

XYLEM INC.

Q4 2017 EARNINGS RELEASE

FEBRUARY 1, 2018



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; 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.

Q4'17 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q4 2017	Adjusted* Q4 2017	GAAP FY 2017	Adjusted* FY 2017
Xylem Consolidated				
Revenue	1,277	1,277	4,707	4,707
Overall Growth	+17%	+17%	+25%	+25%
Constant Currency Growth		+13%		+24%
Pro Forma Organic Growth		+7%		+4%
Organic Growth		+7%		+3%
Operating Income	179	194	556	630
Operating Margin	14.0%	15.2%	11.8%	13.4%
Earnings per Share	0.40	0.76	1.83	2.40
Segment Results				
Water Infrastructure				
Revenue	583	583	2,004	2,004
Overall Growth	+10%	+10%	+4%	+4%
Constant Currency Growth		+6%		+3%
Organic Growth		+6%		+3%
Operating Income	103	107	308	324
Operating Margin	17.7%	18.4%	15.4%	16.2%
Applied Water				
Revenue	373	373	1,421	1,421
Overall Growth	+6%	+6%	+2%	+2%
Constant Currency Growth		+4%		+2%
Organic Growth		+5%		+2%
Operating Income	61	64	197	219
Operating Margin	16.4%	17.2%	13.9%	15.4%
Measurement & Control Solutions				
Revenue	321	321	1,282	1,282
Overall Growth		+50%	+187%	+187%
Constant Currency Growth		+47%		+184%
Pro Forma Organic Growth		+10%		+6%
Organic Growth		+12%		+7%
Operating Income	30	34	110	133
Operating Margin	9.3%	10.6%	8.6%	10.4%

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

- **Delivered strong full year financial results**
 - ✓ *Organic Revenue Growth 3%; Pro Forma** Organic Revenue Growth 4%*
 - ✓ *Adjusted EBITDA of 18.7% (up 80 bps)*
 - ✓ *Solid Op. Margin performance of 13.4% (up 30 bps ex. Acquisitions)*
 - ✓ *Adjusted EPS of \$2.40, up 18%*
 - ✓ *Free Cash Flow Conversion of 147%*
- **4Q results in-line with expectations; Healthy organic orders growth of 10%**
- **Significant progress on our top strategic priorities**
 - ✓ *Accelerate Profitable Growth*
 - ✓ *Drive Continuous Improvement*
 - ✓ *Leadership & Talent Development*
 - ✓ *Strategic Capital Deployment*
 - ✓ *Return Capital to Shareholders*
- **Further acceleration expected in 2018; On-track for 2020 Plan**
- **Closed Pure Technologies acquisition ... Focused on disciplined capital deployment in strategic areas to address customer pain points**

ACQUISITION OF PURE TECHNOLOGIES



- Deal officially closed as of January 31st 2018
- Significantly enhances our offering to address challenges such as aging infrastructure and non-revenue water with intelligent, proprietary technologies
- Pure had strong results and momentum to finish 2017***:
 - 4Q Organic Rev: +15%; Adj. EBITDA Margin: 25.2%
 - FY Organic Rev: +11%; Adj. EBITDA Margin: 18.1%
- Expect to be **\$0.01 accretive to XYL 2018 Earnings** (modestly dilutive in 1Q due to lower seasonal revenues and amortization)
- Also announcing acquisition of a small software and data analytics company to add capability to our infrastructure analytics offering
- Another example of “M&A as a proxy for R&D”

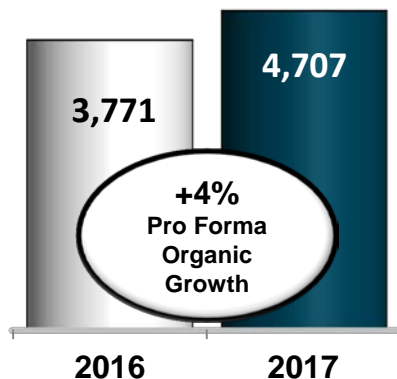


Software and data analytics solutions for utilities to manage sewer & storm water

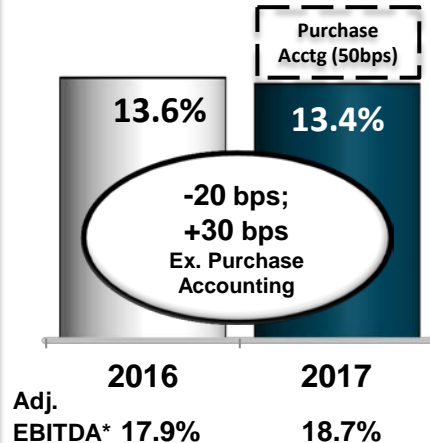
2017 FINANCIAL SUMMARY

(Dollars, In Millions, except EPS)

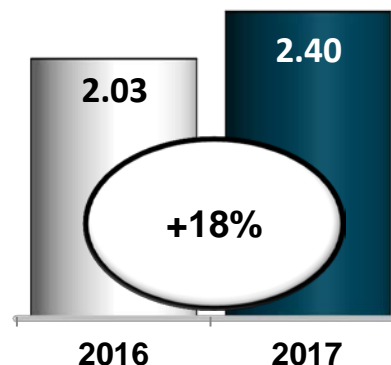
REVENUE



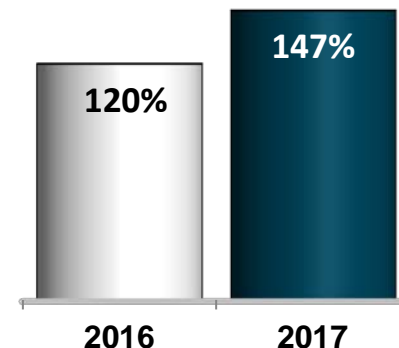
ADJ. OP MARGIN*



ADJ. EPS*



FCF* CONVERSION



<i>Acquisitions</i>	+ 21%
<i>Organic growth</i>	+ 3%
<i>FX Translation</i>	+ 1%

Key Organic Growth Drivers

+ Public Utility	+ 3%
+ Industrial	+ 2%
+ Commercial	+ 5%
+ Residential	+ 12%

Organic Growth by Region

+ Emerging Markets	+ 6%
+ U.S.	+ 3%
+ W. Europe	+ 1%

Key Performance Drivers

+ Cost Reductions	+ 3.1%
- Cost Inflation	- 1.8%
- Acquisitions	- 0.7%
- Investments	- 0.6%
- Vol/Price/Mix/Other	- 0.2%

