

XYLEM INC.

Q2 2017 EARNINGS RELEASE

AUGUST 1, 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.

Q2'17 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q2 2017	Adjusted* Q2 2017	GAAP YTD Q2 2017	Adjusted* YTD Q2 2017
Xylem Consolidated				
Revenue	1,164	1,164	2,235	2,235
Overall Growth	+25%	+25%	+26%	+26%
Constant Currency Growth		+26%		+27%
Pro Forma Organic Growth		+1%		+1%
Organic Growth		+1%		0%
Operating Income	139	155	225	267
Operating Margin	11.9%	13.3%	10.1%	11.9%
Earnings per Share	0.55	0.59	0.86	0.98
Segment Results				
Water Infrastructure				
Revenue	482	482	901	901
Overall Growth	0%	0%	-2%	-2%
Constant Currency Growth		+1%	-1%	-1%
Organic Growth		+1%	-1%	-1%
Operating Income	74	79	114	123
Operating Margin	15.4%	16.4%	12.7%	13.7%
Applied Water				
Revenue	361	361	694	694
Overall Growth	-1%	-1%	-1%	-1%
Constant Currency Growth		0%	+1%	+1%
Organic Growth		+1%	+1%	+1%
Operating Income	49	54	85	99
Operating Margin	13.6%	15.0%	12.2%	14.3%
Sensus & Analytics				
Revenue	321	321	640	640
Overall Growth	291%	291%	310%	310%
Constant Currency Growth		291%		310%
Pro Forma Organic Growth		+2%		+4%
Operating Income	29	34	54	68
Operating Margin	9.0%	10.6%	8.4%	10.6%

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

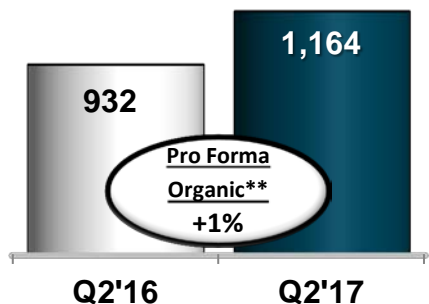
- **Solid 2Q performance, on track to deliver on our 2017 commitments**
 - +1% Pro Forma Organic* Growth ... In-line with previous guide
 - +1% Base Xylem Organic* Revenue Growth
 - +2% Sensus Pro Forma Organic* Revenue Growth
 - Adj. Op Margin* of 13.3%, up 30 bps (up 100 bps ex. Sensus amortization)
 - Adj. EBITDA* of 18.6%, up 150 bps (reflecting strong operational and Sensus performance)
 - Adj. EPS* of \$0.59, up 23%
- **Building momentum heading into the 2nd Half of 2017**
 - Stabilizing Industrial markets return to growth
 - Growth in Residential and Commercial markets offset tough PY Public Utility comp
 - Strong Organic* Orders growth +8%; growing backlog reflects market momentum
 - Major project win for Sensus reinforces growth rate in 2H and beyond
- **Raising and narrowing FY'17 EPS guide ... Adj. EPS range now \$2.30 to \$2.40**

SOLID 1st HALF AND POSITIONED WELL HEADING INTO 2nd HALF

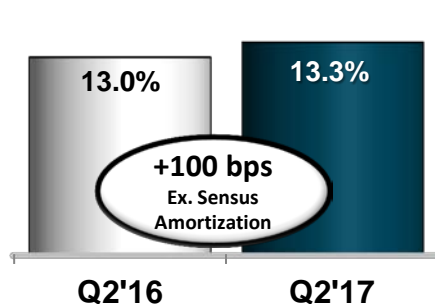
Q2'17 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

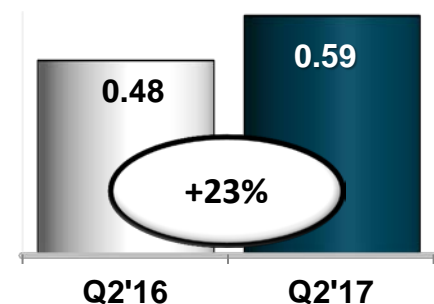
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Adj. EBITDA* 17.1% 18.6%

