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

FORM 8-K

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

Date of Report (Date of earliest event reported): October 30, 2018

XYLEM INC.

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction
of incorporation)

001-35229
(Commission
File Number)

45-2080495
(IRS Employer
Identification No.)

1 International Drive
Rye Brook, New York
(Address of principal executive offices)

10573
(Zip Code)

(914) 323-5700
(Registrant's telephone number, including area code)
(Former name or former address, if changed since last report)

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))
- Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On October 30, 2018, Xylem Inc. issued a press release announcing its financial results for the third quarter ended September 30, 2018. A copy of the press release is furnished as Exhibit 99.1 to this report and is incorporated by reference herein.

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, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit

No. Description

[99.1](#) Press Release issued by Xylem Inc. on October 30, 2018.

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: October 30, 2018

By: /s/ E. Mark Rajkowski

E. Mark Rajkowski

Senior Vice President & Chief Financial Officer
(Authorized Officer of Registrant)

EXHIBIT INDEX

| Exhibit No. | Description |
|----------------------|---|
| 99.1 | Press Release issued by Xylem Inc. on October 30, 2018. |


Xylem Inc.

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**Xylem reports strong quarter with eight percent growth
 in organic revenue and orders; double-digit growth in 3rd quarter 2018 earnings**

- **Third quarter 2018 reported net income was \$130 million or \$0.72 per share; Adjusted net income for the quarter was \$139 million or \$0.77 per share, up 18 percent versus the prior year period**
- **Xylem delivered \$1.3 billion in third quarter 2018 revenue, up eight percent year-over-year excluding the impact of foreign exchange and acquisitions**
- **Reported and adjusted EBITDA margin increased 150 and 110 basis points, respectively**
- **Company narrows full-year earnings outlook to reflect strong year-to-date performance and negative impact of foreign currency translation**

RYE BROOK, N.Y., October 30, 2018 - Xylem Inc. (NYSE: XYL), a leading global water technology company dedicated to solving the world's most challenging water issues, today reported third quarter 2018 net income of \$130 million, or \$0.72 per share. Excluding the impact of restructuring, realignment and other special items, the Company delivered adjusted net income of \$139 million or \$0.77 per share in the quarter, an 18-percent increase over the prior year period. Third quarter revenue was \$1.3 billion, up eight percent excluding the impact of foreign exchange and acquisitions. Revenue for the quarter increased eight percent on an organic basis, driven by continued strong growth in all end markets and across all major geographies. Orders also increased eight percent organically for the second consecutive quarter. Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) margin improved by 110 basis points year-over-year to 20.3 percent driven by volume leverage, savings from productivity initiatives and price realization. Reported operating margin in the quarter was 13.7 percent and adjusted operating margin increased 50 basis points year over year to 14.6 percent, including a 20-basis-point negative impact due to purchase accounting.

Patrick Decker, President and Chief Executive Officer of Xylem, said, "Our team delivered another quarter of strong results, positioning us well to meet our long-term growth and financial commitments. The organic growth we delivered in revenue and orders reflects strong performance in each of our major geographies and across all end markets. We see momentum strengthening in our ongoing efforts to drive commercial excellence and leverage our expanded portfolio, which are yielding more wins and share gains. Our focus on executing productivity initiatives and realizing additional pricing has enabled us to continue to mitigate ongoing inflationary pressures. I'm pleased with our teams' marketplace execution, which has continued to gain momentum throughout the year and sets us up for continued strong growth ahead."

Full-year 2018 Outlook

Xylem continues to forecast full-year 2018 revenue of approximately \$5.2 billion, up approximately 10 percent versus the prior year, including growth from previously announced acquisitions. On an organic basis, Xylem now anticipates revenue growth in the range of seven to eight percent.

Xylem has narrowed the range of its full-year 2018 earnings expectations to reflect the Company's strong operational performance year-to-date and the negative impact of foreign exchange translation. Full-year 2018 adjusted operating margin is now expected to be in the range of 13.9 to 14.0 percent, resulting in adjusted earnings per share of \$2.87 to \$2.89. This represents an increase of approximately 20 percent from Xylem's 2017 adjusted results. The Company's adjusted earnings outlook excludes projected integration, restructuring and realignment costs, which are expected to be approximately \$45 million for the year. 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.

Third Quarter Segment Results

Water Infrastructure

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

- Third quarter 2018 revenue was \$541 million, up eight percent organically compared with third quarter 2017. This growth includes an eight-percent increase in the utilities end market, which continues to show strength, particularly in Emerging Markets and North America. The industrial end market delivered mid-single-digit growth, driven by growing demand for Xylem's dewatering applications in construction, mining and the oil and gas sector.
- Third quarter reported operating income for the segment was \$99 million. Adjusted operating income for the segment, which excludes \$5 million of restructuring and realignment costs, was \$104 million, an 11-percent increase over the same period a year ago. Adjusted EBITDA margin for the Water Infrastructure segment increased 120 basis points to 22.2 percent. Reported operating margin for the segment was 18.3 percent, up 80 basis points versus the prior year, and adjusted operating margin increased 110 basis points to 19.2 percent. This growth reflects productivity gains, volume leverage and price realization, partially offset by inflation and higher investments in strategic growth initiatives.

