

XYLEM INC.

Q3 2017 EARNINGS RELEASE

OCTOBER 31, 2017



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

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

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions, including the integration of Sensus; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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

Q3'17 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q3 2017	Adjusted* Q3 2017	GAAP YTD Q3 2017	Adjusted* YTD Q3 2017
Xylem Consolidated				
Revenue	1,195	1,195	3,430	3,430
Overall Growth	+33%	+33%	+28%	+28%
Constant Currency Growth		+31%		+28%
Pro Forma Organic Growth		+5%		+2%
Organic Growth		+5%		+2%
Operating Income	152	169	377	436
Operating Margin	12.7%	14.1%	11.0%	12.7%
Earnings per Share	0.58	0.65	1.44	1.64
Segment Results				
Water Infrastructure				
Revenue	520	520	1,421	1,421
Overall Growth	+9%	+9%	+1%	+1%
Constant Currency Growth		+7%		+2%
Organic Growth		+7%		+2%
Operating Income	91	94	205	217
Operating Margin	17.5%	18.1%	14.4%	15.3%
Applied Water				
Revenue	354	354	1,048	1,048
Overall Growth	+3%	+3%	+1%	+1%
Constant Currency Growth		+2%		+1%
Organic Growth		+2%		+2%
Operating Income	51	56	136	155
Operating Margin	14.4%	15.8%	13.0%	14.8%
Measurement & Control Solutions				
Revenue	321	321	961	961
Overall Growth	+322%	+322%	+314%	+314%
Constant Currency Growth		+313%		+311%
Pro Forma Organic Growth		+5%		+4%
Operating Income	26	31	80	99
Operating Margin	8.1%	9.7%	8.3%	10.3%

Earnings Call Notes:

- All references today will be on an adjusted basis unless otherwise indicated.
- Non-GAAP financials are reconciled in the appendix section of the presentation.

KEY MESSAGES

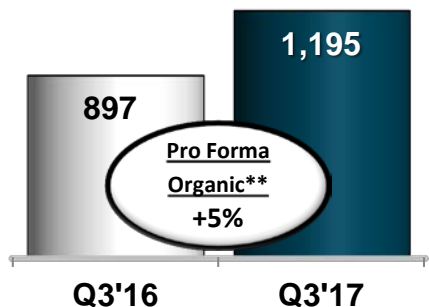
- **Strong 3Q performance, on track to deliver on our 2017 commitments**
 - +5% Pro Forma Organic* Growth ... In-line with previous guide
 - +5% Base Xylem Organic* Revenue Growth
 - +5% Sensus Pro Forma Organic* Revenue Growth
 - Adj. Op Margin* of 14.1%, up 20 bps ex. Sensus amortization
 - Adj. EBITDA* of 19.2%, up 20 bps (reflecting strong operational and Sensus performance)
 - Adj. EPS* of \$0.65, up 20%
- **Momentum in top line growth sets stage for strong 2017 finish**
 - Public Utility markets return to growth despite tough PY comp (+10% in 3Q 2016)
 - Industrial market momentum builds; Comm. & Resi continue outperformance
 - Organic* Orders growth +6%; growing backlog positions us well for 2018
 - Solid Sensus revenue and orders performance reinforce confidence in 4Q and beyond
- **Raising midpoint of FY'17 EPS guide ... Adj. EPS range now \$2.39 to \$2.41**

POSITIONED TO DELIVER ON OUR 2017 COMMITMENTS

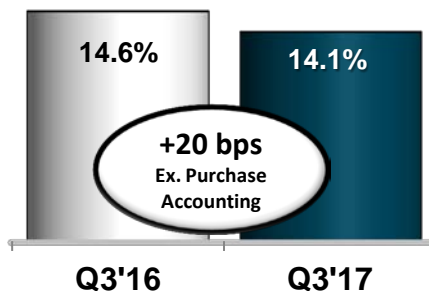
Q3'17 XYLEM PERFORMANCE

(Dollars, in Millions, except EPS)

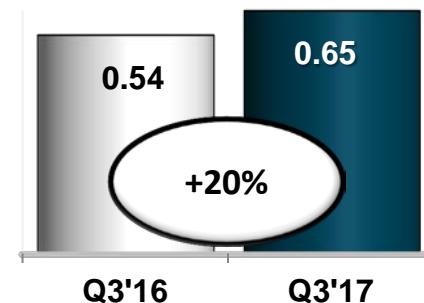
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Adj. EBITDA* 19.0% 19.2%

Key Performance Drivers

- Base Xylem organic revenue +5%; Sensus delivers +5%
- Strength across all end markets led by building momentum in Industrial and return to growth in Public Utility; Commercial and Residential continue strong 2017 performance
- Productivity and Growth fund investments and offset inflation and unfavorable mix
 - Cost reductions drive 330 bps Op Margin expansion (EPS +\$0.17)
 - Cost inflation reduces Adj. Op Margin by 190 bps (EPS -\$0.10)
 - Sensus Amortization reduces Adj. Op Margin by 70 bps (EPS -\$0.03)
 - Vol/price/mix/other/Acq. reduces Adj. Op Margin by 120 bps (EPS +\$0.10)
 - Incremental Interest expense (EPS -\$0.03)

Other: Tax Rate* 20.8% Share Count 180.9M

Organic Growth

By End Market

Industrial	+4%
Public Utility	+4%
Commercial	+9%
Residential	+5%

Organic Growth

By Region

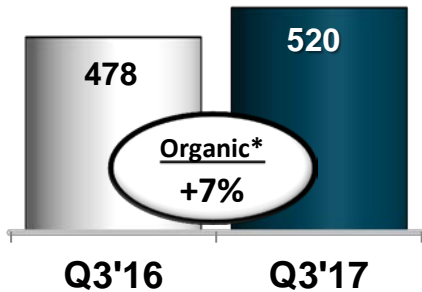
U.S.	+5%
W. Europe	+3%
Emerging Mkts	+8%