Organic Growth

By End Market

+ Industrial	+2%
+ Residential	+15%
+ Commercial	+3%
- Public Utility	-4%

Organic Growth

By Region

= U.S.	Flat
- W. Europe	-3%
+ Emerging Mkts	+7%

Key Performance Drivers

- Sensus delivers +2%; Base Xylem organic revenue +1%, in-line with expectations
- Return to growth in Industrial and continued market strength in Residential and Commercial offset tough comp in Public Utility
- Growth and cost reductions fund investments and offset inflation
 - Cost reductions drive 320 bps Op Margin expansion (EPS +\$0.16)
 - Cost inflation reduces Adj. Op Margin by 200 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 20 bps (EPS +\$0.11)
 - Incremental Interest expense (EPS -\$0.03)

Other: Tax Rate* 21.9% Share Count 180.6M

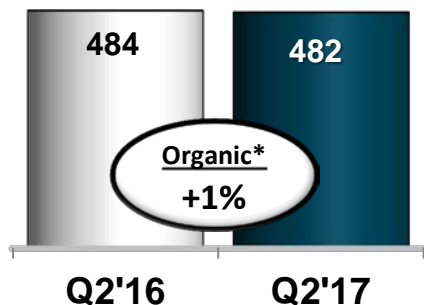
STABILIZING MARKETS AND RAMP IN PRODUCTIVITY DRIVE OPERATING MARGIN AND EPS EXPANSION

Q2'17 WATER INFRASTRUCTURE PERFORMANCE

Note: Results reflect shift of Xylem Analytics business from Water Infrastructure into Sensus & Analytics Segment as of 2Q 2017.

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Transport +2%
- Treatment -2%

By Regions

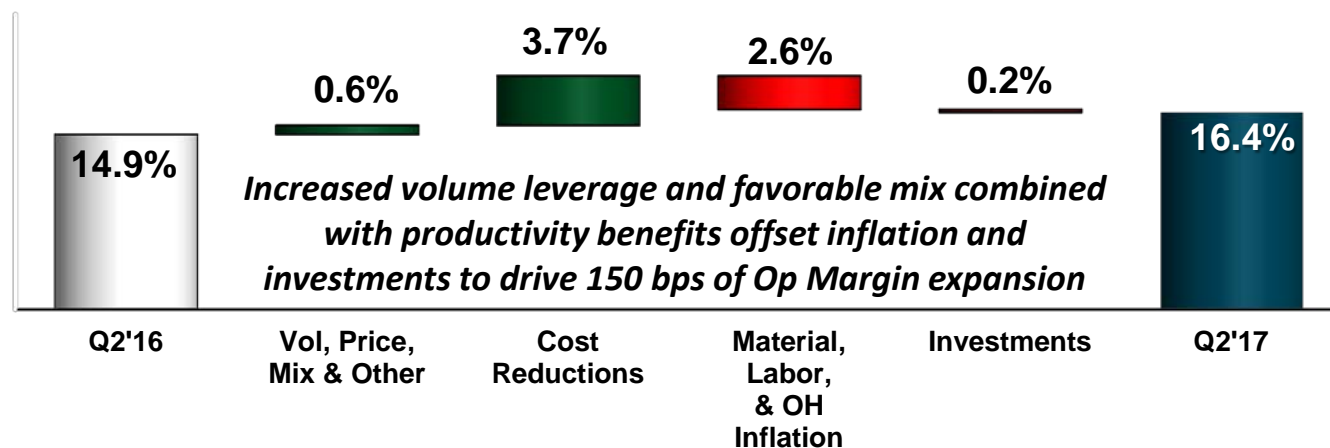
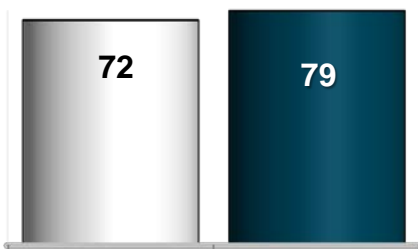
- + Emerging +11%
- + Canada +37%
- U.S. -1%
- W. Europe -4%