Applied Water

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

- Third quarter 2018 Applied Water revenue was \$378 million, an eight-percent increase organically year over year. This performance reflects high-single-digit growth in the U.S., Western Europe and Emerging Markets. Strength in the commercial end market was driven by project activity as well as market share gains in U.S. and Europe. The Company's business in the industrial end market was particularly strong in the U.S., driven by healthy project business.
- Third quarter reported operating income for the segment was \$59 million and adjusted operating income, which excludes \$2 million of restructuring and realignment costs, was \$61 million, an 11-percent increase over the comparable period last year. Adjusted EBITDA margin for the Applied Water segment was 18 percent, an increase of 50 basis points over the prior year. Reported operating margin was 15.6 percent, up 150 basis points year over year, and adjusted operating margin increased 60 basis points to 16.1 percent as productivity initiatives, price realization and volume leverage more than offset inflation and unfavorable foreign exchange impacts.

Measurement & Control Solutions

Xylem's Measurement & Control Solutions segment consists of its portfolio of businesses in smart metering, network technologies, advanced infrastructure analytics and analytic instrumentation.

- Third quarter 2018 Measurement & Control Solutions revenue was \$368 million, up eight percent organically versus the prior year period. This reflects solid growth in the Sensus business, up high single digits year over year, driven by large project deployments in the gas sector and double-digit growth in the water sector in North America.
- Third quarter reported operating income for the segment was \$31 million, and adjusted operating income, which excludes \$4 million of restructuring and realignment costs and acquisition-related costs, was \$35 million, a nine-percent increase over the prior-year period. Adjusted EBITDA margin for the Measurement & Control Solutions segment increased 90 basis points to 19 percent. Reported operating margin for the segment was 8.4 percent, flat versus the prior year period. The benefits of volume leverage and productivity initiatives were more than offset by the funding of strategic growth investments, inflation and purchase accounting. This resulted in a 50-basis-point decrease in adjusted operating margin to 9.5 percent.

Supplemental information on Xylem's third quarter 2018 earnings and reconciliations for certain non-GAAP items is posted at www.xylem.com/investors.

About Xylem

Xylem (XYL) is a leading global water technology company committed to developing innovative technology solutions to the world's water challenges. The Company's products and services move, treat, analyze, monitor and return water to the environment in public utility, industrial, residential and commercial building services settings. Xylem also provides a leading portfolio of smart metering, network technologies and advanced infrastructure analytics solutions for water, electric and gas utilities. The Company's more than 16,500 employees bring broad applications expertise with a strong focus on identifying comprehensive, sustainable solutions. Headquartered in Rye Brook, New York with 2017 revenue of \$4.7 billion, Xylem does business in more than 150 countries through a number of market-leading product brands.

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.

Forward-Looking Statements

This press release contains information that may constitute "forward-looking statements." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "forecast," "believe," "target," "will," "could," "would," "should" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking.

These forward-looking statements include statements about the capitalization of Xylem Inc. (the "Company"), the Company's restructuring and realignment, future strategic plans and other statements that describe the Company's business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future - including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results - are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those

expressed or implied in, or reasonably inferred from, such forward-looking statements. Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade barriers and 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 talent and 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, 2017, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission. 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.

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XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)
(in millions, except per share data)

| For the periods ended September 30, | Three Months | | Nine Months | |
|--|--------------|-----------|-------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 1,287 | \$ 1,195 | \$ 3,821 | \$ 3,430 |
| Cost of revenue | 782 | 724 | 2,337 | 2,090 |
| Gross profit | 505 | 471 | 1,484 | 1,340 |
| Selling, general and administrative expenses | 279 | 270 | 868 | 812 |
| Research and development expenses | 46 | 45 | 137 | 131 |
| Restructuring and asset impairment charges, net | 4 | 4 | 19 | 22 |
| Operating income | 176 | 152 | 460 | 375 |
| Interest expense | 21 | 21 | 63 | 62 |
| Other non-operating income (expense), net | 4 | 1 | 9 | 5 |
| Gain (loss) from sale of business | 2 | (1) | — | 4 |
| Income before taxes | 161 | 131 | 406 | 322 |
| Income tax expense | 31 | 27 | 82 | 62 |
| Net income | \$ 130 | \$ 104 | \$ 324 | \$ 260 |
| Less: Net loss attributable to non-controlling interests | — | (1) | — | — |
| Net income attributable to Xylem | 130 | 105 | 324 | 260 |
| Earnings per share: | | | | |
| Basic | \$ 0.73 | \$ 0.58 | \$ 1.80 | \$ 1.45 |
| Diluted | \$ 0.72 | \$ 0.58 | \$ 1.79 | \$ 1.44 |
| Weighted average number of shares: | | | | |
| Basic | 179.7 | 179.6 | 179.8 | 179.6 |
| Diluted | 181.1 | 180.9 | 181.2 | 180.7 |
| Dividends declared per share | \$ 0.2100 | \$ 0.1800 | \$ 0.6300 | \$ 0.5400 |

