	% Change 2012 v. 2011	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2012 v. 2011	% Change Adj. 2012 v. 2011		
<b>Year Ended December 31, 2012</b>											
Xylem Inc.	3,791	3,803	(12)	-0.3%	(94)	108	-	2	0.1%	2.5%	
Water infrastructure	2,425	2,416	9	0.4%	(94)	80	(1)	(6)	-0.2%	3.7%	
Applied Water	1,424	1,444	(20)	-1.4%	-	32	(3)	9	0.6%	0.8%	
<b>Quarter Ended December 31, 2012</b>											
Xylem Inc.	969	1,003	(34)	-3.4%	(7)	7	-	(34)	-3.4%	-2.7%	
Water Infrastructure	637	679	(42)	-6.2%	(7)	5	(1)	(45)	-6.6%	-5.4%	
Applied Water	346	336	10	3.0%	-	2	-	12	3.6%	3.6%	
<b>Quarter Ended September 30, 2012</b>											
Xylem Inc.	931	939	(8)	-0.9%	(21)	38	-	9	1.0%	3.2%	
Water infrastructure	595	584	11	1.9%	(21)	28	-	18	3.1%	6.7%	
Applied Water	350	368	(18)	-4.9%	-	12	(2)	(8)	-2.2%	-1.6%	
<b>Quarter Ended June 30, 2012</b>											
Xylem Inc.	966	971	(5)	-0.5%	(32)	49	-	12	1.2%	4.5%	
Water infrastructure	609	602	7	1.2%	(32)	37	(1)	11	1.8%	7.3%	
Applied Water	373	385	(12)	-3.1%	-	13	(1)	-	0.0%	0.3%	
<b>Quarter Ended March 31, 2012</b>											
Xylem Inc.	925	890	35	3.9%	(34)	14	-	15	1.7%	5.5%	
Water infrastructure	584	551	33	6.0%	(34)	10	1	10	1.8%	7.8%	
Applied Water	355	355	-	0.0%	-	5	-	5	1.4%	1.4%	

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

# Non-GAAP Reconciliation: Organic & Constant Currency Order Growth

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) = (B + D) / A		
	Orders 2012	Orders 2011	Change 2012 v. 2011	% Change 2012 v. 2011	Acquisitions / Divestitures	FX Contribution	Eliminations	Change Adj. 2012 v. 2011	% Change Adj. 2012 v. 2011	
<b>Year Ended December 31, 2012</b>										
<b>Xylem Inc.</b>	3,782	3,847	(65)	-1.7%	(95)	114	-	(46)	-1.2%	1.3%
Water infrastructure	2,421	2,454	(33)	-1.3%	(95)	87	1	(40)	-1.6%	2.2%
Applied Water	1,423	1,452	(29)	-2.0%	-	31	(8)	(6)	-0.4%	0.1%
<b>Quarter Ended December 31, 2012</b>										
<b>Xylem Inc.</b>	926	905	21	2.3%	(7)	6	-	20	2.2%	3.0%
Water infrastructure	602	589	13	2.2%	(7)	5	1	12	2.0%	3.1%
Applied Water	337	330	7	2.1%	-	1	-	8	2.4%	2.4%
<b>Quarter Ended September 30, 2012</b>										
<b>Xylem Inc.</b>	882	966	(84)	-8.7%	(21)	39	-	(66)	-6.8%	-4.7%
Water infrastructure	564	621	(57)	-9.2%	(21)	29	-	(49)	-7.9%	-4.5%
Applied Water	334	358	(24)	-6.7%	-	12	(5)	(17)	-4.7%	-3.4%
<b>Quarter Ended June 30, 2012</b>										
<b>Xylem Inc.</b>	970	998	(28)	-2.8%	(30)	51	-	(7)	-0.7%	2.3%
Water infrastructure	617	632	(15)	-2.4%	(30)	40	-	(5)	-0.8%	4.0%
Applied Water	370	383	(13)	-3.4%	-	13	(2)	(2)	-0.5%	0.0%
<b>Quarter Ended March 31, 2012</b>										
<b>Xylem Inc.</b>	1,004	978	26	2.7%	(37)	18	-	7	0.7%	4.5%
Water infrastructure	638	612	26	4.2%	(37)	13	-	2	0.3%	6.4%
Applied Water	382	381	1	0.3%	-	5	(1)	5	1.3%	1.6%