Highlights

- + +10% Organic Orders growth (underpinned by +21% growth in Treatment) reinforces health and outlook for Public Utility and Industrial end markets
- Softness in Public Utility from tough PY comp (+15% PY growth in global Public Utility) primarily in U.S. and Europe; partially offset by strength in Emerging Markets
- + Growth in Industrial driven by strength in Dewatering from Construction and stabilizing Mining / O&G markets in Canada and U.S.

ADJ. OP INCOME*

(Dollars, In Millions)



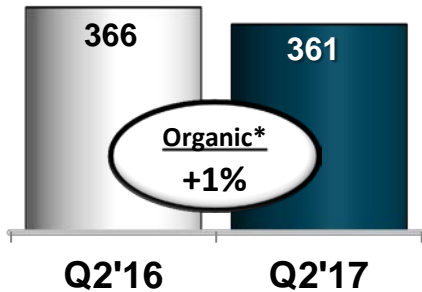
Adj. EBITDA* 18.2% (Q2'16) 19.3% (Q2'17)

STABILIZING MARKETS AND STRONG OPERATIONAL EXECUTION FUEL MARGIN EXPANSION

Q2'17 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Residential +15%
- + Commercial +3%
- Ind'l Water -8%

By Regions

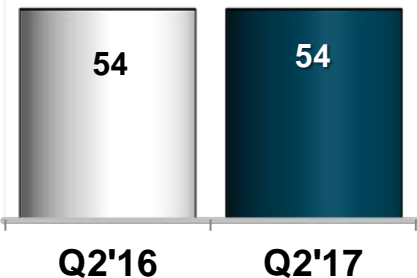
- + Emerging +3%
- W. Europe -1%
- = U.S. Flat

Highlights

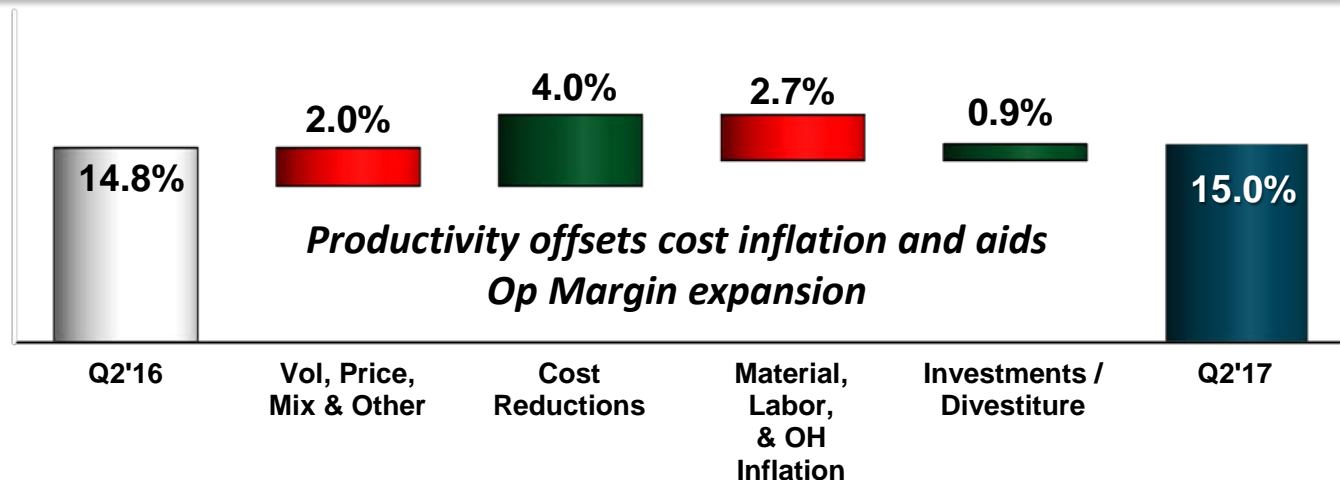
- + Strong Orders growth +6%; Reinforces 2H outlook
- + Residential market strength continues in the U.S. driven by promos and channel restocking; Commercial growth driven by strong book and ship business in U.S.
- Weakness in Industrial primarily relates to Agriculture business from unfavorable weather conditions in the U.S. and lagging Industrial project business in U.S. and Asia Pacific