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in millions, except per share amounts)

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 404 | \$ 414 |
| Receivables, less allowances for discounts and doubtful accounts of \$34 and \$35 in 2018 and 2017, respectively | 1,017 | 956 |
| Inventories | 622 | 524 |
| Prepaid and other current assets | 161 | 177 |
| Total current assets | 2,204 | 2,071 |
| Property, plant and equipment, net | 636 | 643 |
| Goodwill | 3,008 | 2,768 |
| Other intangible assets, net | 1,259 | 1,168 |
| Other non-current assets | 219 | 210 |
| Total assets | \$ 7,326 | \$ 6,860 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 570 | \$ 549 |
| Accrued and other current liabilities | 571 | 551 |
| Short-term borrowings and current maturities of long-term debt | 342 | — |
| Total current liabilities | 1,483 | 1,100 |
| Long-term debt | 2,189 | 2,200 |
| Accrued postretirement benefits | 409 | 442 |
| Deferred income tax liabilities | 284 | 252 |
| Other non-current accrued liabilities | 330 | 347 |
| Total liabilities | 4,695 | 4,341 |
| Stockholders' equity: | | |
| Common Stock – par value \$0.01 per share: | | |
| Authorized 750.0 shares, issued 192.9 shares and 192.3 shares in 2018 and 2017, respectively | 2 | 2 |
| Capital in excess of par value | 1,942 | 1,912 |
| Retained earnings | 1,452 | 1,227 |
| Treasury stock – at cost 13.2 shares and 12.4 shares in 2018 and 2017, respectively | (486) | (428) |
| Accumulated other comprehensive loss | (293) | (210) |
| Total stockholders' equity | 2,617 | 2,503 |
| Non-controlling interest | 14 | 16 |
| Total equity | 2,631 | 2,519 |
| Total liabilities and stockholders' equity | \$ 7,326 | \$ 6,860 |

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in millions)

| For the nine months ended September 30, | 2018 | 2017 |
|---|---------------|---------------|
| Operating Activities | | |
| Net income | \$ 324 | \$ 260 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 87 | 83 |
| Amortization | 108 | 91 |
| Share-based compensation | 23 | 16 |
| Restructuring and asset impairment charges | 19 | 22 |
| Loss (gain) from sale of business | — | (4) |
| Other, net | 2 | 18 |
| Payments for restructuring | (18) | (25) |
| Changes in assets and liabilities (net of acquisitions): | | |
| Changes in receivables | (76) | (114) |
| Changes in inventories | (115) | (14) |
| Changes in accounts payable | 51 | 3 |
| Other, net | (17) | 43 |
| Net Cash – Operating activities | 388 | 379 |
| Investing Activities | | |
| Capital expenditures | (171) | (119) |
| Acquisition of business, net of cash acquired | (433) | (16) |
| Proceeds from sale of assets and business | 22 | 11 |
| Cash received from investments | — | 10 |
| Cash paid for investments | — | (11) |
| Other, net | 3 | 3 |
| Net Cash – Investing activities | (579) | (122) |
| Financing Activities | | |
| Short-term debt issued, net | 410 | — |
| Short-term debt repaid | (50) | (184) |
| Repurchase of common stock | (58) | (25) |
| Proceeds from exercise of employee stock options | 7 | 8 |
| Dividends paid | (114) | (97) |
| Other, net | — | (1) |
| Net Cash – Financing activities | 195 | (299) |
| Effect of exchange rate changes on cash | (14) | 17 |
| Net change in cash and cash equivalents | (10) | (25) |
| Cash and cash equivalents at beginning of year | 414 | 308 |
| Cash and cash equivalents at end of period | \$ 404 | \$ 283 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 47 | \$ 46 |
| Income taxes (net of refunds received) | \$ 60 | \$ 58 |

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.

"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.

"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 recorded in purchase accounting.

"Special charges" defined as costs incurred by the Company, such as non-cash impairment charges, acquisition and integration related costs not related to Sensus, due diligence costs and other special non-operating items.

"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.