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

# Non-GAAP Reconciliation: Adjusted Diluted EPS

Xylem Inc. Non-GAAP Reconciliation  
Adjusted Diluted EPS  
2012 and 2011  
(\$ Millions, except per share amounts)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	YTD 2012
Net Income	63	89	72	73	297
Separation Costs, Net of Tax	4	4	3	5	16
Restructuring & Realignment, Net of Tax	-	-	4	13	17
<b>Adjusted Net Income before Special Tax Items</b>	<b>67</b>	<b>93</b>	<b>79</b>	<b>91</b>	<b>330</b>
Special Tax Items	-	(1)	4	(3)	-
<b>Adjusted Net Income</b>	<b>67</b>	<b>92</b>	<b>83</b>	<b>88</b>	<b>330</b>
Diluted Earnings per Share	\$0.34	\$0.48	\$0.38	\$0.39	\$1.59
Separation Costs per Share	\$0.02	\$0.02	\$0.02	\$0.03	\$0.09
Restructuring & Realignment Costs per Share	\$0.00	\$0.00	\$0.02	\$0.07	\$0.09
<b>Adjusted Diluted EPS before Special Tax Items</b>	<b>\$0.36</b>	<b>\$0.50</b>	<b>\$0.42</b>	<b>\$0.49</b>	<b>\$1.77</b>
Special Tax Items per Share	\$0.00	(\$0.01)	\$0.02	(\$0.02)	\$0.00
<b>Adjusted Diluted EPS</b>	<b>\$0.36</b>	<b>\$0.49</b>	<b>\$0.44</b>	<b>\$0.47</b>	<b>\$1.77</b>

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	YTD 2011
Net Income	78	72	77	52	279
Separation Costs, Net of Tax	2	27	25	18	72
<b>Adjusted Net Income before Special Tax Items</b>	<b>80</b>	<b>99</b>	<b>102</b>	<b>70</b>	<b>351</b>
Special Tax Items	-	4	(1)	4	7
<b>Adjusted Net Income</b>	<b>80</b>	<b>103</b>	<b>101</b>	<b>74</b>	<b>358</b>
Diluted Earnings per Share	\$0.42	\$0.39	\$0.42	\$0.28	\$1.50
Separation Costs per Share	\$0.01	\$0.15	\$0.13	\$0.10	\$0.39
<b>Adjusted Diluted EPS before Special Tax Items</b>	<b>\$0.43</b>	<b>\$0.54</b>	<b>\$0.55</b>	<b>\$0.38</b>	<b>\$1.89</b>
Special Tax Items per Share	\$0.00	\$0.02	(\$0.01)	\$0.02	\$0.04
<b>Adjusted Diluted EPS</b>	<b>\$0.43</b>	<b>\$0.56</b>	<b>\$0.54</b>	<b>\$0.40</b>	<b>\$1.93</b>

# Non-GAAP Reconciliation: Normalized and Adjusted EPS

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

	Q4 2011					Q4 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	1,003		1,003		1,003	969		969
Operating Income	100	20 a	120	(2) c	118	104	26 f	130
Operating Margin	10.0%		12.0%		11.8%	10.7%		13.4%
Interest Expense	(15)		(15)		(15)	(14)		(14)
Other Non-Operating Income (Expense)	-		-		-	(1)		(1)
Income before Taxes	85	20	105	(2)	103	89	26	115
Provision for Income Taxes	(33)	2 b	(31)	0 e	(31)	(16)	(11) g	(27)
Net Income	52	22	74	(2)	72	73	15	88
Diluted Shares	185.3		185.3		185.3	186.5		186.5
<b>Diluted EPS</b>	<b>\$ 0.28</b>	<b>\$ 0.12</b>	<b>\$ 0.40</b>	<b>\$ (0.01)</b>	<b>\$ 0.39</b>	<b>\$ 0.39</b>	<b>\$ 0.08</b>	<b>\$ 0.47</b>