ADJ. OP INCOME*

(Dollars, In Millions)



Adj. EBITDA* 16.9% 16.9%



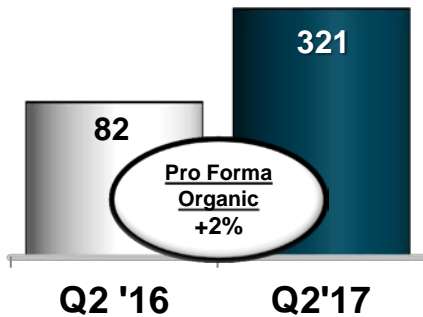
FAVORABLE MARKETS AND PRODUCTIVITY DRIVE REVENUE GROWTH AND MARGIN EXPANSION

Q2'17 SENSUS & ANALYTICS

Note: Results reflect combination of Xylem Analytics, Sensus and Visenti businesses as of 2Q 2017.

REVENUE

(Dollars, In Millions)



Pro Forma Organic* Growth Highlights

By Application

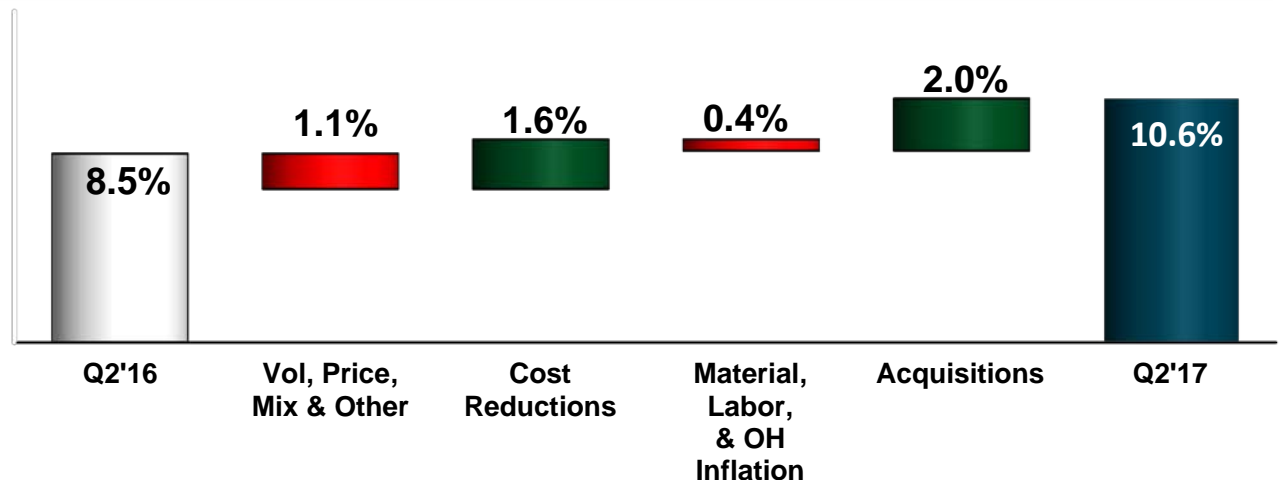
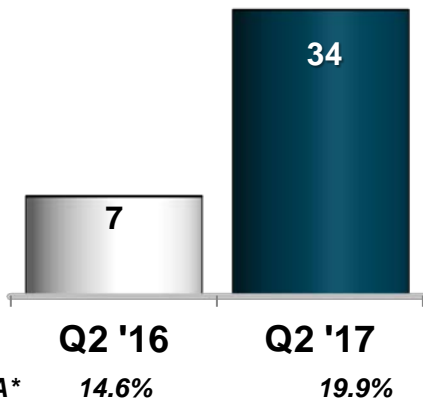
+ Smart Electric	+53%
- Smart Water	-8%
+ Smart Gas	+10%
+ Saas/Other	+11%
+ Test	+2%