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

| | <u>(As Reported - GAAP)</u> | | | | <u>(As Adjusted - Organic)</u> | | | <u>Constant Currency</u> | | |
|--|-----------------------------|--------|------------------------|--------------------------|--------------------------------|--------------|--------------------------------|-------------------------------|-------------------|--|
| | (A) | (B) | | | (C) | (D) | (E)=B+C+D | (F) = E/A | (G) = (E - C) / A | |
| | Orders | Orders | Change 2018 v. 2017 | % Change 2018 v. 2017 | Acquisitions/ Divestitures | FX Impact | Change Adj. 2018 v. 2017 | % Change Adj. 2018 v. 2017 | | |
| 2018 | 2017 | | | | | | | | | |
| <u>Nine Months Ended September 30</u> | | | | | | | | | | |
| Xylem Inc. | 4,054 | 3,598 | 456 | 13 % | (69) | (62) | 325 | 9 % | 11 % | |
| Water Infrastructure | 1,671 | 1,546 | 125 | 8 % | — | (25) | 100 | 6 % | 6 % | |
| Applied Water | 1,162 | 1,103 | 59 | 5 % | 12 | (18) | 53 | 5 % | 4 % | |
| Measurement & Control Solutions | 1,221 | 949 | 272 | 29 % | (81) | (19) | 172 | 18 % | 27 % | |
| <u>Quarter Ended September 30</u> | | | | | | | | | | |
| Xylem Inc. | 1,356 | 1,249 | 107 | 9 % | (27) | 24 | 104 | 8 % | 10 % | |
| Water Infrastructure | 537 | 558 | (21) | -4 % | — | 17 | (4) | -1 % | -1 % | |
| Applied Water | 377 | 374 | 3 | 1 % | 2 | 5 | 10 | 3 % | 2 % | |
| Measurement & Control Solutions | 442 | 317 | 125 | 39 % | (29) | 2 | 98 | 31 % | 40 % | |
| <u>Quarter Ended June 30</u> | | | | | | | | | | |
| Xylem Inc. | 1,378 | 1,212 | 166 | 14 % | (34) | (30) | 102 | 8 % | 11 % | |
| Water Infrastructure | 580 | 521 | 59 | 11 % | — | (14) | 45 | 9 % | 9 % | |
| Applied Water | 401 | 375 | 26 | 7 % | 4 | (9) | 21 | 6 % | 5 % | |
| Measurement & Control Solutions | 397 | 316 | 81 | 26 % | (38) | (7) | 36 | 11 % | 23 % | |
| <u>Quarter Ended March 31</u> | | | | | | | | | | |
| Xylem Inc. | 1,320 | 1,137 | 183 | 16 % | (8) | (56) | 119 | 10 % | 11 % | |
| Water Infrastructure | 554 | 467 | 87 | 19 % | — | (28) | 59 | 13 % | 13 % | |
| Applied Water | 384 | 354 | 30 | 8 % | 6 | (14) | 22 | 6 % | 5 % | |
| Measurement & Control Solutions | 382 | 316 | 66 | 21 % | (14) | (14) | 38 | 12 % | 16 % | |

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

| | (As Reported - GAAP) | | | | (As Adjusted - Organic) | | | | Constant Currency | |
|--|----------------------|----------------|-------------------------------|--------------------------|---------------------------------------|---------------------|--|--|-------------------|-----|
| | Revenue | (A) Revenue | (B) Change 2018 v. 2017 | % Change 2018 v. 2017 | (C) Acquisitions / Divestitures | (D) FX Impact | (E) = B+C+D Change Adj. 2018 v. 2017 | (F) = E/A % Change Adj. 2018 v. 2017 | (G) = (E - C) / A | |
| | 2018 | 2017 | | | | | | | | |
| <u>Nine Months Ended September 30</u> | | | | | | | | | | |
| Xylem Inc. | 3,821 | 3,430 | 391 | 11% | (63) | (59) | 269 | 8% | | 10% |
| Water Infrastructure | 1,567 | 1,421 | 146 | 10% | — | (20) | 126 | 9% | | 9% |
| Applied Water | 1,132 | 1,048 | 84 | 8% | 10 | (18) | 76 | 7% | | 6% |
| Measurement & Control Solutions | 1,122 | 961 | 161 | 17% | (73) | (21) | 67 | 7% | | 15% |
| <u>Quarter Ended September 30</u> | | | | | | | | | | |
| Xylem Inc. | 1,287 | 1,195 | 92 | 8% | (22) | 24 | 94 | 8% | | 10% |
| Water Infrastructure | 541 | 520 | 21 | 4% | — | 18 | 39 | 8% | | 8% |
| Applied Water | 378 | 354 | 24 | 7% | 2 | 4 | 30 | 8% | | 8% |
| Measurement & Control Solutions | 368 | 321 | 47 | 15% | (24) | 2 | 25 | 8% | | 15% |
| <u>Quarter Ended June 30</u> | | | | | | | | | | |
| Xylem Inc. | 1,317 | 1,164 | 153 | 13% | (26) | (29) | 98 | 8% | | 11% |
| Water Infrastructure | 546 | 482 | 64 | 13% | — | (13) | 51 | 11% | | 11% |
| Applied Water | 388 | 361 | 27 | 7% | 3 | (8) | 22 | 6% | | 5% |
| Measurement & Control Solutions | 383 | 321 | 62 | 19% | (29) | (8) | 25 | 8% | | 17% |
| <u>Quarter Ended March 31</u> | | | | | | | | | | |
| Xylem Inc. | 1,217 | 1,071 | 146 | 14% | (15) | (54) | 77 | 7% | | 9% |
| Water Infrastructure | 480 | 419 | 61 | 15% | — | (25) | 36 | 9% | | 9% |
| Applied Water | 366 | 333 | 33 | 10% | 5 | (14) | 24 | 7% | | 6% |
| Measurement & Control Solutions | 371 | 319 | 52 | 16% | (20) | (15) | 17 | 5% | | 12% |