MARKET MOMENTUM AND TRACTION WITH PRODUCTIVITY INITIATIVES DRIVE STRONG 3Q PERFORMANCE

Q3'17 WATER INFRASTRUCTURE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

Transport	+6%
Treatment	+14%

By Regions

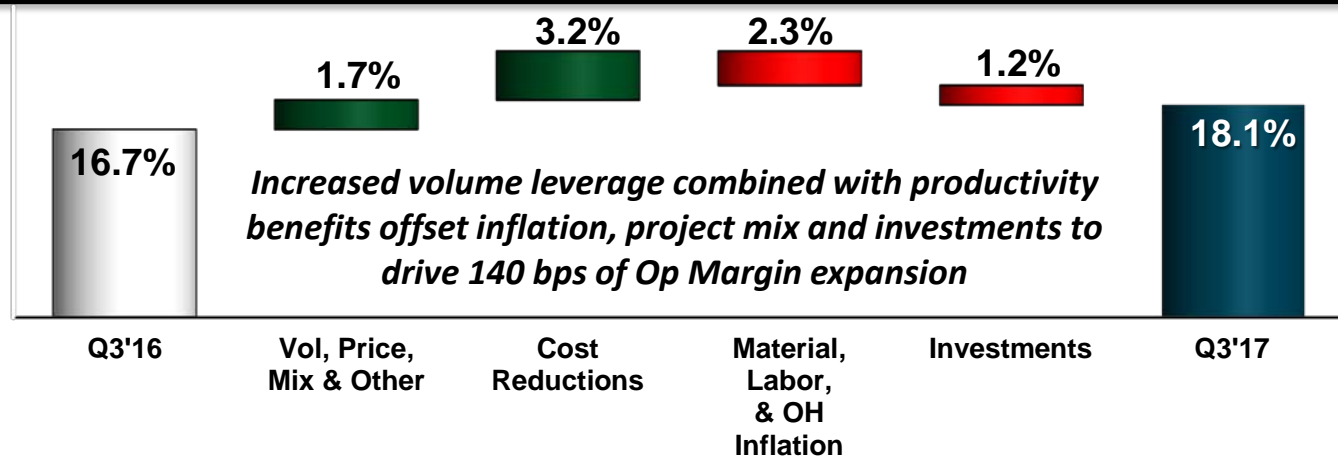
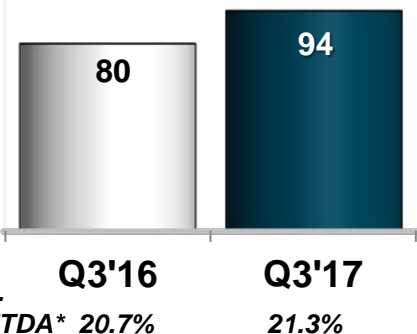
Emerging	+16%
U.S.	+9%
Canada	+26%
W. Europe	Flat

Highlights

- + Public Utility returns to growth driven by strong Treatment project deliveries as well as continued solid WW Transport performance
- + Recovery in Industrial continues from HSD growth in Dewatering from uptick in O&G and Mining markets primarily in the U.S., Canada & Emerging Markets
- + Healthy outlook with (+5%) orders growth and building backlog heading into 2018

ADJ. OP INCOME*

(Dollars, In Millions)

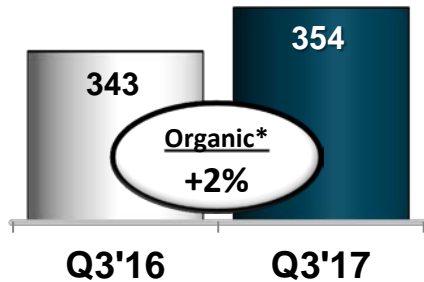


HEALTHY GROWTH IN END MARKETS AND OPERATIONAL EXECUTION DRIVE STRONG MARGIN PERFORMANCE

Q3'17 APPLIED WATER

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

Commercial	+9%
Residential	+5%
Industrial Water	-4%

By Regions

W. Europe	+7%
U.S.	+1%
Emerging	-3%

Highlights

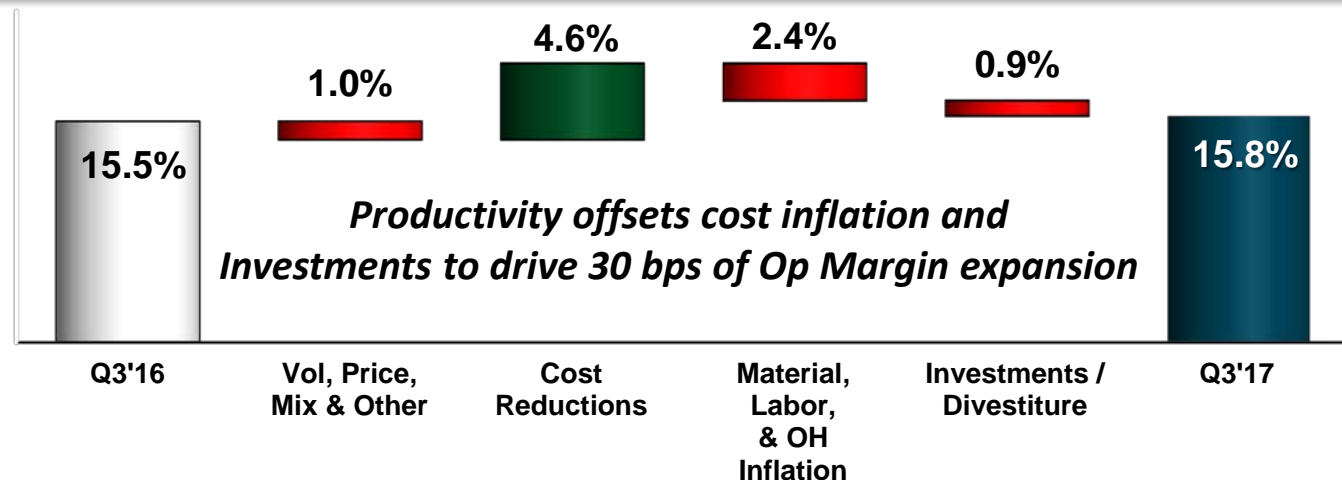
- + Strength in Commercial from book and ship business in U.S. & healthy growth in Europe and China
- + Residential market strength continues driven by strength in China for secondary water supply as well as U.S. promos and share gains
- Weakness in Industrial relates to Agriculture business (-40%) from unfavorable weather conditions in the U.S.
- + Strong Orders growth (+9%) including key large project wins for delivery in 2018

ADJ. OP INCOME*

(Dollars, In Millions)



Adj. EBITDA* 17.2% (Q3'16) 18.1% (Q3'17)



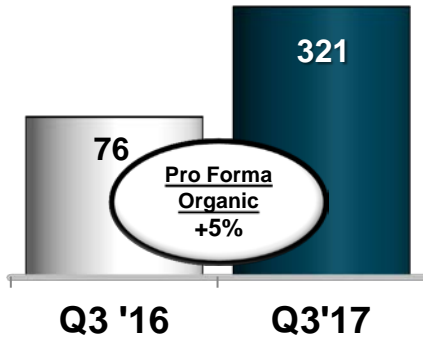
**STRONG EXECUTION IN MARKETS AND OPERATIONS
ENABLE REVENUE GROWTH AND MARGIN EXPANSION**

Q3'17 MEASUREMENT & CONTROL SOLUTIONS (MCS)

Note: Formerly Sensus & Analytics Segment

REVENUE

(Dollars, In Millions)