By Regions

+ U.S.	+4%
+ Emerging	+13%
- W. Europe	-9%

- + Strength in Electric from strong new product performance (Stratus) and large U.S. project deployments
- Softness in Water as expected due to PY comps, which included distributor re-stocking of iPerl in NA and Thames Water (UK) deployment
- + Growth in Test from strong environmental monitoring business in NA
- + Orders up double digits in Sensus; up HSD in Analytics

ADJ. OP MARGIN*

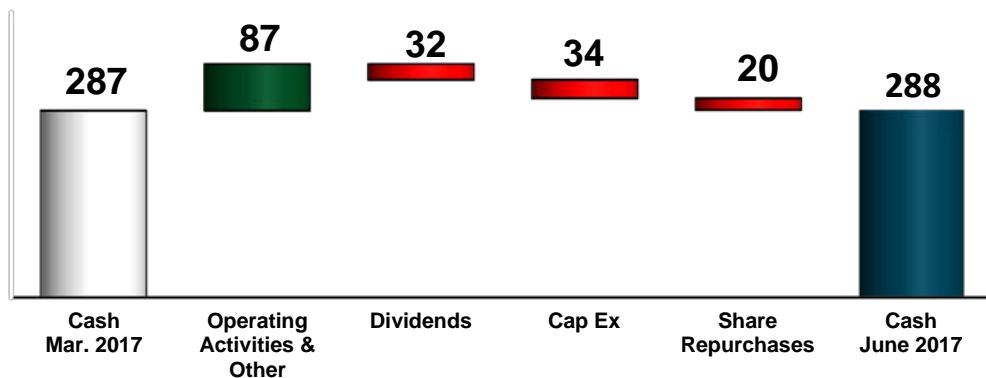


COMBINATION OF BUSINESSES BRINGS NATURAL SYNERGIES AND SIGNIFICANT OPPORTUNITIES TO DRIVE GROWTH

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

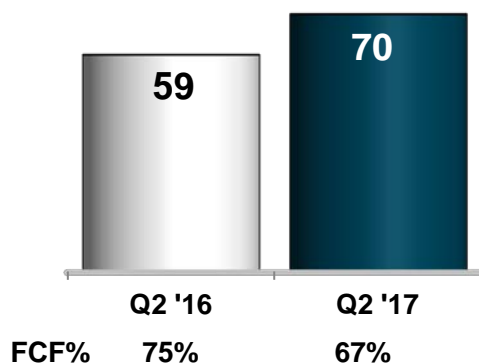


CAPITAL SUMMARY

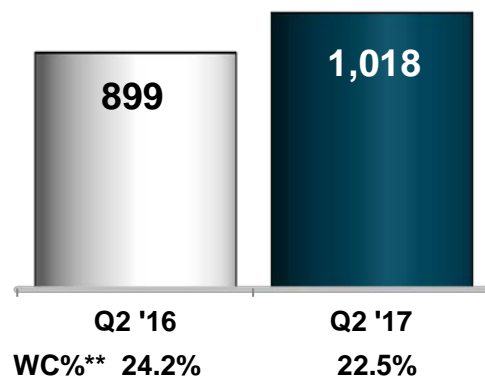
June 30, 2017

Cash	288
Debt	2,411
Net Debt	2,123
Shareholders' Equity	2,365
Net Capital	4,488
Net Debt to Net Capital	47%