Key Performance Drivers

+ Cost Reductions	+ \$0.64
+ Acquisitions	+ \$0.33
- Cost Inflation	- \$0.37
- Investments	- \$0.13
- Incremental Interest	- \$0.05
- Vol/Price/Mix/Other	- \$0.05

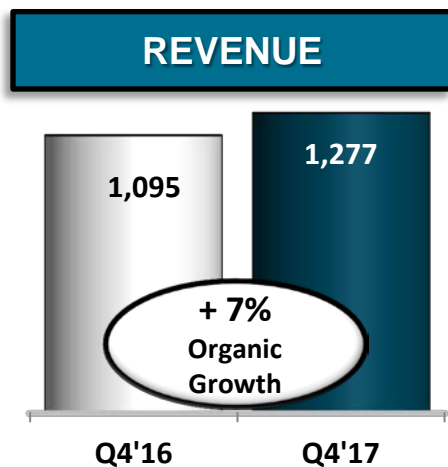
Key Performance Drivers

+ FCF of \$544, up 41%
+ Working Capital of 18.5% improves 150 bps ex. FX Translation

DELIVERING ON OUR 2017 FINANCIAL COMMITMENTS

Q4'17 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)



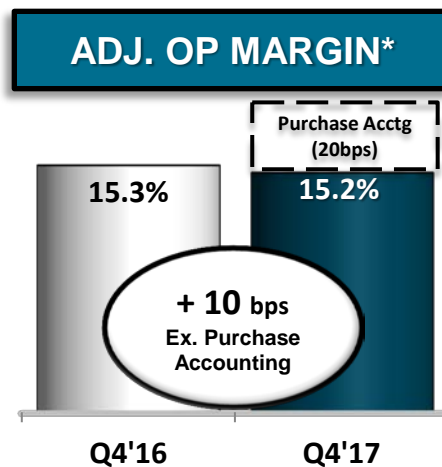
Acquisitions + 6%
Organic growth + 7%
FX Translation + 4%

Key Organic Growth Drivers

+ Public Utility +10%
 + Industrial + 3%
 + Residential + 15%
 + Commercial + 4%

Organic Growth by Region

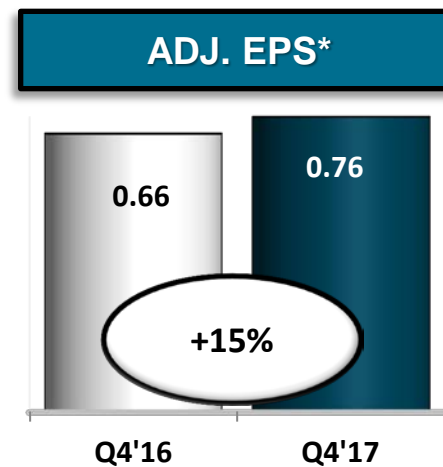
+ U.S. + 9%
 + Emerging + 6%
 + W. Europe + 3%



Adj. EBITDA* 19.8% 20.2%

Key Performance Drivers

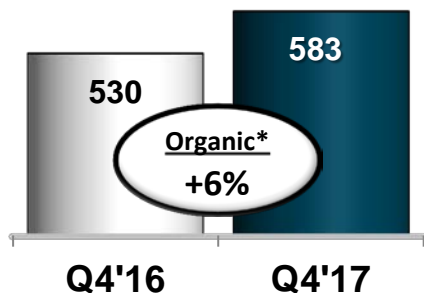
- Strong Organic Growth +7%
- Growth across all end markets led by Public Utility and continued momentum in Industrial; Residential and Commercial finish with strong 4Q results
- Productivity actions drive Op Margin expansion and earnings growth
 - Vol/price/mix/Other: Op Margin: + 30 bps EPS: + \$0.12
 - Cost reductions: Op Margin: + 310 bps EPS: + \$0.17
 - Cost inflation: Op Margin: - 190 bps EPS: - \$0.10
 - Investments: Op Margin: - 140 bps EPS: -\$0.08
 - Sensus Amortization Op Margin: -20 bps EPS: -\$0.01
- Other: Tax Rate 21.7% Share Count 181.3M



2017 WATER INFRASTRUCTURE PERFORMANCE

4Q REVENUE

(Dollars, In Millions)



Organic Growth

By Application:

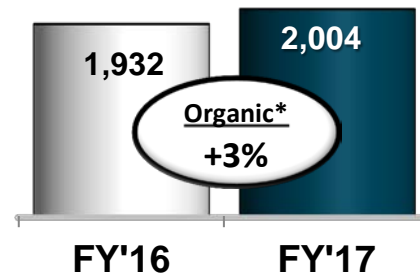
- + Treatment + 7%
- + Transport + 6%

By Region:

- + U.S. + 8%
- + Emerging + 5%
- + W. Europe + 3%
- + Canada + 22%

FY REVENUE

(Dollars, In Millions)



Organic Growth

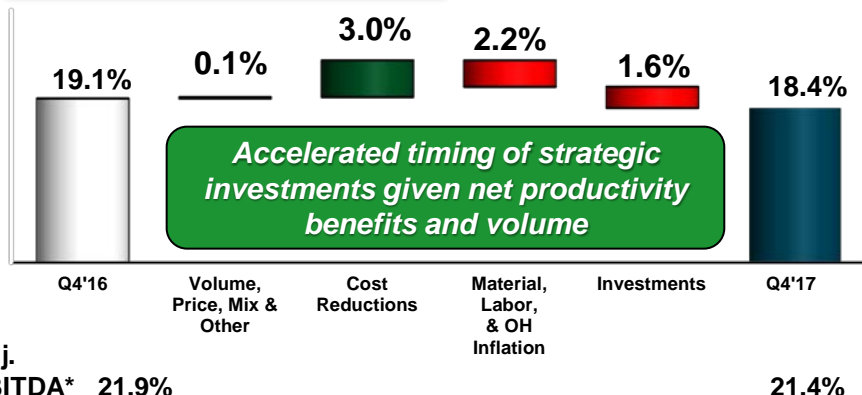
By Application:

- + Transport + 3%
- + Treatment + 2%

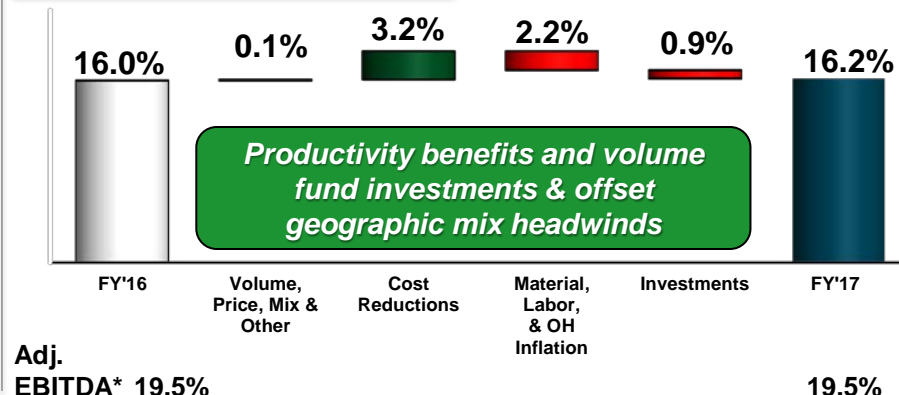
By Region:

- + Emerging + 8%
- + Canada + 18%
- + U.S. + 2%
- W. Europe - 1%

4Q ADJ. OP MARGIN*



FY ADJ. OP MARGIN*

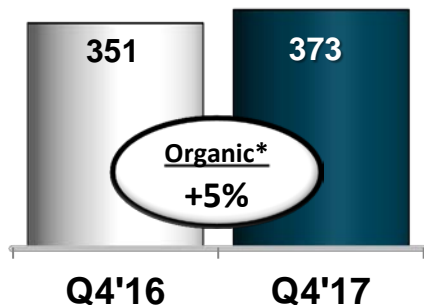


BUILDING MOMENTUM IN ORDERS AND REVENUE GROWTH HEADING INTO 2018

2017 APPLIED WATER PERFORMANCE

4Q REVENUE

(Dollars, In Millions)



Organic Growth

By Application:

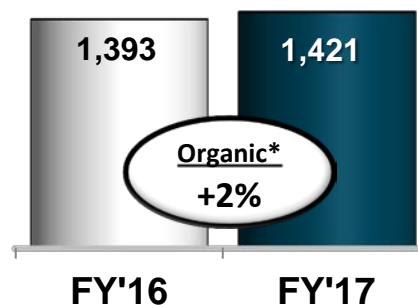
- + Residential +15%
- + Commercial +4%
- + Ind'l Water +3%

By Region:

- + W. Europe +7%
- + U.S. +6%
- + Emerging +4%

FY REVENUE

(Dollars, In Millions)



Organic Growth

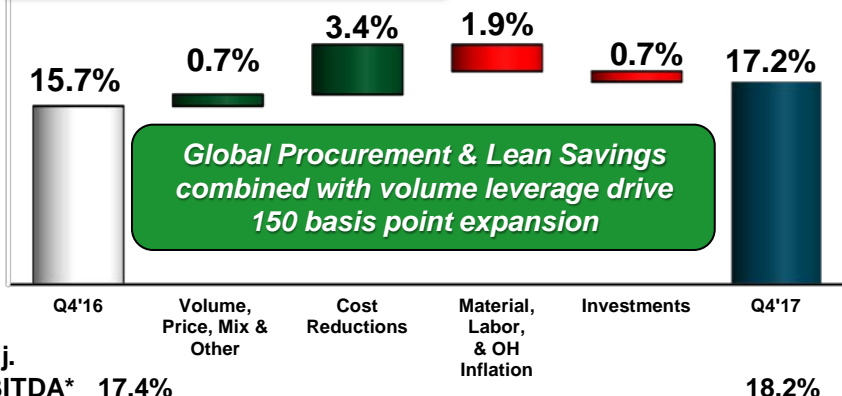
By Application:

- + Residential +12%
- + Commercial +5%
- Ind'l Water -3%

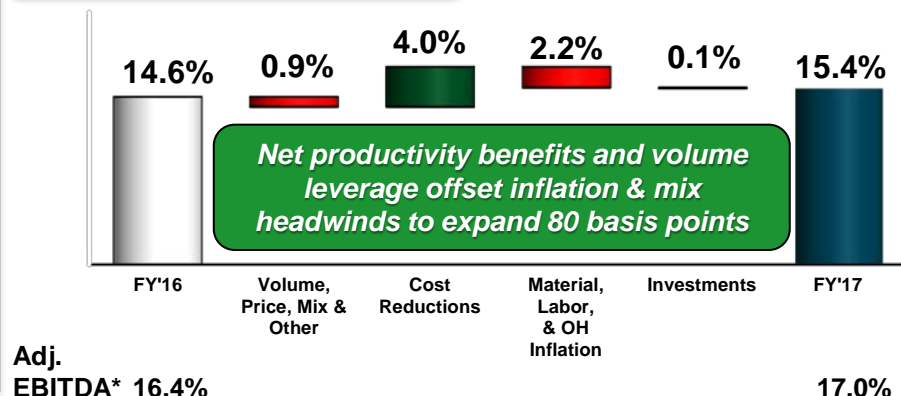
By Region:

- + W. Europe +4%
- + Emerging +2%
- + U.S. +2%

4Q ADJ. OP MARGIN*



FY ADJ. OP MARGIN*

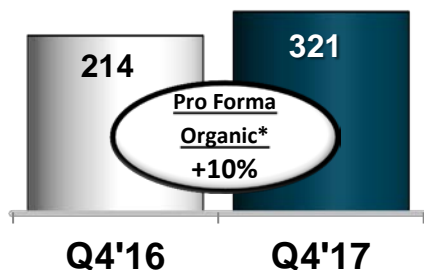


**STABLE END MARKETS & STRONG OPERATIONAL EXECUTION
YIELD HIGHEST FULL YEAR APPLIED WATER MARGIN**

2017 MEASUREMENT & CONTROL SOLUTIONS

4Q REVENUE

(Dollars, In Millions)



Pro Forma Organic* Growth By Application

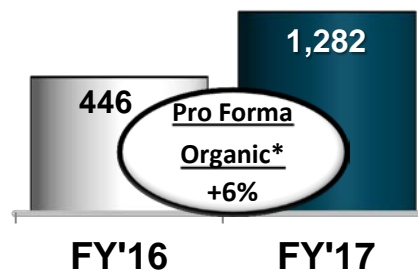
Smart Water	+11%
Smart Gas	+35%
Smart Electric	-5%
SaaS/Other	+45%
Test	+1%

By Regions

U.S.	+15%
Emerging	+12%
W. Europe	-8%

FY REVENUE

(Dollars, In Millions)