Pro Forma Organic* Growth Highlights

By Application

Smart Electric	+61%
Smart Water	-11%
Smart Gas	+13%
Saas/Other	+47%
Test	+5%

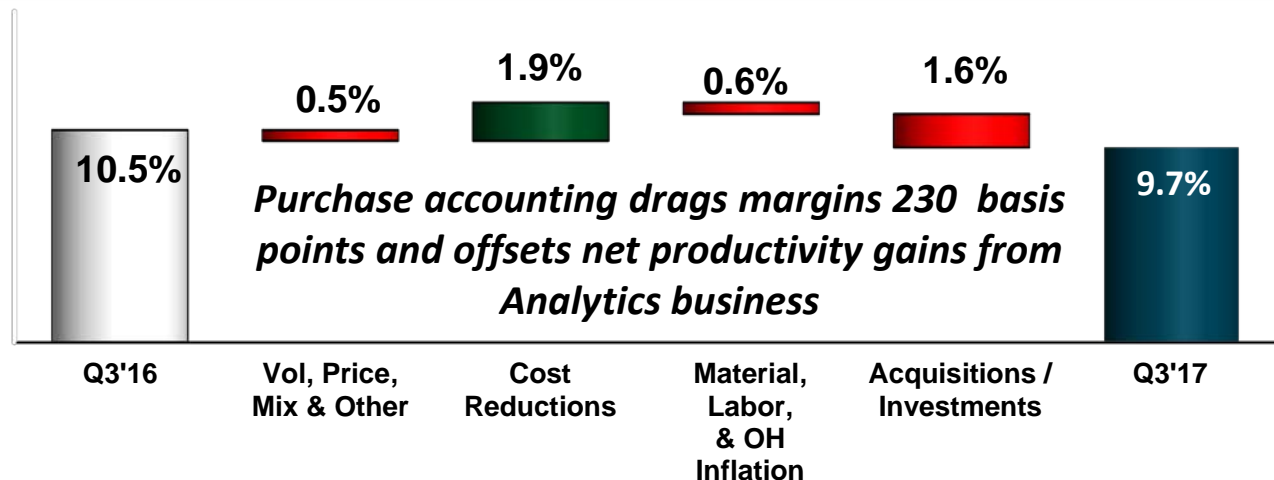
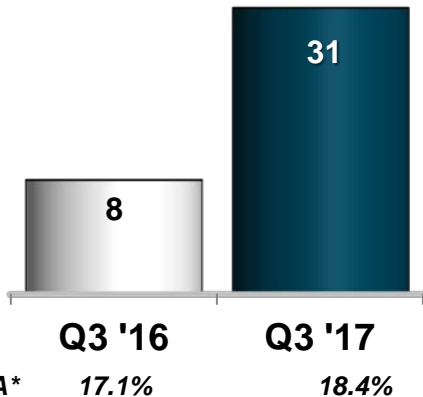
- + Strength in Electric from continued traction with new product (Stratus) and Alliant project deployment
- Softness in Water due to challenging PY comps (re-stocking of iPerl in NA) and battery supply shortage
- + Growth in Test from strong environmental monitoring business in NA

By Regions

U.S.	+7%
Emerging	+5%
W. Europe	-12%

- + Orders up double digits in Sensus; up 4% in Analytics

ADJ. OP INCOME*

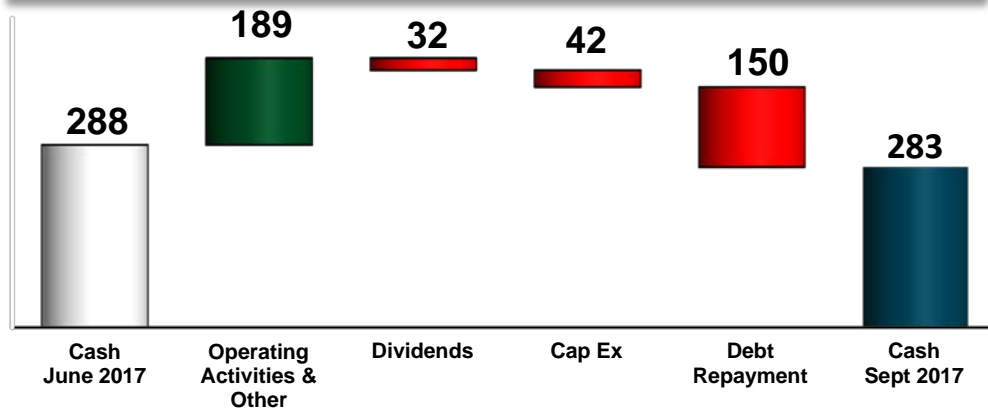


STRONG REVENUE & ORDER PERFORMANCE AS TEAM CONTINUES TO INVEST FOR REVENUE SYNERGIES

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

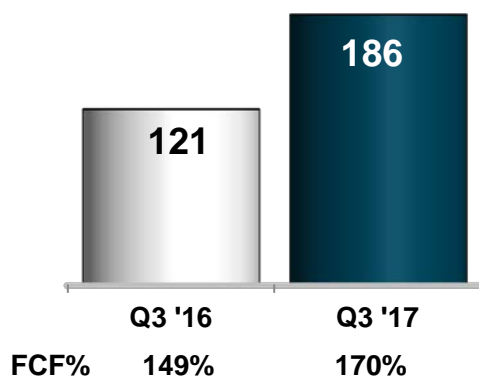


CAPITAL SUMMARY

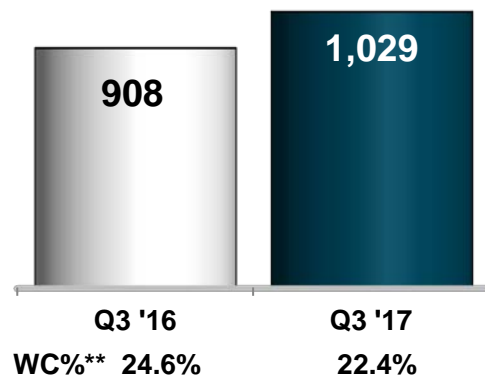
September 30, 2017

Cash	283
Debt	2,286
Net Debt	2,003
Shareholders' Equity	2,463
Net Capital	4,466
Net Debt to Net Capital	45%