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

| | Q1 | | Q2 | | Q3 | | YTD | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Total Revenue | | | | | | | | |
| • Total Xylem | 1,217 | 1,071 | 1,317 | 1,164 | 1,287 | 1,195 | 3,821 | 3,430 |
| • Water Infrastructure | 480 | 419 | 546 | 482 | 541 | 520 | 1,567 | 1,421 |
| • Applied Water | 366 | 333 | 388 | 361 | 378 | 354 | 1,132 | 1,048 |
| • Measurement & Control Solutions | 371 | 319 | 383 | 321 | 368 | 321 | 1,122 | 961 |
| Operating Income | | | | | | | | |
| • Total Xylem | 113 | 86 | 171 | 137 | 176 | 152 | 460 | 375 |
| • Water Infrastructure | 49 | 41 | 92 | 74 | 99 | 91 | 240 | 206 |
| • Applied Water | 50 | 36 | 61 | 48 | 59 | 50 | 170 | 134 |
| • Measurement & Control Solutions | 33 | 25 | 31 | 29 | 31 | 27 | 95 | 81 |
| • Total Segments | 132 | 102 | 184 | 151 | 189 | 168 | 505 | 421 |
| Operating Margin | | | | | | | | |
| • Total Xylem | 9.3% | 8.0% | 13.0% | 11.8% | 13.7% | 12.7% | 12.0% | 10.9% |
| • Water Infrastructure | 10.2% | 9.8% | 16.8% | 15.4% | 18.3% | 17.5% | 15.3% | 14.5% |
| • Applied Water | 13.7% | 10.8% | 15.7% | 13.3% | 15.6% | 14.1% | 15.0% | 12.8% |
| • Measurement & Control Solutions | 8.9% | 7.8% | 8.1% | 9.0% | 8.4% | 8.4% | 8.5% | 8.4% |
| • Total Segments | 10.8% | 9.5% | 14.0% | 13.0% | 14.7% | 14.1% | 13.2% | 12.3% |
| Sensus Acquisition Related Costs | | | | | | | | |
| • Total Xylem | — | 10 | — | 4 | — | 5 | — | 19 |
| • Water Infrastructure | — | — | — | — | — | — | — | — |
| • Applied Water | — | — | — | — | — | — | — | — |
| • Measurement & Control Solutions | — | 6 | — | 3 | — | 4 | — | 13 |
| • Total Segments | — | 6 | — | 3 | — | 4 | — | 13 |
| Special Charges | | | | | | | | |
| • Total Xylem | 6 | 5 | 1 | — | 1 | 3 | 8 | 8 |
| • Water Infrastructure | — | — | — | — | — | — | — | — |
| • Applied Water | — | 5 | — | — | — | — | — | 5 |
| • Measurement & Control Solutions | 2 | — | 1 | — | — | — | 3 | — |
| • Total Segments | 2 | 5 | 1 | — | — | — | 3 | 5 |
| Restructuring & Realignment Costs | | | | | | | | |
| • Total Xylem | 16 | 11 | 10 | 12 | 11 | 9 | 37 | 32 |
| • Water Infrastructure | 5 | 4 | 5 | 5 | 5 | 3 | 15 | 12 |
| • Applied Water | 3 | 4 | 2 | 5 | 2 | 5 | 7 | 14 |
| • Measurement & Control Solutions | 8 | 3 | 3 | 2 | 4 | 1 | 15 | 6 |
| • Total Segments | 16 | 11 | 10 | 12 | 11 | 9 | 37 | 32 |
| Adjusted Operating Income | | | | | | | | |
| • Total Xylem | 135 | 112 | 182 | 153 | 188 | 169 | 505 | 434 |
| • Water Infrastructure | 54 | 45 | 97 | 79 | 104 | 94 | 255 | 218 |
| • Applied Water | 53 | 45 | 63 | 53 | 61 | 55 | 177 | 153 |
| • Measurement & Control Solutions | 43 | 34 | 35 | 34 | 35 | 32 | 113 | 100 |
| • Total Segments | 150 | 124 | 195 | 166 | 200 | 181 | 545 | 471 |
| Adjusted Operating Margin | | | | | | | | |
| • Total Xylem | 11.1% | 10.5% | 13.8% | 13.1% | 14.6% | 14.1% | 13.2% | 12.7% |
| • Water Infrastructure | 11.3% | 10.7% | 17.8% | 16.4% | 19.2% | 18.1% | 16.3% | 15.3% |
| • Applied Water | 14.5% | 13.5% | 16.2% | 14.7% | 16.1% | 15.5% | 15.6% | 14.6% |
| • Measurement & Control Solutions | 11.6% | 10.7% | 9.1% | 10.6% | 9.5% | 10.0% | 10.1% | 10.4% |
| • Total Segments | 12.3% | 11.6% | 14.8% | 14.3% | 15.5% | 15.1% | 14.3% | 13.7% |