FREE CASH FLOW*



WORKING CAPITAL

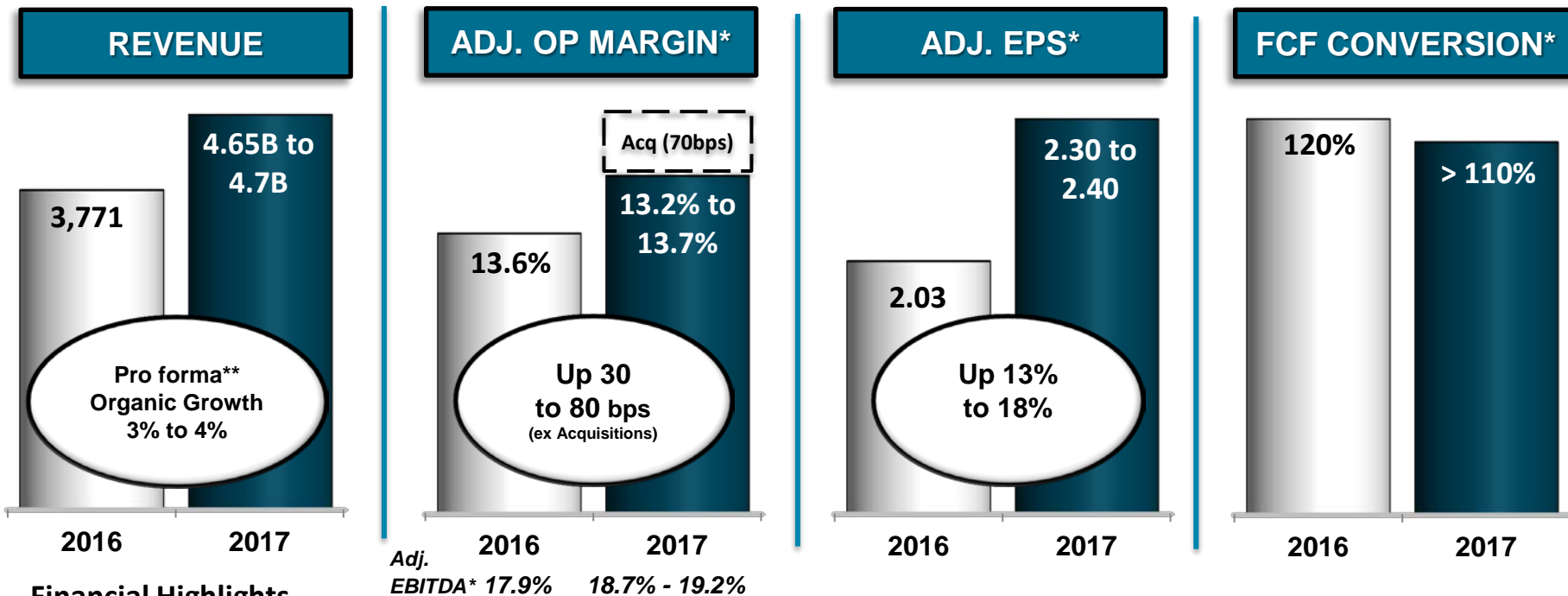


Financial Highlights

- Solid FCF generation / conversion
 - Strong 1H performance (56% conversion)
 - On-track for >110% FY'17 Plan
- Working Capital improves 170 bps
- \$20M share repurchase to offset dilution
- 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 1.15 (from 1.07)
- Xylem Pro Forma Organic growth of 3% to 4% (from 2% to 4%)
 - Xylem's base Organic Revenue growth of 2% to 3% (from 1% 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. acquisitions)
- Adjusted EPS now expected to be in the range of \$2.30 to \$2.40 (previously \$2.23 to \$2.38)

IMPROVING MARKETS REINFORCE 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)
- Timing of shipments in the UK / Delays in Amp 6 Cycle