FREE CASH FLOW*



WORKING CAPITAL

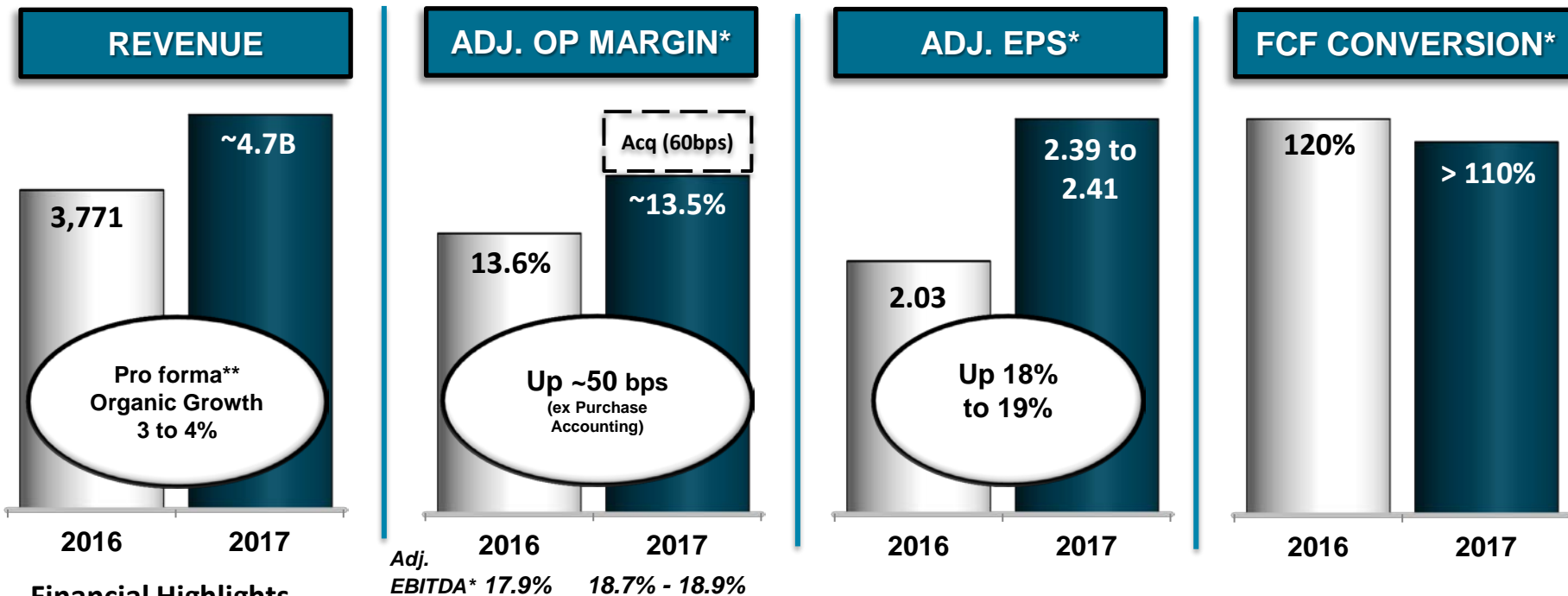


Financial Highlights

- Solid FCF generation / conversion
 - 3Q FCF increase of 54%
 - Strong YTD conversion (101%)
 - On-track for >110% FY'17 Plan
- Working Capital improves 220 bps
- Committed to maintaining Investment Grade Credit (BBB/Baa2)

2017 OUTLOOK

(Dollars, In Millions, except EPS)



Financial Highlights

- Updating previous FY guidance to reflect FX favorability ... EUR/USD assumption to 1.17 (from 1.15)
- Xylem Pro Forma Organic growth of 3 to 4% (No Change)
 - Xylem's base Organic Revenue growth of ~3% (from 2% to 3%); Sensus Pro Forma Organic Growth of 6% to 7%
- Expecting strong underlying Op Margin expansion; On track to deliver long-term targets (ex. Purchase Accounting)
- Adjusted EPS now expected to be in the range of \$2.39 to \$2.41 (previously \$2.30 to \$2.40)

IMPROVING MARKET PERFORMANCE REINFORCES REVENUE AND EPS GROWTH ... EXECUTION & PRODUCTIVITY FOCUS DRIVES STRONG OP MARGIN EXPANSION

2017 END MARKET OUTLOOK



Public Utility (~47% of 2016 Pro Forma Revenue)

- 2017 Pro Forma Organic Growth: **Up Low to Mid Single Digits**
- Base Xylem Org. Growth: +LSD; Sensus Org. Growth: +6% to 7%
- Tough '16 compare mutes U.S. growth
- Project activity fuels growth in Em. Markets (Largely China and India)



Industrial (~37% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: **Up Low Single Digits**
- Soft U.S. market conditions in 1H; Acceleration in 2H
- O&G stabilizing in North America into 2H; Mining recovering
- Mixed Emerging Market conditions



Commercial (~11% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: **Up Mid Single Digits**
- Strong U.S. position; Architecture Billings Index above 50 during most of 2017 suggests stable low-growth market
- EU growth from new energy efficient products and sales channel investments



Residential (~5% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: **Up High Single Digits**
- Competitive U.S. market; replacement driven demand
- Market share gains from channel disruption
- Improving EU market outlook based on increased residential building permitting; Demand in China for 2nd water supply

2017 OUTLOOK

Mid-Point Update Illustration	ADJ. EPS*
Previous Guidance	\$2.35
FX Translation in 2H	+ \$0.02
Operational gain in 3Q	+ \$0.01
Operational Execution in 4Q	+ \$0.02
New Mid-Point Guidance	\$2.40

<u>Other Assumptions:</u>	<u>YTD</u>	<u>4Q'17</u>
Xylem Pro Forma Growth	+2%	+5 to 6%
Water Infrastructure	+2%	+4 to 5%
Applied Water	+2%	+5 to 6%
Measurement & Control Solutions	+4%	+8 to 9%
FX Euro Rate	1.12	1.17
Adjusted Operating Margin	12.7%	15.4 to 15.7%
Corporate Expense:	35	~13
Restructuring, Realignment & Integration Costs:	44	~6
Dividends	97	~32
Capex	119	~75
Interest Expense	62	~20
Tax Rate:	21.5%	~22%
Share Count:	180.3	~181.0
Adjusted EPS	\$1.64	\$0.75 to \$0.77

RAISING THE MIDPOINT TO \$2.40 ... REFLECTING INCREASED MOMENTUM

SUMMARY

- **Strong 3Q results across all end markets provide momentum to deliver on 2017 commitments**
- **Productivity targets and Sensus integration remain on track**
- **Raising full year earnings guidance to reflect foreign exchange favorability and operational performance**
- **Delivering on our investment thesis**

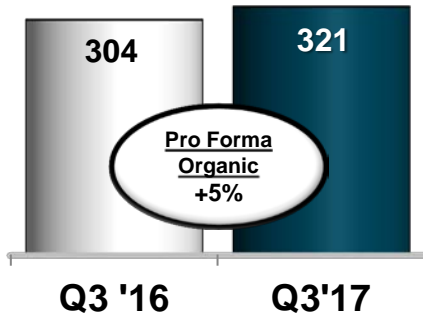
APPENDIX

MEASUREMENT & CONTROL SOLUTIONS PRO FORMA REVENUE & EBITDA

Note: Formerly Sensus & Analytics Segment

REVENUE

(Dollars, In Millions)