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

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

| | Q3 2018 | | | Q3 2017 | | |
|---|------------------|------------------|------------------|----------------|----------------|----------------|
| | As Reported | Adjustments | Adjusted | As Reported | Adjustments | Adjusted |
| Total Revenue | 1,287 | | 1,287 | 1,195 | | 1,195 |
| Operating Income | 176 | 12 a | 188 | 152 | 17 a | 169 |
| Operating Margin | 13.7% | | 14.6% | 12.7% | | 14.1% |
| Interest Expense | (21) | | (21) | (21) | | (21) |
| Other Non-Operating Income (Expense) | 4 | | 4 | 1 | | 1 |
| Gain/(Loss) from sale of business | 2 | (2) | — | (1) | 1 | — |
| Income before Taxes | 161 | 10 | 171 | 131 | 18 | 149 |
| Provision for Income Taxes | (31) | (1) b | (32) | (27) | (4) b | (31) |
| Income attributable to minority interest | | | — | 1 | | 1 |
| Net Income attributable to Xylem | 130 | 9 | 139 | 105 | 14 | 119 |
| Diluted Shares | 181.1 | | 181.1 | 180.9 | | 180.9 |
| Diluted EPS | \$ 0.72 | \$ 0.05 | \$ 0.77 | \$ 0.58 | \$ 0.07 | \$ 0.65 |
| Year-over-year currency translation impact on current year diluted EPS | \$ (0.01) | \$ (0.01) | \$ (0.02) | | | |
| Diluted EPS at Constant Currency | \$ 0.73 | \$ 0.06 | \$ 0.79 | | | |

| | Q3 YTD 2018 | | | Q3 YTD 2017 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | As Reported | Adjustments | Adjusted | As Reported | Adjustments | Adjusted |
| Total Revenue | 3,821 | | 3,821 | 3,430 | | 3,430 |
| Operating Income | 460 | 45 a | 505 | 375 | 59 a | 434 |
| Operating Margin | 12.0% | | 13.2% | 11.0% | | 12.7% |
| Interest Expense | (63) | | (63) | (62) | | (62) |
| Other Non-Operating Income (Expense) | 9 | | 9 | 5 | | 5 |
| Gain/(Loss) from sale of business | — | — | — | 4 | (4) | — |
| Income before Taxes | 406 | 45 | 451 | 322 | 55 | 377 |
| Provision for Income Taxes | (82) | (6) b | (88) | (62) | (19) b | (81) |
| Income attributable to minority interest | — | | — | — | | — |
| Net Income attributable to Xylem | 324 | 39 | 363 | 260 | 36 | 296 |
| Diluted Shares | 181.2 | | 181.2 | 180.7 | | 180.7 |
| Diluted EPS | \$ 1.79 | \$ 0.21 | \$ 2.00 | \$ 1.44 | \$ 0.20 | \$ 1.64 |
| Year-over-year currency translation impact on current year diluted EPS | \$ 0.07 | \$ — | \$ 0.07 | | | |
| Diluted EPS at Constant Currency | \$ 1.72 | \$ 0.21 | \$ 1.93 | | | |

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

a QTD: Restructuring & realignment costs of \$11 million and \$9 million in 2018 and 2017, respectively; special charges of \$1 million of acquisition related costs in 2018 and \$3 million of due diligence costs in 2017; and \$5 million of Sensus acquisition related costs in 2017.