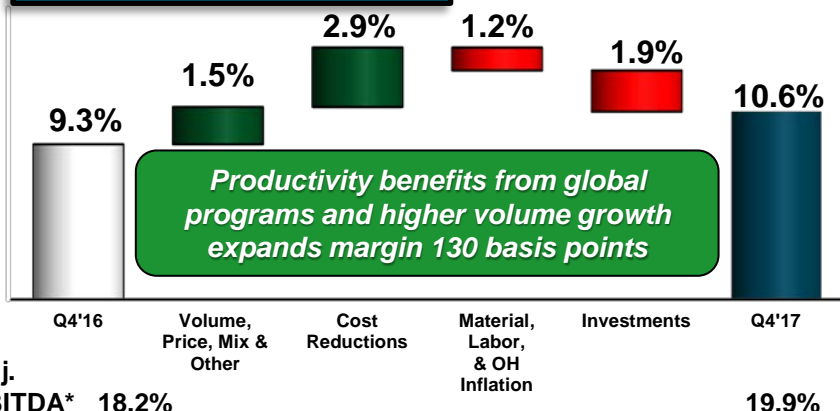
Pro Forma Organic* Growth By Application

Smart Electric	+33%
Smart Water	-2%
Smart Gas	+15%
SaaS/Other	+28%
Test	+3%

By Regions

U.S.	+9%
Emerging	+9%
W. Europe	-6%

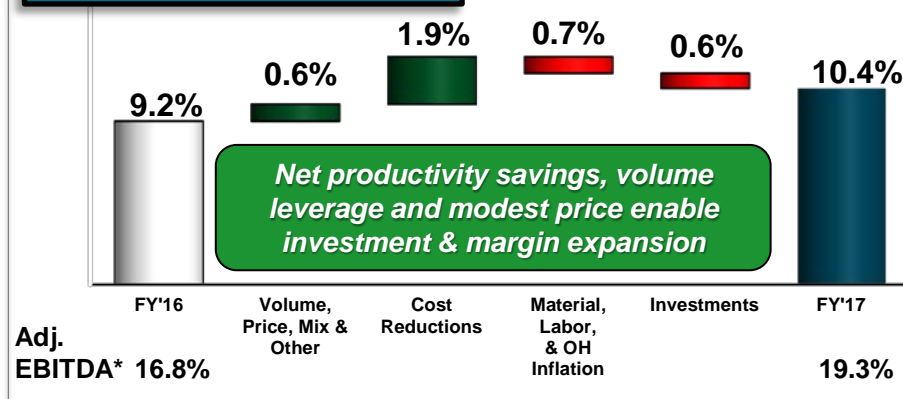
4Q ADJ. OP MARGIN*



Adj. EBITDA* 18.2%

19.9%

FY ADJ. OP MARGIN*



Adj. EBITDA* 16.8%

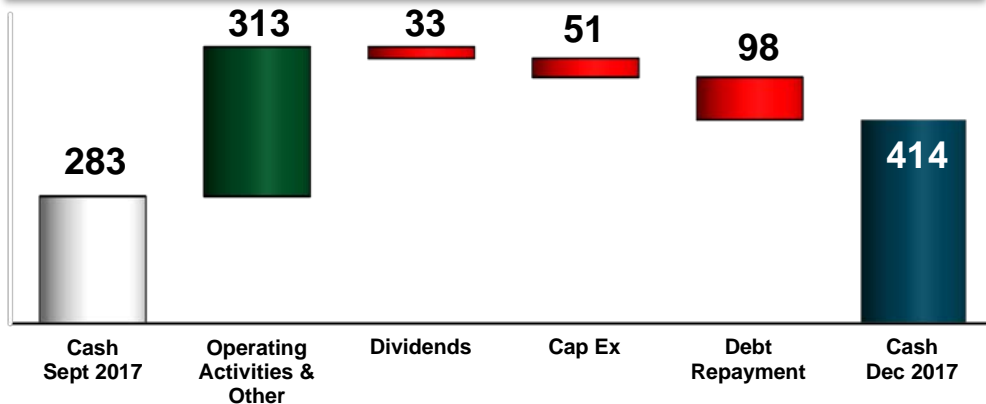
19.3%

STRONG MARKET PERFORMANCE AND PRODUCTIVITY BENEFITS FUND INVESTMENTS AND DRIVES REVENUE GROWTH AND MARGIN EXPANSION

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

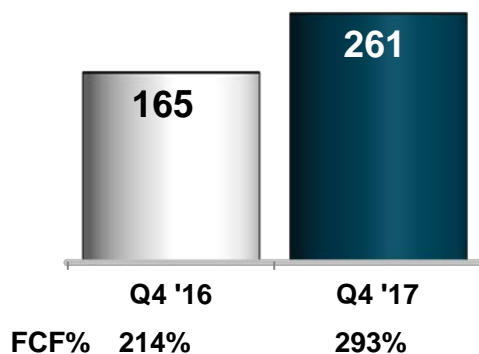


CAPITAL SUMMARY

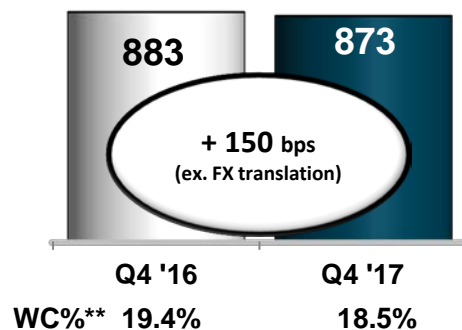
DECEMBER 31, 2017

Cash	414
Debt	2,200
Net Debt	1,786
Shareholders' Equity	2,503
Net Capital	4,289
Net Debt to Net Capital	42%