Pro Forma Organic* Growth Highlights

By Application

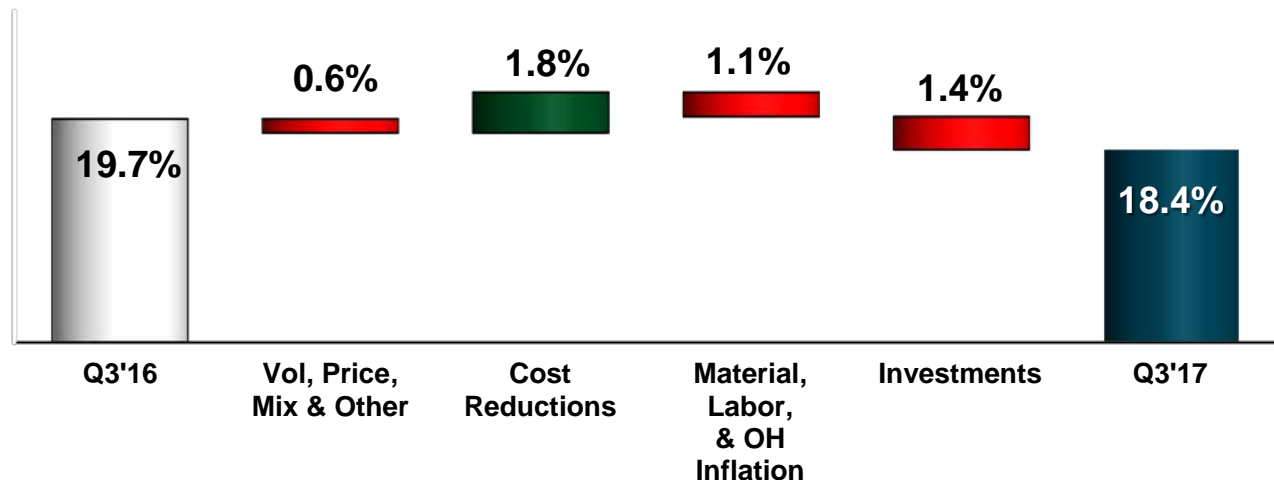
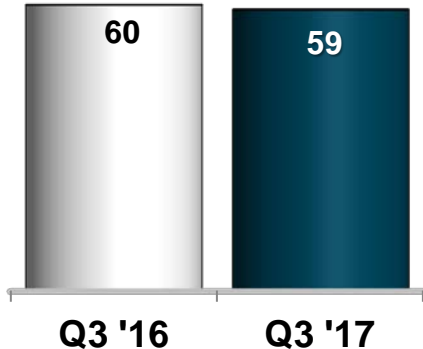
Smart Electric	+61%
Smart Water	-11%
Smart Gas	+13%
Saas/Other	+47%
Test	+5%

By Regions

U.S.	+7%
Emerging	+5%
W. Europe	-12%

- + Strength in Electric from continued traction with new product (Stratus) and Alliant project deployment
- Softness in Water due to challenging PY comps (re-stocking of iPerl in NA), project timing and battery supply shortage
- + Growth in Test from strong environmental monitoring business in NA
- + Orders up double digits in Sensus; up 4% in Analytics

ADJ. EBITDA*



**STRONG REVENUE & ORDER PERFORMANCE
AS TEAM CONTINUES TO INVEST FOR REVENUE SYNERGIES**

Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, working capital and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and to 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, including but not limited to, dividends acquisitions, share repurchases and debt repayment. Excluding revenue, Xylem provides guidance only on a non-GAAP basis due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as discrete tax items, without unreasonable effort. These adjusted metrics are consistent with how management views our business and are used to make financial, operating and planning decisions. 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 operating activities as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

"Organic revenue" and "Organic orders" defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency translation impacts is determined by translating current period and prior period activity using the same currency conversion rate.

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

"EBITDA" defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **"Adjusted EBITDA"** reflects the adjustment to EBITDA to exclude restructuring and realignment costs, Sensus acquisition related costs, gain from sale of business and special charges. For Sensus historical adjustments, see Sensus Historical - Adjusted EBITDA table.

"Adjusted Operating Income", "Adjusted Segment Operating Income", "Adjusted Net Income" and "Adjusted EPS" defined as operating income, segment operating income, adjusted net income and earnings per share, adjusted to exclude restructuring and realignment costs, Sensus acquisition related costs, gain from sale of business, special charges and tax-related special items, as applicable. For Sensus historical adjustments, see Sensus Historical - Adjusted

"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 flow does not consider certain non-discretionary cash payments, such as debt.

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

"Sensus Acquisition Related Costs" defined as costs incurred by the Company associated with the acquisition of Sensus that are being reported within operating income. These costs include integration costs, acquisition costs and costs related to the recognition of the backlog intangible asset recorded in purchase accounting.

"Special charges" defined as costs incurred by the Company, such as non-cash impairment charges, due diligence costs, initial acquisition costs not related to Sensus and other special non-operating items, as well as interest expense related to the early extinguishment of debt and financing costs on the bridge loan entered into for the Sensus acquisition during 2016.

"Tax-related special items" defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, significant reserves for cash repatriation, excess tax benefits/losses and other discrete tax adjustments.

"Pro forma" defined as including the results of Sensus for the calendar period prior to the acquisition of Sensus by Xylem Inc. on October 31, 2016.

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders 2017	Orders 2016	Change 2017 v. 2016	% Change 2017 v. 2016	Acquisitions / Divestitures	FX Impact	Change Adj. 2017 v. 2016	% Change Adj. 2017 v. 2016			
<u>Nine Months Ended September 30</u>											
Xylem Inc.	3,598	2,757	841	31%	(688)	4	157	6%	31%		
Water Infrastructure	1,546	1,465	81	6%	-	4	85	6%	6%		
Applied Water	1,103	1,057	46	4%	5	6	57	5%	5%		
Measurement & Control Solutions	949	235	714	304%	(693)	(6)	15	6%	301%		
<u>Quarter Ended September 30</u>											
Xylem Inc.	1,249	946	303	32%	(223)	(22)	58	6%	30%		
Water Infrastructure	558	521	37	7%	-	(12)	25	5%	5%		
Applied Water	374	342	32	9%	2	(4)	30	9%	8%		
Measurement & Control Solutions	317	83	234	282%	(225)	(6)	3	4%	275%		
<u>Quarter Ended June 30</u>											
Xylem Inc.	1,212	923	289	31%	(228)	14	75	8%	33%		
Water Infrastructure	521	483	38	8%	-	9	47	10%	10%		
Applied Water	375	361	14	4%	2	5	21	6%	5%		
Measurement & Control Solutions	316	79	237	300%	(230)	-	7	9%	300%		
<u>Quarter Ended March 31</u>											
Xylem Inc.	1,137	888	249	28%	(237)	12	24	3%	29%		
Water Infrastructure	467	461	6	1%	-	7	13	3%	3%		
Applied Water	354	354	-	0%	1	5	6	2%	1%		
Measurement & Control Solutions	316	73	243	333%	(238)	-	5	7%	333%		