Industrial (37% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: **Up Low Single Digits**
- Soft U.S. market conditions in 1H; modest 2H improvement
- 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 Low to Mid Single Digits**
- Strong U.S. position; Architecture Billings Index above 50 suggests stable low-growth market
- EU growth from new energy efficient products and sales channel investments



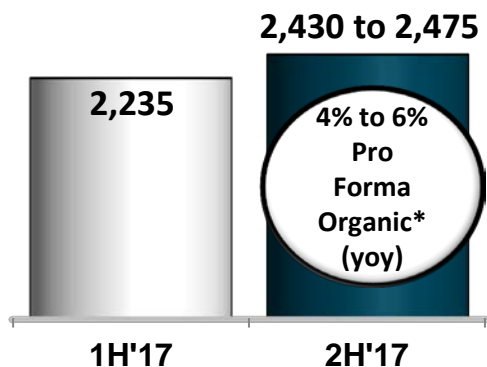
Residential (5% of 2016 Pro Forma Revenue)

- 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

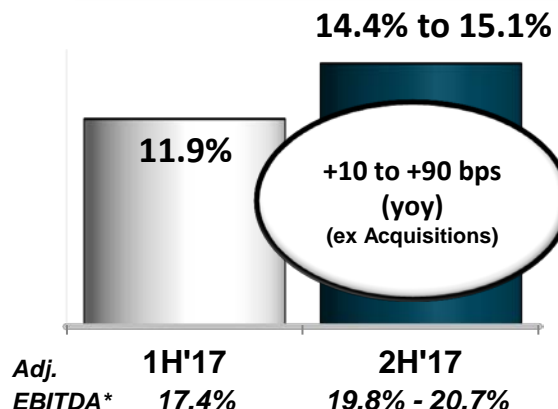
2H'17 OUTLOOK

(Dollars In Millions, except EPS)

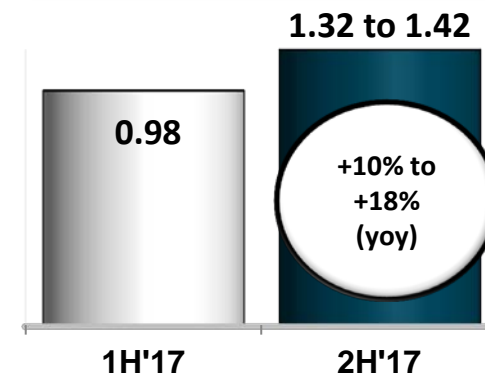
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Key Planning Assumptions

- **2H Revenue in-line with historical seasonal profile**
 - 3Q Base Xylem Organic Growth: +4% to +5%
 - 3Q Sensus Pro Forma Organic Growth: +6% to +7%
 - FX: Euro Rate: \$1.15 (July Month to date)
- **2H Op Income profile in-line with historic seasonal profile**
 - Volume, improved mix and ramp in productivity drives 60 to 120 bps of 2H margin expansion
 - 3Q Op Margin (yoy): -70 bps to -50 bps (Flat to +20 bps excluding Sensus amortization)

<u>Other Assumptions:</u>	<u>1H'17</u>	<u>2H'17</u>
Tax Rate:	21.9%	~22%
Share Count:	180.6	~181.0
Corporate Expense:	24	~24
Restructuring, Realignment & Integration Costs:	32	~8
Dividends	65	~65
Capex	77	~110 to 120
Interest Expense	41	~41

SOLID 1H PERFORMANCE ... FOCUSED ON 2H EXECUTION

SUMMARY

- **Strong 2Q results and stabilizing end markets provide momentum into the 2nd Half of 2017**
- **Focused on operational execution and Sensus integration to meet 2017 financial commitments**
- **Raising full year earnings guidance primarily to reflect foreign exchange favorability**
- **Delivering on our investment thesis**

APPENDIX

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 Operating Income table.