FREE CASH FLOW *



WORKING CAPITAL

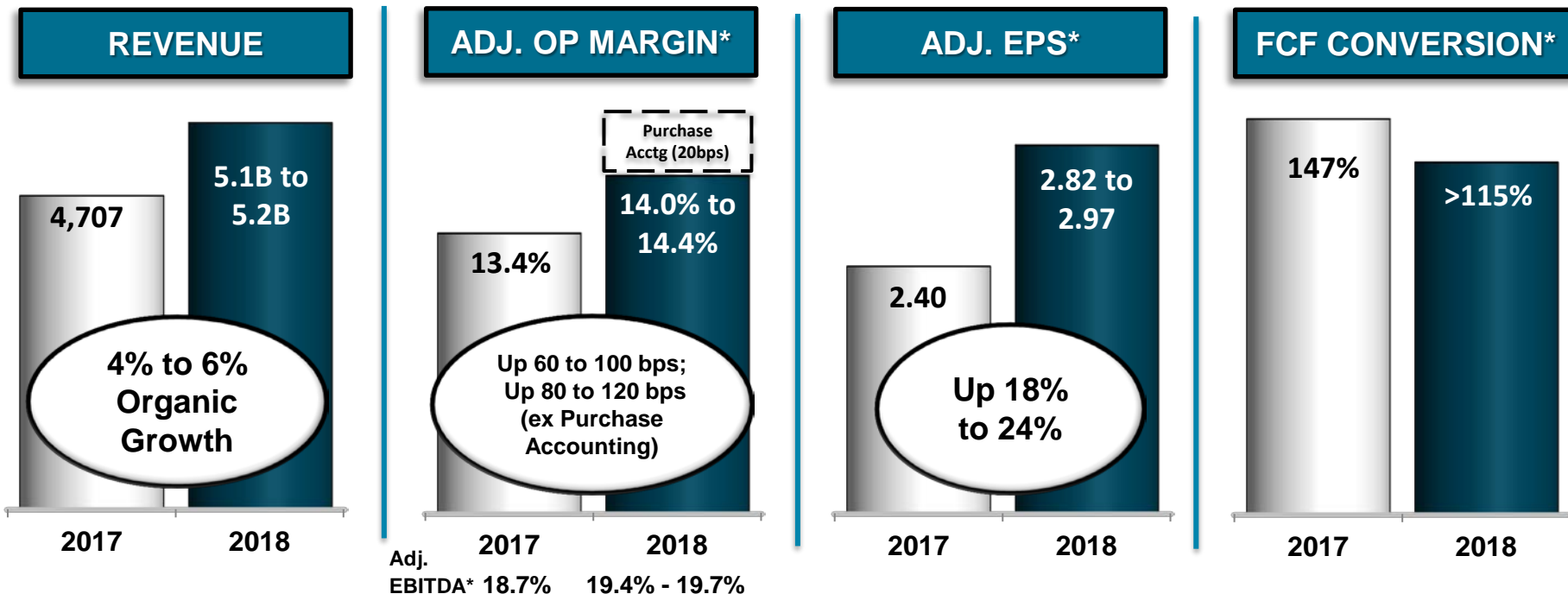


Financial Highlights

- Record FY FCF generation / conversion
 - Strong 4Q performance
 - FY conversion of 147%
 - Healthy improvement in working capital through execution
- Repaid all short-term debt
- Committed to maintaining Investment Grade Credit (BBB/Baa2)

2018 OUTLOOK

(Dollars, In Millions, except EPS)



Financial Highlights

- Xylem Organic growth of 4% to 6%; Pure adds approximately 2% to total revenue
- Expecting strong Operating Margin expansion; On-track to deliver on long-term targets
- Adjusted EPS expected in the range of \$2.82 to \$2.97 (increase of 18% to 24% versus 2017)
- Expecting continued strong Free Cash Flow conversion driven by solid execution

**MARKET MOMENTUM & INVESTMENTS DRIVE INCREASED REVENUE GROWTH ...
STRONG EXECUTION & PRODUCTIVITY GAINS ACCELERATE OP MARGIN EXPANSION**

2018 END MARKET OUTLOOK



Public Utility (~47% of 2017 Revenue)

- **2018 Organic Growth: Up Mid Single Digits**
- Stable growth in U.S. from water and wastewater spending
- Mixed but stable low single digit growth in Europe
- High single digit growth from smart meter market and infrastructure analytics
- Healthy infrastructure investment and focus in Emerging Markets continues with projects in China, India and Asia Pacific



Industrial (~36% of 2017 Revenue)

- **2018 Organic Growth: Up-Low-to-Mid-Single Digits**
- Solid general/light industrial conditions in U.S./Europe
- Continued recovery in O&G/mining markets in North America
- Mixed emerging market conditions with strength in China & India offset by softness in Middle East/Latin America



Commercial (~12% of 2017 Revenue)

- **2018 Organic Growth: Up-Low-to-Mid-Single Digits**
- Strong U.S. position; Architecture Billings Index (slightly) above 50 suggests stable low-growth market
- Europe growth moderates after 2+ years of strong performance
- Em. Market strength continues with India Smart Cities initiative & China building mkts; Large project wins in ME from localization



Residential (~5% of 2017 Revenue)

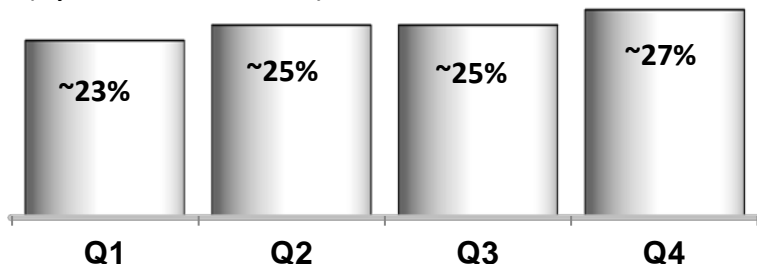
- **2018 Organic Growth: Up Mid Single Digits**
- Competitive U.S. market dynamics continue; replacement driven demand
- Market share gains from increased selling focus in Europe
- Increased demand in China and other Asia Pacific countries for secondary clean water source

2018 OUTLOOK

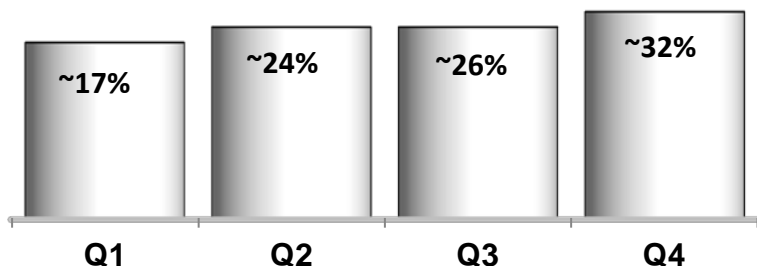
(Dollars, In Millions)

HISTORIC QUARTERLY PROFILE

Revenue As a % of Full Year
(Xylem 2012 - 2017)



Adj. EPS As a % of Full Year
(Xylem 2012 - 2017)