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency					
	(A)		(B)		(C)		(D)		(E) = B+C+D		(F) = E/A		(G) = (E - C) / A	
	Revenue 2017	Revenue 2016	Change 2017 v. 2016	% Change 2017 v. 2016	Acquisitions / Divestitures	FX Impact	Change Adj. 2017 v. 2016	% Change Adj. 2017 v. 2016						
<u>Nine Months Ended September 30</u>														
Xylem Inc.	3,430	2,676	754	28%	(710)	3	47	2%	28%					
Water Infrastructure	1,421	1,402	19	1%	-	5	24	2%	2%					
Applied Water	1,048	1,042	6	1%	5	5	16	2%	1%					
Measurement & Control Solutions	961	232	729	314%	(715)	(7)	7	3%	311%					
<u>Quarter Ended September 30</u>														
Xylem Inc.	1,195	897	298	33%	(232)	(22)	44	5%	31%					
Water Infrastructure	520	478	42	9%	-	(10)	32	7%	7%					
Applied Water	354	343	11	3%	2	(5)	8	2%	2%					
Measurement & Control Solutions	321	76	245	322%	(234)	(7)	4	5%	313%					
<u>Quarter Ended June 30</u>														
Xylem Inc.	1,164	932	232	25%	(236)	14	10	1%	26%					
Water Infrastructure	482	484	(2)	0%	-	9	7	1%	1%					
Applied Water	361	366	(5)	-1%	2	5	2	1%	0%					
Measurement & Control Solutions	321	82	239	291%	(238)	-	1	1%	291%					
<u>Quarter Ended March 31</u>														
Xylem Inc.	1,071	847	224	26%	(242)	11	(7)	-1%	28%					
Water Infrastructure	419	440	(21)	-5%	-	6	(15)	-3%	-3%					
Applied Water	333	333	-	0%	1	5	6	2%	2%					
Measurement & Control Solutions	319	74	245	331%	(243)	-	2	3%	331%					

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency	
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A	
	<u>Revenue</u> 2017	<u>Revenue</u> 2016 (a)	<u>Change</u> 2017 v. 2016	<u>% Change</u> 2017 v. 2016	<u>Acquisitions /</u> <u>Divestitures</u>	<u>FX Impact</u>	<u>Change</u> Adj. 2017 v. 2016	<u>% Change</u> Adj. 2017 v. 2016		
<u>Nine Months Ended September 30</u>										
Xylem Inc.	3,430	3,369	61	2%	3	16	80	2%	2%	
Water Infrastructure	1,421	1,402	19	1%	-	5	24	2%	2%	
Applied Water	1,048	1,042	6	1%	5	5	16	2%	1%	
Measurement & Control Solutions	961	925	36	4%	(2)	6	40	4%	5%	
<u>Quarter Ended September 30</u>										
Xylem Inc.	1,195	1,125	70	6%	2	(18)	54	5%	5%	
Water Infrastructure	520	478	42	9%	-	(10)	32	7%	7%	
Applied Water	354	343	11	3%	2	(5)	8	2%	2%	
Measurement & Control Solutions	321	304	17	6%	-	(3)	14	5%	5%	
<u>Quarter Ended June 30</u>										
Xylem Inc.	1,164	1,169	(5)	0%	2	19	16	1%	1%	
Water Infrastructure	482	484	(2)	0%	-	9	7	1%	1%	
Applied Water	361	366	(5)	-1%	2	5	2	1%	0%	
Measurement & Control Solutions	321	319	2	1%	-	5	7	2%	2%	
<u>Quarter Ended March 31</u>										
Xylem Inc.	1,071	1,075	(4)	0%	(1)	15	10	1%	1%	
Water Infrastructure	419	440	(21)	-5%	-	6	(15)	-3%	-3%	
Applied Water	333	333	-	0%	1	5	6	2%	2%	
Measurement & Control Solutions	319	302	17	6%	(2)	4	19	6%	7%	

(a) Includes Measurement & Control Solutions and Visenti revenue for the nine months ended September 30, 2016 which was prior to Xylem acquiring the businesses.

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

	Q1		Q2		Q3		YTD	
	2017	2016	2017	2016	2017	2016	2017	2016
Total Revenue								
• Total Xylem	1,071	847	1,164	932	1,195	897	3,430	2,676
• Water Infrastructure	419	440	482	484	520	478	1,421	1,402
• Applied Water	333	333	361	366	354	343	1,048	1,042
• Measurement & Control Solutions	319	74	321	82	321	76	961	232
Operating Income								
• Total Xylem	86	79	139	109	152	109	377	297
• Water Infrastructure	40	51	74	66	91	75	205	192
• Applied Water	36	39	49	51	51	50	136	140
• Measurement & Control Solutions	25	3	29	4	26	4	80	11
• Total Segments	101	93	152	121	168	129	421	343
Operating Margin								
• Total Xylem	8.0%	9.3%	11.9%	11.7%	12.7%	12.2%	11.0%	11.1%
• Water Infrastructure	9.5%	11.6%	15.4%	13.6%	17.5%	15.7%	14.4%	13.7%
• Applied Water	10.8%	11.7%	13.6%	13.9%	14.4%	14.6%	13.0%	13.4%
• Measurement & Control Solutions	7.8%	4.1%	9.0%	4.9%	8.1%	5.3%	8.3%	4.7%
• Total Segments	9.4%	11.0%	13.1%	13.0%	14.1%	14.4%	12.3%	12.8%
Sensus Acquisition Related Costs								
• Total Xylem	10	-	4	-	5	10	19	10
• Water Infrastructure	-	-	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-	-	-
• Measurement & Control Solutions	6	-	3	-	4	-	13	-
• Total Segments	6	-	3	-	4	-	13	-
Special Charges								
• Total Xylem	5	4	-	1	3	-	8	5
• Water Infrastructure	-	2	-	-	-	-	-	2
• Applied Water	5	-	-	-	-	-	5	-
• Measurement & Control Solutions	-	2	-	1	-	-	-	3
• Total Segments	5	4	-	1	-	-	5	5
Restructuring & Realignment Costs								
• Total Xylem	11	9	12	11	9	12	32	32
• Water Infrastructure	4	3	5	6	3	5	12	14
• Applied Water	4	3	5	3	5	3	14	9
• Measurement & Control Solutions	3	1	2	2	1	4	6	7
• Total Segments	11	7	12	11	9	12	32	30
Adjusted Operating Income								
• Total Xylem	112	92	155	121	169	131	436	344
• Water Infrastructure	44	56	79	72	94	80	217	208
• Applied Water	45	42	54	54	56	53	155	149
• Measurement & Control Solutions	34	6	34	7	31	8	99	21
• Total Segments	123	104	167	133	181	141	471	378
Adjusted Operating Margin								
• Total Xylem	10.5%	10.9%	13.3%	13.0%	14.1%	14.6%	12.7%	12.9%
• Water Infrastructure	10.5%	12.7%	16.4%	14.9%	18.1%	16.7%	15.3%	14.8%
• Applied Water	13.5%	12.6%	15.0%	14.8%	15.8%	15.5%	14.8%	14.3%
• Measurement & Control Solutions	10.7%	8.1%	10.6%	8.5%	9.7%	10.5%	10.3%	9.1%
• Total Segments	11.5%	12.3%	14.3%	14.3%	15.1%	15.7%	13.7%	14.1%