YTD: Restructuring & realignment costs of \$37 million and \$32 million in 2018 and 2017, respectively; special charges of \$8 million of acquisition related costs in 2018 and \$5 million of asset impairment and \$3 million of due diligence costs in 2017; and 2017 Sensus acquisition related costs of \$19 million.

b QTD: Net tax impact on restructuring & realignment costs of \$3 million and \$4 million in 2018 and 2017, respectively; net tax impact on 2017 Sensus acquisition related costs of \$2 million and special charges of \$1 million; and tax-related special items of \$2 million of benefit and \$3 million of benefit in 2018 and 2017, respectively.

YTD: Net tax impact on restructuring & realignment costs of \$10 million and \$11 million in 2018 and 2017, respectively; net tax impact on special charges of \$1 million and \$3 million in 2018 and 2017, respectively; net tax impact of \$7 million on 2017 Sensus acquisition related costs; net tax impact of \$2 million on the gain from sale of business in 2017; and tax-related special items of \$5 million of benefit and \$0 million in 2018 and 2017, respectively.

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

| | Q1 | | Q2 | | Q3 | | Nine Months Ended | |
|---|--------------|--------------|---------------|---------------|---------------|---------------|-------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net Cash - Operating Activities | \$ 63 | \$ 52 | \$ 138 | \$ 99 | \$ 187 | \$ 228 | \$ 388 | \$ 379 |
| Capital Expenditures | (61) | (43) | (50) | (34) | (60) | (42) | (171) | (119) |
| Free Cash Flow | <u>\$ 2</u> | <u>\$ 9</u> | <u>\$ 88</u> | <u>\$ 65</u> | <u>\$ 127</u> | <u>\$ 186</u> | <u>\$ 217</u> | <u>\$ 260</u> |
| Cash paid for Sensus acquisition related costs | (1) | (17) | — | (5) | — | (1) | (1) | (23) |
| Free Cash Flow, excluding Sensus Acquisition Related Costs | <u>\$ 3</u> | <u>\$ 26</u> | <u>\$ 88</u> | <u>\$ 70</u> | <u>\$ 127</u> | <u>\$ 187</u> | <u>\$ 218</u> | <u>\$ 283</u> |
| Net Income | 79 | 56 | 115 | 100 | 130 | 104 | 324 | 260 |
| Gain/(Loss) from sale of businesses | — | 5 | (2) | — | 2 | (1) | — | 4 |
| Special Charges - non-cash impairment | — | (5) | — | — | — | — | — | (5) |
| Sensus acquisition related costs | — | (10) | — | (4) | — | (5) | — | (19) |
| Net Income, excluding gain on sale of businesses, non-cash impairment charges and Sensus Acquisition Related Costs | <u>\$ 79</u> | <u>\$ 66</u> | <u>\$ 117</u> | <u>\$ 104</u> | <u>\$ 128</u> | <u>\$ 110</u> | <u>\$ 324</u> | <u>\$ 280</u> |
| Free Cash Flow Conversion | <u>4%</u> | <u>39%</u> | <u>75%</u> | <u>67%</u> | <u>99%</u> | <u>170%</u> | <u>67%</u> | <u>101%</u> |

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

| | 2018 | | | | |
|-----------------------------------|-------------|-----------|-----------|-----------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Total |
| Net Income | 79 | 115 | 130 | | 324 |
| Income Tax Expense | 16 | 35 | 31 | | 82 |
| Interest Expense (Income), net | 20 | 20 | 20 | | 60 |
| Depreciation | 29 | 29 | 29 | | 87 |
| Amortization | 38 | 36 | 34 | | 108 |
| EBITDA | 182 | 235 | 244 | | 661 |
| Share-based Compensation | 9 | 7 | 7 | | 23 |
| Restructuring & Realignment | 16 | 9 | 11 | | 36 |
| Loss/(Gain) from sale of business | — | 2 | (2) | | — |
| Special Charges | 6 | 1 | 1 | | 8 |
| Adjusted EBITDA | 213 | 254 | 261 | | 728 |
| Revenue | 1,217 | 1,317 | 1,287 | | 3,821 |
| Adjusted EBITDA Margin | 17.5% | 19.3% | 20.3% | | 19.1% |

| | 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 |
| Loss/(Gain) from 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% |