FY 2018 PLANNING ASSUMPTIONS

Xylem Organic Growth	+4% to 6%
Water Infrastructure	+4% to 6%
Applied Water	+3% to 5%
Measurement & Control Solutions	+7% to 8%
FX Euro Rate	1.21
Adjusted Operating Margin	14.0% to 14.4%
Corporate Expense	~\$50M
Restructuring, Realignment & Integration Costs	~\$35M
Dividends	~\$150M
Capex	~\$190 to \$200M
Interest Expense	~\$82
Estimated Tax Rate:	~20%
Share Count:	~181.5
Adjusted EPS	\$2.82 to \$2.97

Q1 2018 PLANNING ASSUMPTIONS

Xylem Organic Growth	+5% to 6%
Adjusted Operating Margin	11.3% to 11.5%
Adjusted EBITDA	17.0% to 17.2%
Pure Acquisition	-30 bps Op Margin / \$0.01 dilutive

**IMPROVING MARKET PERFORMANCE AND EXECUTION DRIVE
20% EPS GROWTH AT MIDPOINT OF 2018 GUIDANCE**

SUMMARY

- **Delivered on our 2017 financial commitments and building on our second half momentum to further accelerate growth & execution in 2018**
- **Critical progress on each of our strategic priorities in a transformative year for Xylem**
- **Strong financial position bolstered by healthy cash flow conversion and well-positioned to continue to deploy capital in a disciplined manner to address customer pain points and create value**
- **On-track to improve performance in 2018 and deliver on our 2020 Plan**

APPENDIX

FOREIGN EXCHANGE TRANSLATION SENSITIVITY

Foreign Exchange Translation

- The table below illustrates the impact of FX fluctuations on Xylem's reported results

	2018 Guidance Rate	Rates assuming 5% increase in Guidance Rate	FY Revenue Impact of 5% Increase in Rate*	FY EPS Impact of 5% Increase in Rate*
Euro	1.21	1.27	\$42M	\$0.07
GBP	1.35	1.41	\$14M	-
SEK	0.12	0.13	\$7M	-\$0.01
RMB	0.15	0.16	\$13M	\$0.01
All Other			\$49M	\$0.01
Total			\$125M	\$0.08

* Decrease in rate would have inverse impact on results.

**RULE OF THUMB: 1 PENNY MOVEMENT IN EUR/USD RATE,
EQUATES TO ONE PENNY MOVEMENT IN EPS FOR THE FULL YEAR**

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 and amortization expense. **"Adjusted EBITDA"** reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, Sensus acquisition related costs, gain or loss from sale of businesses 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 or loss from sale of businesses, special charges and tax-related special items, as applicable. For Sensus historical adjustments, see Sensus Historical -

"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, costs related to the recognition of the backlog intangible asset amortization and inventory step-up recorded in purchase accounting.

"Special charges" defined as costs incurred by the Company, such as non-cash impairment charges, due diligence costs, initial acquisition and integration 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>Year Ended December 31</u>											
Xylem Inc.	4,868	3,824	1,044	27%	(751)	(33)	260	7%	26%		
Water Infrastructure	2,112	1,957	155	8%	-	(16)	139	7%	7%		
Applied Water	1,476	1,405	71	5%	11	(3)	79	6%	5%		
Measurement & Control Solutions	1,280	462	818	177%	(762)	(14)	42	9%	174%		
<u>Quarter Ended December 31</u>											
Xylem Inc.	1,270	1,067	203	19%	(63)	(37)	103	10%	16%		
Water Infrastructure	566	492	74	15%	-	(20)	54	11%	11%		
Applied Water	373	348	25	7%	6	(9)	22	6%	5%		
Measurement & Control Solutions	331	227	104	46%	(69)	(8)	27	12%	42%		
<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>Year Ended December 31</u>														
Xylem Inc.	4,707	3,771	936	25%	(780)	(34)	122	3%					24%	
Water Infrastructure	2,004	1,932	72	4%	-	(16)	56	3%					3%	
Applied Water	1,421	1,393	28	2%	10	(4)	34	2%					2%	
Measurement & Control Solutions	1,282	446	836	187%	(790)	(14)	32	7%					184%	
<u>Quarter Ended December 31</u>														
Xylem Inc.	1,277	1,095	182	17%	(70)	(37)	75	7%					13%	
Water Infrastructure	583	530	53	10%	-	(21)	32	6%					6%	
Applied Water	373	351	22	6%	5	(9)	18	5%					4%	
Measurement & Control Solutions	321	214	107	50%	(75)	(7)	25	12%					47%	
<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			
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Impact	Change	% Change		
	2017	2016 (a)	2017 v. 2016	2017 v. 2016	Divestitures		Adj. 2017 v. 2016	Adj. 2017 v. 2016		
<u>Year Ended December 31</u>										
Xylem Inc.	4,707	4,533	174	4%	6	(21)	159	4%		3%
Water Infrastructure	2,004	1,932	72	4%	-	(16)	56	3%		3%
Applied Water	1,421	1,393	28	2%	10	(4)	34	2%		2%
Measurement & Control Solutions	1,282	1,208	74	6%	(4)	(1)	69	6%		6%
<u>Quarter Ended December 31</u>										
Xylem Inc.	1,277	1,164	113	10%	3	(37)	79	7%		7%
Water Infrastructure	583	530	53	10%	-	(21)	32	6%		6%
Applied Water	373	351	22	6%	5	(9)	18	5%		4%
Measurement & Control Solutions	321	283	38	13%	(2)	(7)	29	10%		11%
<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 ten months ended October 31, 2016 which was prior to Xylem acquiring the businesses.