Xylem Inc. Non-GAAP Reconciliation
EBITDA and Adjusted EBITDA by Quarter

	(\$ Millions)				Total
	Q1	Q2	Q3	Q4	
		2017			
Net Income	56	100	104	-	260
Income Tax Expense	14	21	27	-	62
Interest Expense (Income), net	20	20	20	-	60
Depreciation	28	27	28	-	83
Amortization	31	30	30	-	91
Stock Compensation	6	5	5	-	16
EBITDA	155	203	214	-	572
Restructuring & Realignment	11	12	9	-	32
Gain on sale of business	(5)	-	1	-	(4)
Sensus Acquisition Related Costs	7	2	3	-	12
Special Charges	5	-	3	-	8
Adjusted EBITDA	173	217	230	-	620
Revenue	1,071	1,164	1,195	-	3,430
Adjusted EBITDA Margin	16.2%	18.6%	19.2%	-	18.1%
		2016			
Net Income	66	71	73	50	260
Income Tax Expense	(1)	19	22	40	80
Interest Expense (Income), net	14	19	16	19	68
Depreciation	20	21	20	26	87
Amortization	12	12	12	28	64
Stock Compensation	5	5	5	3	18
EBITDA	116	147	148	166	577
Restructuring & Realignment	9	11	12	15	47
Sensus Acquisition Related Costs	-	-	10	36	46
Special Charges	4	1	-	-	5
Adjusted EBITDA	129	159	170	217	675
Revenue	847	932	897	1,095	3,771
Adjusted EBITDA Margin	15.2%	17.1%	19.0%	19.8%	17.9%

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

	Q3 2017			Q3 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,195		1,195	897		897
Operating Income	152	17 a	169	109	22 a	131
Operating Margin	12.7%		14.1%	12.2%		14.6%
Interest Expense	(21)		(21)	(16)	4 b	(12)
Other Non-Operating Income (Expense)	1		1	2		2
Gain from sale of business	(1)	1	-			
Income before Taxes	131	18	149	95	26	121
Provision for Income Taxes	(27)	(4) c	(31)	(22)	(2) c	(24)
Loss attributable to minority interest	1		1	-		-
Net Income attributable to Xylem	105	14	119	73	24	97
Diluted Shares	180.9		180.9	180.3		180.3
Diluted EPS	\$ 0.58	\$ 0.07	\$ 0.65	\$ 0.41	\$ 0.13	\$ 0.54
Year-over-year currency translation impact on current year diluted EPS	\$ 0.01		\$ 0.01			
Diluted EPS at Constant Currency	\$ 0.57	\$ 0.07	\$ 0.64			

	Q3 YTD 2017			Q3 YTD 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,430		3,430	2,676		2,676
Operating Income	377	59 a	436	297	47 a	344
Operating Margin	11.0%		12.7%	11.1%		12.9%
Interest Expense	(62)		(62)	(50)	12 b	(38)
Other Non-Operating Income (Expense)	3		3	3		3
Gain from sale of business	4	(4)	-	-		-
Income before Taxes	322	55	377	250	59	309
Provision for Income Taxes	(62)	(19) c	(81)	(40)	(23) c	(63)
Income attributable to minority interest	-		-			
Net Income attributable to Xylem	260	36	296	210	36	246
Diluted Shares	180.7		180.7	179.8		179.8
Diluted EPS	\$ 1.44	\$ 0.20	\$ 1.64	\$ 1.17	\$ 0.20	\$ 1.37
Year-over-year currency translation impact on current year diluted EPS	\$ (0.02)	\$ -	\$ (0.02)			
Diluted EPS at Constant Currency	\$ 1.46	\$ 0.20	\$ 1.66			

- a Third quarter: Restructuring & realignment costs of \$9 million and \$12 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$5 million and \$10 million in 2017 and 2016 and special charges of \$3 million of due diligence costs in 2017.
Year-to-date: Restructuring & realignment costs of \$32 million and \$32 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$19 million and \$10 million in 2017 and 2016, respectively and special charges of \$5 million of asset impairment and \$3 million of due diligence costs in 2017 and \$5 million of initial acquisition costs in 2016.
- b Third quarter special charges of \$4 million of financing costs related to the bridge loan entered into for the Sensus acquisition in 2016 and year-to-date special charges of \$12 million in 2016 consisting of \$4 million of financing costs related to the bridge loan entered into for the Sensus acquisition and \$8 million of costs related to the early extinguishment of debt.
- c Third quarter: Net tax impact on restructuring & realignment costs of \$4 million in both 2017 and 2016, net tax impact on Sensus acquisition related costs of \$2 million and \$1 million in 2017 and 2016, respectively, net tax impact on special charges of \$1 million in both 2017 and 2016 and tax-related special items of \$3 million and \$4 million of benefit in 2017 and 2016, respectively.
Year-to-date: Net tax impact on restructuring & realignment costs of \$11 million and \$9 million in 2017 and 2016, respectively, net tax impact on Sensus acquisition related costs of \$7 million and \$1 million in 2017 and 2016, respectively, net tax impact on special charges of \$3 million and \$6 million in 2017 and 2016, respectively, net tax impact of \$2 million on the gain from sale of business in 2017 and tax-related special charges of less than \$1 million and \$7 million in 2017 and 2016, respectively.