	YTD 2011					YTD 2012		
	As Reported	Adjustments	Adjusted	Adjustments	Normalized	As Reported	Adjustments	Adjusted
Total Revenue	3,803		3,803		3,803	3,791		3,791
Operating Income	395	87 a	482	(28) c	454	443	46 f	489
Operating Margin	10.4%		12.7%		11.9%	11.7%		12.9%
Interest Expense	(17)		(17)	(39) d	(56)	(55)		(55)
Other Non-Operating Income (Expense)	5		5		5	-		-
Income before Taxes	383	87	470	(67)	403	388	46	434
Provision for Income Taxes	(104)	(8) b	(112)	16 e	(96)	(91)	(13) g	(104)
Net Income	279	79	358	(51)	307	297	33	330
Diluted Shares	185.3		185.3		185.3	186.2		186.2
<b>Diluted EPS</b>	<b>\$ 1.50</b>	<b>\$ 0.43</b>	<b>\$ 1.93</b>	<b>\$ (0.27)</b>	<b>\$ 1.66</b>	<b>\$ 1.59</b>	<b>\$ 0.18</b>	<b>\$ 1.77</b>

- a One time separation costs
- b Net tax impact of above items, plus the addition of 2011 special tax items
- c Incremental stand alone costs incurred in 2012
- d Incremental interest expense on long-term debt incurred in 2012
- e Incremental interest expense and stand alone costs incurred in 2012 tax affected using the 2011 effective tax rate, as adjusted
- f One time separation, restructuring & realignment costs
- g Tax impact of one time separation, restructuring & realignment costs and special tax items

## Non-GAAP Reconciliation: Operating Income

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

	Q4		YTD	
	'12	'11	'12	'11
Total Revenue				
• Total Xylem	969	1,003	3,791	3,803
• Water Infrastructure	637	679	2,425	2,416
• Applied Water	346	336	1,424	1,444
Operating Income				
• Total Xylem	104	100	443	395
• Water Infrastructure	89	98	342	343
• Applied Water	35	27	170	160
Operating Margin				
• Total Xylem	10.7%	10.0%	11.7%	10.4%
• Water Infrastructure	14.0%	14.4%	14.1%	14.2%
• Applied Water	10.1%	8.0%	11.9%	11.1%
Separation Costs				
• Total Xylem	7	20	22	87
• Water Infrastructure	1	6	4	16
• Applied Water	-	4	2	13
Restructuring & Realignment Costs				
• Total Xylem	19	-	24	-
• Water Infrastructure	15	-	19	-
• Applied Water	5	-	5	-
Adjusted Operating Income*				
• Total Xylem	130	120	489	482
• Water Infrastructure	105	104	365	359
• Applied Water	40	31	177	173
Adjusted Operating Margin*				
• Total Xylem	13.4%	12.0%	12.9%	12.7%
• Water Infrastructure	16.5%	15.3%	15.1%	14.9%
• Applied Water	11.6%	9.2%	12.4%	12.0%

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

## Non-GAAP Reconciliation: Free Cash Flow

Xylem Inc. Non-GAAP Reconciliation  
 Net Cash - Operating Activities vs. Free Cash Flow  
 Years Ended December 31, 2012 and 2011  
 (\$ Millions)