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

| | 2018 | | | | |
|--------------------------------|-------------|-----------|-----------|-----------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Total |
| Pre-Tax Income | 47 | 90 | 98 | | 235 |
| Interest Expense (Income), net | — | (1) | (1) | | (2) |
| Depreciation | 12 | 11 | 12 | | 35 |
| Amortization | 5 | 5 | 5 | | 15 |
| EBITDA | 64 | 105 | 114 | | 283 |
| Share-based Compensation | | | | | |
| | 1 | — | 1 | | 2 |
| Restructuring & Realignment | 5 | 5 | 5 | | 15 |
| Adjusted EBITDA | 70 | 110 | 120 | | 300 |
| Revenue | 480 | 546 | 541 | | 1,567 |
| Adjusted EBITDA Margin | 14.6% | 20.1% | 22.2% | | 19.1% |
| | | | | | |
| | 2017 | | | | |
| | Q1 | Q2 | Q3 | Q4 | Total |
| Pre-Tax Income | 39 | 73 | 90 | 105 | 307 |
| Interest Expense (Income), net | — | — | (1) | (1) | (2) |
| Depreciation | 11 | 11 | 12 | 11 | 45 |
| Amortization | 5 | 4 | 5 | 5 | 19 |
| EBITDA | 55 | 88 | 106 | 120 | 369 |
| Share-based Compensation | | | | | |
| | 1 | — | — | 1 | 2 |
| Restructuring & Realignment | 4 | 5 | 3 | 4 | 16 |
| Adjusted EBITDA | 60 | 93 | 109 | 125 | 387 |
| Revenue | 419 | 482 | 520 | 583 | 2,004 |
| Adjusted EBITDA Margin | 14.3% | 19.3% | 21.0% | 21.4% | 19.3% |

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

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

| 2018 | | | | | |
|---------------------------------|-----------|-----------|-----------|-----------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Total |
| Pre-Tax Income | 50 | 61 | 60 | | 171 |
| Interest Expense (Income), net | — | — | — | | — |
| Depreciation | 5 | 5 | 5 | | 15 |
| Amortization | — | 1 | 1 | | 2 |
| EBITDA | 55 | 67 | 66 | | 188 |
| Share-based Compensation | 1 | 1 | — | | 2 |
| Restructuring & Realignment | 3 | 2 | 2 | | 7 |
| Adjusted EBITDA | 59 | 70 | 68 | | 197 |
| Revenue | 366 | 388 | 378 | | 1,132 |
| Adjusted EBITDA Margin | 16.1% | 18.0% | 18.0% | | 17.4% |
| 2017 | | | | | |
| | Q1 | Q2 | Q3 | Q4 | Total |
| Pre-Tax Income | 40 | 49 | 49 | 62 | 200 |
| Interest Expense (Income), net | — | — | — | — | — |
| Depreciation | 5 | 5 | 5 | 5 | 20 |
| Amortization | 1 | 1 | 1 | — | 3 |
| EBITDA | 46 | 55 | 55 | 67 | 223 |
| Share-based Compensation | — | 1 | 1 | — | 2 |
| Restructuring & Realignment | 4 | 5 | 5 | 3 | 17 |
| Loss/(Gain) on sale of business | (5) | — | 1 | (2) | (6) |
| Special charges | 5 | — | — | — | 5 |
| Adjusted EBITDA | 50 | 61 | 62 | 68 | 241 |
| Revenue | 333 | 361 | 354 | 373 | 1,421 |
| Adjusted EBITDA Margin | 15.0% | 16.9% | 17.5% | 18.2% | 17.0% |

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

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

| 2018 | | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Total |
| Pre-Tax Income | 33 | 28 | 33 | | 94 |
| Interest Expense (Income), net | — | — | — | | — |
| Depreciation | 8 | 9 | 8 | | 25 |
| Amortization | 29 | 27 | 26 | | 82 |
| EBITDA | 70 | 64 | 67 | | 201 |
| Share-based Compensation | | | | | |
| | 1 | 1 | 1 | | 3 |
| Restructuring & Realignment | 8 | 3 | 4 | | 15 |
| Loss/(Gain) from sale of business | — | 2 | (2) | | — |
| Special Charges | 2 | 1 | — | | 3 |
| Adjusted EBITDA | 81 | 71 | 70 | | 222 |
| Revenue | 371 | 383 | 368 | | 1,122 |
| Adjusted EBITDA Margin | 21.8% | 18.5% | 19.0% | | 19.8% |
| 2017 | | | | | |
| | Q1 | Q2 | Q3 | Q4 | Total |
| Pre-Tax Income | 24 | 30 | 26 | 11 | 91 |
| Interest Expense (Income), net | — | — | — | (1) | (1) |
| Depreciation | 8 | 8 | 7 | 7 | 30 |
| Amortization | 23 | 22 | 22 | 25 | 92 |
| EBITDA | 55 | 60 | 55 | 42 | 212 |
| Share-based Compensation | | | | | |
| | — | 1 | — | 1 | 2 |
| Restructuring & Realignment | 3 | 2 | 1 | 2 | 8 |
| Loss from sale of business | — | — | — | 16 | 16 |
| Sensus Acquisition Related Costs | 3 | 1 | 2 | 1 | 7 |
| Special Charges | — | — | — | 2 | 2 |
| Adjusted EBITDA | 61 | 64 | 58 | 64 | 247 |
| Revenue | 319 | 321 | 321 | 321 | 1,282 |
| Adjusted EBITDA Margin | 19.1% | 19.9% | 18.1% | 19.9% | 19.3% |

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.