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

	Q1		Q2		Q3		Nine Months Ended	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Cash - Operating Activities	\$ 58	\$ 41	\$ 93	\$ 84	\$ 228	\$ 149	\$ 379	\$ 274
Capital Expenditures	(49)	(37)	(28)	(25)	(42)	(28)	(119)	(90)
Free Cash Flow	<u>\$ 9</u>	<u>\$ 4</u>	<u>\$ 65</u>	<u>\$ 59</u>	<u>\$ 186</u>	<u>\$ 121</u>	<u>\$ 260</u>	<u>\$ 184</u>
Cash paid for Sensus acquisition related costs	(17)	-	(5)	-	(1)	(3)	(23)	(3)
Free Cash Flow, excluding Sensus Acquisition Related Costs	<u>\$ 26</u>	<u>\$ 4</u>	<u>\$ 70</u>	<u>\$ 59</u>	<u>\$ 187</u>	<u>\$ 124</u>	<u>\$ 283</u>	<u>\$ 187</u>
Net Income	56	66	100	71	104	73	260	210
Gain from sale of business	5	-	-	-	(1)	-	4	-
Special Charges - non-cash impairment and early debt extinguishment	(5)	-	-	(8)	-	-	(5)	(8)
Sensus acquisition related costs	<u>(10)</u>	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>(5)</u>	<u>(10)</u>	<u>(19)</u>	<u>(10)</u>
Net Income, excluding gain on sale of businesses, non-cash impairment charges and Sensus Acquisition Related Costs	<u>\$ 66</u>	<u>\$ 66</u>	<u>\$ 104</u>	<u>\$ 79</u>	<u>\$ 110</u>	<u>\$ 83</u>	<u>\$ 280</u>	<u>\$ 228</u>
Free Cash Flow Conversion	<u>39%</u>	<u>6%</u>	<u>67%</u>	<u>75%</u>	<u>170%</u>	<u>149%</u>	<u>101%</u>	<u>82%</u>

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

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	41	73	92		206
Interest Expense (Income), net	-	-	(1)		(1)
Depreciation	11	11	12		34
Amortization	5	4	5		14
Stock Compensation	1	-	-		1
EBITDA	58	88	108	-	254
Restructuring & Realignment	4	5	3		12
Adjusted EBITDA	62	93	111	-	266
Revenue	419	482	520		1,421
Adjusted EBITDA Margin	14.8%	19.3%	21.3%		18.7%

	2016				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	51	66	76	99	292
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	11	11	11	11	44
Amortization	6	5	6	5	22
Stock Compensation	1	-	1	-	2
EBITDA	69	82	94	114	359
Restructuring & Realignment	3	6	5	2	16
Special Charges	2	-	-	-	2
Adjusted EBITDA	74	88	99	116	377
Revenue	440	484	478	530	1,932
Adjusted EBITDA Margin	16.8%	18.2%	20.7%	21.9%	19.5%

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

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	38	49	51		138
Interest, net	-	-	-		-
Depreciation	5	5	5		15
Amortization	1	1	1		3
Stock Compensation	-	1	1		2
EBITDA	44	56	58	-	158
Restructuring & Realignment	4	5	5		14
Gain on sale of business	(5)	-	1		(5)
Special Charges	5	-	-		5
Adjusted EBITDA	48	61	64	-	172
Revenue	333	361	354		1,048
Adjusted EBITDA Margin	14.4%	16.9%	18.1%		16.4%

	2016				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	38	52	50	48	188
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	1	4
Stock Compensation	-	1	-	-	1
EBITDA	44	59	56	54	213
Restructuring & Realignment	3	3	3	7	16
Gain on sale of business	-	-	-	-	-
Adjusted EBITDA	47	62	59	61	229
Revenue	333	366	343	351	1,393
Adjusted EBITDA Margin	14.1%	16.9%	17.2%	17.4%	16.4%

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

	2017				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	24	30	27		81
Interest, net	-	-	-		-
Depreciation	8	8	7		23
Amortization	23	22	22		67
Stock Compensation	-	1	-		1
EBITDA	55	61	56	-	172
Restructuring & Realignment	3	2	1		6
Sensus acquisition related costs	3	1	2		6
Adjusted EBITDA	61	64	59	-	184
Revenue	319	321	321		961
Adjusted EBITDA Margin	19.1%	19.9%	18.4%		19.1%
	2016				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	3	4	4	(11)	-
Interest, net	-	-	-	-	-
Depreciation	1	1	1	5	8
Amortization	4	4	4	21	33
Stock Compensation	-	-	-	-	-
EBITDA	8	9	9	15	41
Restructuring & Realignment	1	2	4	6	13
Sensus Acquisition Related Costs	-	-	-	18	18
Special charges	2	1	-	-	3
Adjusted EBITDA	11	12	13	39	75
Revenue	74	82	76	214	446
Adjusted EBITDA Margin	14.9%	14.6%	17.1%	18.2%	16.8%

Xylem Inc. Non-GAAP Reconciliation
EBITDA and Adjusted EBITDA by Quarter
Measurement & Control Solutions - *Proforma*
(\$ Millions)

	2017				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	24	30	27		81
Interest, net	-	-	-		-
Depreciation	8	8	7		23
Amortization	23	22	22		67
Stock Compensation	-	1	-		1
EBITDA	55	61	56	-	172
Restructuring & Realignment	3	2	1		6
Sensus acquisition related costs	3	1	2		6
Adjusted EBITDA	61	64	59	-	184
Revenue	319	321	321		961
Adjusted EBITDA Margin	19.1%	19.9%	18.4%		19.1%
	2016				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	44	28	22	(86)	8
Interest, net	9	15	12	30	66
Depreciation and Amortization	20	20	20	31	91
Stock Compensation	-	-	-	-	-
EBITDA	73	63	54	(25)	165
Restructuring & Realignment	4	3	4	6	17
Sensus Acquisition Related Costs	-	-	1	56	57
Special charges	2	1	-	-	3
Sensus reversal of product warranty reser	(27)	-	-	-	(27)
Sensus management fees	2	2	1	12	17
Sensus Other non-recurring charges	1	-	-	-	1
Adjusted EBITDA	55	69	60	49	233
Revenue	302	319	304	282	1,207
Adjusted EBITDA Margin	18.2%	21.6%	19.7%	17.4%	19.3%

(a) Includes Sensus and Visenti results for the nine months ended September 30 2016 which was prior to Xylem acquiring the business

Measurement & Control Solutions Non_GAAP Reconciliation - **Proforma**
Adjusted Operating Income
(\$ Millions)

	Q1		Q2		Q3		YTD	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue	319	302	321	319	321	304	961	925
Operating Income	25	52	29	44	26	34	80	130
Operating Margin	7.8%	17.2%	9.0%	13.8%	8.1%	11.2%	8.3%	14.1%
Reversal of product warranty reserve	-	(27)	-	-	-	-	-	(27)
Restructuring & realignment costs	3	4	2	3	1	4	6	11
Sensus acquisition related costs	6	-	3	-	4	1	13	1
Management fees	-	2	-	2	-	1	-	5
Other non-recurring charges	-	1	-	-	-	-	-	1
Special Charges	-	2	-	1	-	-	-	3
Adjusted Operating Income	34	34	34	50	31	40	99	124
Adjusted Operating Margin	10.7%	11.3%	10.6%	15.7%	9.7%	13.2%	10.3%	13.4%

(a) Includes Sensus and Visenti results for the nine months ended September 30 2016 which was prior to Xylem acquiring the businesses.

xylem

Let's Solve Water

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