	Year Ended	
	2012	2011
<b>Net Cash - Operating Activities</b>	396	449
Capital Expenditures	(112)	(126)
Free Cash Flow, including separation costs	284	323
Cash Paid for Separation Costs (incl. Capex)	28	65
<b>Free Cash Flow, excluding separation costs</b>	<u>312</u>	<u>388</u>
Net Income	297	279
Separation Costs, net of tax (incl. tax friction)	16	72
<b>Adjusted Net Income</b>	<u>313</u>	<u>351</u>
<b>Free Cash Flow Conversion</b>	<u>100%</u>	<u>111%</u>

## Non-GAAP Reconciliation: Xylem EBITDA & Adj. EBITDA

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

	2012				
	Q1	Q2	Q3	Q4	YTD
Income Before Taxes	84	115	100	89	388
Interest Expense (Income), net	13	13	12	13	51
Depreciation	23	21	24	26	94
Amortization	11	12	12	13	48
Stock Compensation	5	5	6	6	22
<b>EBITDA</b>	<b>136</b>	<b>166</b>	<b>154</b>	<b>147</b>	<b>603</b>
Separation Costs	5	6	4	7	22
Restructuring & Realignment Costs	-	-	5	19	24
<b>Adjusted EBITDA</b>	<b>141</b>	<b>172</b>	<b>163</b>	<b>173</b>	<b>649</b>
Revenue	925	966	931	969	3,791
<b>Adjusted EBITDA Margin</b>	<b>15.2%</b>	<b>17.8%</b>	<b>17.5%</b>	<b>17.9%</b>	<b>17.1%</b>
	2011				
	Q1	Q2	Q3	Q4	YTD
Income Before Taxes	101	115	82	85	383
Interest Expense (Income), net	-	-	1	16	17
Depreciation	22	25	25	21	93
Amortization	11	10	11	12	44
Stock Compensation	3	2	2	6	13
<b>EBITDA</b>	<b>137</b>	<b>152</b>	<b>121</b>	<b>140</b>	<b>550</b>
Separation Costs	3	18	46	20	87
<b>Adjusted EBITDA</b>	<b>140</b>	<b>170</b>	<b>167</b>	<b>160</b>	<b>637</b>
Revenue	890	971	939	1,003	3,803
<b>Adjusted EBITDA Margin</b>	<b>15.7%</b>	<b>17.5%</b>	<b>17.8%</b>	<b>16.0%</b>	<b>16.7%</b>

## Non-GAAP Reconciliation: Water Infrastructure EBITDA & Adj. EBITDA

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

	Q1	Q2	2012		YTD
			Q3	Q4	
Income Before Taxes	75	93	86	88	342
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	16	15	17	20	68
Amortization	10	9	10	10	39
Stock Compensation	1	1	3	-	5
<b>EBITDA</b>	<b>102</b>	<b>118</b>	<b>115</b>	<b>118</b>	<b>453</b>
Separation Costs	2	1	-	1	4
Restructuring & Realignment Costs	-	-	4	15	19
<b>Adjusted EBITDA</b>	<b>104</b>	<b>119</b>	<b>119</b>	<b>134</b>	<b>476</b>
Revenue	584	609	595	637	2,425
Adjusted EBITDA Margin	17.8%	19.5%	20.0%	21.1%	19.6%
			2011		
	Q1	Q2	Q3	Q4	YTD
Income Before Taxes	65	93	88	99	345
Interest Expense (Income), net	-	-	(1)	-	(1)
Depreciation	16	19	19	14	68
Amortization	9	9	9	9	36
Stock Compensation	-	-	1	1	2
<b>EBITDA</b>	<b>90</b>	<b>121</b>	<b>116</b>	<b>123</b>	<b>450</b>
Separation Costs	-	2	8	6	16
<b>Adjusted EBITDA</b>	<b>90</b>	<b>123</b>	<b>124</b>	<b>129</b>	<b>466</b>
Revenue	551	602	584	679	2,416
Adjusted EBITDA Margin	16.3%	20.4%	21.2%	19.0%	19.3%