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

	Q1		Q2		Q3		Q4		YTD	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total Revenue										
• Total Xylem	1,071	847	1,164	932	1,195	897	1,277	1,095	4,707	3,771
• Water Infrastructure	419	440	482	484	520	478	583	530	2,004	1,932
• Applied Water	333	333	361	366	354	343	373	351	1,421	1,393
• Measurement & Control Solutions	319	74	321	82	321	76	321	214	1,282	446
Operating Income										
• Total Xylem	86	79	139	109	152	109	179	109	556	406
• Water Infrastructure	40	51	74	66	91	75	103	99	308	291
• Applied Water	36	39	49	51	51	50	61	48	197	188
• Measurement & Control Solutions	25	3	29	4	26	4	30	(11)	110	-
• Total Segments	101	93	152	121	168	129	194	136	615	479
Operating Margin										
• Total Xylem	8.0%	9.3%	11.9%	11.7%	12.7%	12.2%	14.0%	10.0%	11.8%	10.8%
• Water Infrastructure	9.5%	11.6%	15.4%	13.6%	17.5%	15.7%	17.7%	18.7%	15.4%	15.1%
• Applied Water	10.8%	11.7%	13.6%	13.9%	14.4%	14.6%	16.4%	13.7%	13.9%	13.5%
• Measurement & Control Solutions	7.8%	4.1%	9.0%	4.9%	8.1%	5.3%	9.3%	-5.1%	8.6%	0.0%
• Total Segments	9.4%	11.0%	13.1%	13.0%	14.1%	14.4%	15.2%	12.4%	13.1%	12.7%
Sensus Acquisition Related Costs										
• Total Xylem	10	-	4	-	5	10	3	43	22	53
• Water Infrastructure	-	-	-	-	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Measurement & Control Solutions	6	-	3	-	4	-	2	25	15	25
• Total Segments	6	-	3	-	4	-	2	25	15	25
Special Charges										
• Total Xylem	5	4	-	1	3	-	3	-	11	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	9	15	41	47
• Water Infrastructure	4	3	5	6	3	5	4	2	16	16
• Applied Water	4	3	5	3	5	3	3	7	17	16
• Measurement & Control Solutions	3	1	2	2	1	4	2	6	8	13
• Total Segments	11	7	12	11	9	12	9	15	41	45
Adjusted Operating Income										
• Total Xylem	112	92	155	121	169	131	194	167	630	511
• Water Infrastructure	44	56	79	72	94	80	107	101	324	309
• Applied Water	45	42	54	54	56	53	64	55	219	204
• Measurement & Control Solutions	34	6	34	7	31	8	34	20	133	41
• Total Segments	123	104	167	133	181	141	205	176	676	554
Adjusted Operating Margin										
• Total Xylem	10.5%	10.9%	13.3%	13.0%	14.1%	14.6%	15.2%	15.3%	13.4%	13.6%
• Water Infrastructure	10.5%	12.7%	16.4%	14.9%	18.1%	16.7%	18.4%	19.1%	16.2%	16.0%
• Applied Water	13.5%	12.6%	15.0%	14.8%	15.8%	15.5%	17.2%	15.7%	15.4%	14.6%
• Measurement & Control Solutions	10.7%	8.1%	10.6%	8.5%	9.7%	10.5%	10.6%	9.3%	10.4%	9.2%
• Total Segments	11.5%	12.3%	14.3%	14.3%	15.1%	15.7%	16.1%	16.1%	14.4%	14.7%

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

(\$ Millions)

	2017				
	Q1	Q2	Q3	Q4	Total
Net Income	56	100	104	70	330
Income Tax Expense	14	21	27	74	136
Interest Expense (Income), net	20	20	20	19	79
Depreciation	28	27	28	26	109
Amortization	31	30	30	34	125
EBITDA	149	198	209	223	779
Share-based Compensation	6	5	5	5	21
Restructuring & Realignment	11	12	9	9	41
Gain on sale of business	(5)	-	1	14	10
Sensus Acquisition Related Costs	7	2	3	2	14
Special Charges	5	-	3	5	13
Adjusted EBITDA	173	217	230	258	878
Revenue	1,071	1,164	1,195	1,277	4,707
Adjusted EBITDA Margin	16.2%	18.6%	19.2%	20.2%	18.7%

	2016				
	Q1	Q2	Q3	Q4	Total
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
EBITDA	111	142	143	163	559
Share-based Compensation	5	5	5	3	18
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
EBITDA and Adjusted EBITDA by Quarter
Water Infrastructure
(\$ Millions)

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	41	73	92	105	311
Interest Expense (Income), net	-	-	(1)	(1)	(2)
Depreciation	11	11	12	11	45
Amortization	5	4	5	5	19
EBITDA	57	88	108	120	373
Share-based Compensation	1	-	-	1	2
Restructuring & Realignment	4	5	3	4	16
Adjusted EBITDA	62	93	111	125	391
Revenue	419	482	520	583	2,004
Adjusted EBITDA Margin	14.8%	19.3%	21.3%	21.4%	19.5%

	2016				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	51	66	76	99	292
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
EBITDA	68	82	93	114	357
Share-based Compensation	1	-	1	-	2
Sensus Acquisition Related Costs	-	-	-	-	-
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	62	200
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	-	3
EBITDA	44	55	57	67	223
Share-based Compensation	-	1	1	-	2
Restructuring & Realignment	4	5	5	3	17
Gain on sale of business	(5)	-	1	(2)	(6)
Special Charges	5	-	-	-	5
Adjusted EBITDA	48	61	64	68	241
Revenue	333	361	354	373	1,421
Adjusted EBITDA Margin	14.4%	16.9%	18.1%	18.2%	17.0%
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	38	52	50	48	188
Interest, net	-	-	-	-	-
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	1	4
EBITDA	44	58	56	54	212
Share-based Compensation	-	1	-	-	1
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				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	24	30	27	11	92
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	8	8	7	7	30
Amortization	23	22	22	25	92
EBITDA	55	60	56	42	213
Share-based Compensation	-	1	-	1	2
Restructuring & Realignment	3	2	1	2	8
Gain on sale of business	-	-	-	16	16
Sensus Acquisition Related Costs	3	1	2	1	7
Special Charges	-	-	-	2	2
Adjusted EBITDA	61	64	59	64	248
Revenue	319	321	321	321	1,282
Adjusted EBITDA Margin	19.1%	19.9%	18.4%	19.9%	19.3%
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	3	4	4	(11)	-
Interest Expense (Income), net	-	-	-	-	-
Depreciation	1	1	1	5	8
Amortization	4	4	4	21	33
EBITDA	8	9	9	15	41
Share-based Compensation	-	-	-	-	-
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				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	24	30	27	11	92
Interest, net	-	-	-	(1)	(1)
Depreciation	8	8	7	7	30
Amortization	23	22	22	25	92
EBITDA	55	60	56	42	213
Stock Compensation	-	1	-	1	2
Restructuring & Realignment	3	2	1	2	8
Gain on sale of business	-	-	-	16	16
Sensus acquisition related costs	3	1	2	1	7
Special Charges	-	-	-	2	2
Adjusted EBITDA	61	64	59	64	248
Revenue	319	321	321	321	1,282
Adjusted EBITDA Margin	19.1%	19.9%	18.4%	19.9%	19.3%
	2016				
	Q1	Q2	Q3	Q4	Total
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 rese	(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 ten months ended October 31 2016 which was prior to Xylem acquiring the businesses.