## Non-GAAP Reconciliation: Applied Water EBITDA & Adj. EBITDA

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

	2012				
	Q1	Q2	Q3	Q4	YTD
Income Before Taxes	40	52	43	35	170
Interest Expense (Income), net	-	-	-	-	-
Depreciation	6	6	6	5	23
Amortization	1	1	1	2	5
Stock Compensation	1	-	2	(1)	2
<b>EBITDA</b>	<b>48</b>	<b>59</b>	<b>52</b>	<b>41</b>	<b>200</b>
Separation Costs	1	-	1	-	2
Restructuring & Realignment Costs	-	-	-	5	5
<b>Adjusted EBITDA</b>	<b>49</b>	<b>59</b>	<b>53</b>	<b>46</b>	<b>207</b>
Revenue	355	373	350	346	1,424
Adjusted EBITDA Margin	13.8%	15.8%	15.1%	13.3%	14.5%
	2011				
	Q1	Q2	Q3	Q4	YTD
Income Before Taxes	46	51	37	25	159
Interest Expense (Income), net	-	-	-	-	-
Depreciation	6	6	6	7	25
Amortization	2	1	2	1	6
Stock Compensation	-	-	1	1	2
<b>EBITDA</b>	<b>54</b>	<b>58</b>	<b>46</b>	<b>34</b>	<b>192</b>
Separation Costs	-	-	9	4	13
<b>Adjusted EBITDA</b>	<b>54</b>	<b>58</b>	<b>55</b>	<b>38</b>	<b>205</b>
Revenue	355	385	368	336	1,444
Adjusted EBITDA Margin	15.2%	15.1%	14.9%	11.3%	14.2%

# Non-GAAP Reconciliation: Guidance

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

## 2013 Guidance

## Illustration of Mid Point Guidance

	FY '12			FY '13		
	As Reported	Adjustments	Adjusted	As Projected	Adjustments	Adjusted
Total Revenue	3,791		3,791	3,915		3,915
Segment Operating Income	512	30 a	542	487	65 d	552
Segment Operating Margin	13.5%		14.3%	12.4%		14.1%
Corporate Expense	69	(16) b	53	59	-	59
Operating Income	443	46	489	428	65	493
Operating Margin	11.7%		12.9%	10.9%		12.6%
Interest Expense	(55)		(55)	(55)		(55)
Other Non-Operating Income (Expense)	-		-	(2)		(2)
Income before Taxes	388	46	434	371	65	436
Provision for Income Taxes	(91)	(13) c	(104)	(73)	(19) c	(92)
Net Income	297	33	330	298	46	344
Diluted Shares	186.2		186.2	186.4		186.4
<b>Diluted EPS</b>	<b>\$ 1.59</b>	<b>\$ 0.18</b>	<b>\$ 1.77</b>	<b>\$ 1.60</b>	<b>\$ 0.25</b>	<b>\$ 1.85</b>

a One time separation, restructuring and realignment costs incurred at the segment level

b One time separation, restructuring and realignment costs incurred at the corporate level

c Net tax impact of above items, plus the addition of special tax items

d Restructuring and realignment costs incurred at the segment level

## Non-GAAP Reconciliation: Adj. Operating Income & Margin

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

	2008	2009	2010	2011	2012	Mid Point Guidance 2013E
Revenue	3,291	2,849	3,202	3,803	3,791	3,915
Operating Income	315	276	388	395	443	428
Operating Margin	9.6%	9.7%	12.1%	10.4%	11.7%	10.9%
Restructuring & Realignment Separation Costs	41 -	31 -	15 -	- 87	24 22	65 -
Adjusted Operating Income	356	307	403	482	489	493
Adjusted Operating Margin	10.8%	10.8%	12.6%	12.7%	12.9%	12.6%
Standalone Costs	-	-	-	5	28	-
Adj. Operating Income, excl. Standalone Costs	356	307	403	487	517	493
Adjusted Operating Margin, excl. Standalone Costs	10.8%	10.8%	12.6%	12.8%	13.6%	12.6%

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# xylem

Let's Solve Water

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