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

	Q4 2017			Q4 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,277		1,277	1,095		1,095
Operating Income	179	15 a	194	109	58 a	167
Operating Margin	14.0%		15.2%	10.0%		15.3%
Interest Expense	(20)		(20)	(20)	1 e	(19)
Other Non-Operating Income (Expense)	(1)	2 b	1	1		1
(Loss)/Gain from sale of business	(14)	14	-			-
Income before Taxes	144	31	175	90	59	149
Provision for Income Taxes	(74)	36 c	(38)	(40)	9 c	(31)
Gain/(Loss) attributable to minority interest	1	(1) d	-	-		-
Net Income attributable to Xylem	71	66	137	50	68	118
Diluted Shares	181.3		181.3	180.6		180.6
Diluted EPS	\$ 0.40	\$ 0.36	\$ 0.76	\$ 0.28	\$ 0.38	\$ 0.66

Year-over-year currency translation impact on current year diluted EPS	\$ 0.02	\$ -	\$ 0.02
Diluted EPS at Constant Currency	\$ 0.38	\$ 0.36	\$ 0.74

	Q4 YTD 2017			Q4 YTD 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	4,707		4,707	3,771		3,771
Operating Income	556	74 a	630	406	105 a	511
Operating Margin	11.8%		13.4%	10.8%		13.6%
Interest Expense	(82)		(82)	(70)	13 e	(57)
Other Non-Operating Income (Expense)	2	2 b	4	4		4
(Loss)/Gain from sale of business	(10)	10	-	-		-
Income before Taxes	466	86	552	340	118	458
Provision for Income Taxes	(136)	17 c	(119)	(80)	(14) c	(94)
Income attributable to minority interest	1	(1) d	-	-		-
Net Income attributable to Xylem	331	102	433	260	104	364
Diluted Shares	180.9		180.9	180.0		180.0
Diluted EPS	\$ 1.83	\$ 0.57	\$ 2.40	\$ 1.45	\$ 0.58	\$ 2.03

Year-over-year currency translation impact on current year diluted EPS	\$ (0.02)	\$ 0.02	\$ -
Diluted EPS at Constant Currency	\$ 1.85	\$ 0.55	\$ 2.40

a Fourth quarter: Restructuring & realignment costs of \$9 million and \$15 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$3 million and \$43 million in 2017 and 2016 and special charges of \$3 million of other acquisition costs in 2017.

Year-to-date: Restructuring & realignment costs of \$41 million and \$47 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$22 million and \$53 million in 2017 and 2016, respectively and special charges of \$11 million (\$5 million of asset impairment, \$3 million of due diligence costs and \$3 of other acquisition costs) in 2017 and \$5 million of initial acquisition costs in 2016.

b Special charges of a write-down of investment in joint venture of \$2 million in the fourth quarter of 2017.

c Fourth quarter: Net tax impact on restructuring & realignment costs of \$2 million and \$4 million in 2017 and 2016, respectively, net tax impact on Sensus acquisition related costs of \$1 million and \$15 million in 2017 and 2016, respectively, net tax impact on special charges of \$1 million in 2017 and tax-related special items of \$40 million and \$28 million of benefit in 2017 and 2016, respectively.

Year-to-date: Net tax impact on restructuring & realignment costs of \$13 million in both 2017 and 2016, respectively, net tax impact on Sensus acquisition related costs of \$8 million and \$15 million in 2017 and 2016, respectively, net tax impact on special charges of \$4 million and \$7 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 items of \$40 million and \$21 million of benefit in 2017 and 2016, respectively.

d Special item consisting of minority interest income attributable to the loss on a joint venture held for sale in the fourth quarter of 2017.

e Fourth quarter special charges of \$1 million of financing costs related to the bridge loan entered into for the Sensus acquisition in 2016. Year-to-date special charges of \$5 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 in 2016.

Net Cash - Operating Activities vs. Free Cash Flow
(\$ Millions)

	Q1		Q2		Q3		Q4		Year Ended	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net Cash - Operating Activities	\$ 58	\$ 41	\$ 93	\$ 84	\$ 228	\$ 149	\$ 307	\$ 223	\$ 686	\$ 497
Capital Expenditures	(49)	(37)	(28)	(25)	(42)	(28)	(51)	(34)	(170)	(124)
Free Cash Flow	<u>\$ 9</u>	<u>\$ 4</u>	<u>\$ 65</u>	<u>\$ 59</u>	<u>\$ 186</u>	<u>\$ 121</u>	<u>\$ 256</u>	<u>\$ 189</u>	<u>\$ 516</u>	<u>\$ 373</u>
Cash paid for Sensus acquisition related costs	(17)	-	(5)	-	(1)	(3)	(5)	(10)	(28)	(13)
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>\$ 261</u>	<u>\$ 199</u>	<u>\$ 544</u>	<u>\$ 386</u>
Net Income	56	66	100	71	104	73	70	50	330	260
Gain/(Loss) from sale of businesses	5	-	-	-	(1)	-	(14)	-	(10)	-
Special Charges - non-cash impairment and early debt extinguishment	(5)	-	-	(8)	-	-	(2)	-	(7)	(8)
Sensus acquisition related costs	(10)	-	(4)	-	(5)	(10)	(3)	(43)	(22)	(53)
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>\$ 89</u>	<u>\$ 93</u>	<u>\$ 369</u>	<u>\$ 321</u>
Free Cash Flow Conversion	<u>39%</u>	<u>6%</u>	<u>67%</u>	<u>75%</u>	<u>170%</u>	<u>149%</u>	<u>293%</u>	<u>214%</u>	<u>147%</u>	<u>120%</u>

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

	Q1		Q2		Q3		Q4		YTD	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	319	302	321	319	321	304	321	282	1,282	1,207
Operating Income	25	52	29	44	26	34	30	(44)	110	86
Operating Margin	7.8%	17.2%	9.0%	13.8%	8.1%	11.2%	9.3%	-15.6%	8.6%	7.1%
Reversal of product warranty reserve	-	(27)	-	-	-	-	-	-	-	(27)
Restructuring & realignment costs	3	4	2	3	1	4	2	6	8	17
Sensus acquisition related costs	6	-	3	-	4	1	2	63	15	64
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	34	25	133	149
Adjusted Operating Margin	10.7%	11.3%	10.6%	15.7%	9.7%	13.2%	10.6%	8.9%	10.4%	12.3%

(a) Includes Sensus and Visenti results for the ten months ended October 31 2016 which was prior to Xylem acquiring the businesses.

xylem

Let's Solve Water

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