"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 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, 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 during Q2 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			
Six Months Ended June 30											
Xylem Inc.	2,349	1,811	538	30%	(465)	26	99	5%	31%		
Water Infrastructure	988	944	44	5%	-	16	60	6%	6%		
Applied Water	729	715	14	2%	3	10	27	4%	3%		
Sensus & Analytics	632	152	480	316%	(468)	-	12	8%	316%		
Quarter Ended June 30											
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%		
Sensus & Analytics	316	79	237	300%	(230)	-	7	9%	300%		
Quarter Ended March 31											
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%		
Sensus & Analytics	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	Revenue	Change	% Change	Acquisitions /	FX Impact	Change	% Change			
2017	2016	2017 v. 2016	2017 v. 2016	Divestitures		Adj. 2017 v. 2016	Adj. 2017 v. 2016				
Six Months Ended June 30											
Xylem Inc.	2,235	1,779	456	26%	(478)	25	3	0%	27%		
Water Infrastructure	901	924	(23)	-2%	-	15	(8)	-1%	-1%		
Applied Water	694	699	(5)	-1%	3	10	8	1%	1%		
Sensus & Analytics	640	156	484	310%	(481)	-	3	2%	310%		
Quarter Ended June 30											
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%		
Sensus & Analytics	321	82	239	291%	(238)	-	1	1%	291%		
Quarter Ended March 31											
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%		
Sensus & Analytics	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>Six Months Ended June 30</u>									
Xylem Inc.	2,235	2,244	(9)	0%	1	34	26	1%	1%
Water Infrastructure	901	924	(23)	-2%	-	15	(8)	-1%	-1%
Applied Water	694	699	(5)	-1%	3	10	8	1%	1%
Sensus & Analytics	640	621	19	3%	(2)	9	26	4%	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%
Sensus & Analytics	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%
Sensus & Analytics	319	302	17	6%	(2)	4	19	6%	7%

(a) Includes Sensus and Visenti revenue for the six months ended June 30 2016 which was prior to Xylem acquiring the businesses.

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

	Q1		Q2		YTD	
	2017	2016	2017	2016	2017	2016
Total Revenue						
• Total Xylem	1,071	847	1,164	932	2,235	1,779
• Water Infrastructure	419	440	482	484	901	924
• Applied Water	333	333	361	366	694	699
• Sensus & Analytics	319	74	321	82	640	156
Operating Income						
• Total Xylem	86	79	139	109	225	188
• Water Infrastructure	40	51	74	66	114	117
• Applied Water	36	39	49	51	85	90
• Sensus & Analytics	25	3	29	4	54	7
• Total Segments	101	93	152	121	253	214
Operating Margin						
• Total Xylem	8.0%	9.3%	11.9%	11.7%	10.1%	10.6%
• Water Infrastructure	9.5%	11.6%	15.4%	13.6%	12.7%	12.7%
• Applied Water	10.8%	11.7%	13.6%	13.9%	12.2%	12.9%
• Sensus & Analytics	7.8%	4.1%	9.0%	4.9%	8.4%	4.5%
• Total Segments	9.4%	11.0%	13.1%	13.0%	11.3%	12.0%
Sensus Acquisition Related Costs						
• Total Xylem	10	-	4	-	14	-
• Water Infrastructure	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-
• Sensus & Analytics	6	-	3	-	9	-
• Total Segments	6	-	3	-	9	-
Special Charges						
• Total Xylem	5	4	-	1	5	5
• Water Infrastructure	-	2	-	-	-	2
• Applied Water	5	-	-	-	5	-
• Sensus & Analytics	-	2	-	1	-	3
• Total Segments	5	4	-	1	5	5
Restructuring & Realignment Costs						
• Total Xylem	11	9	12	11	23	20
• Water Infrastructure	4	3	5	6	9	9
• Applied Water	4	3	5	3	9	6
• Sensus & Analytics	3	1	2	2	5	3
• Total Segments	11	7	12	11	23	18
Adjusted Operating Income						
• Total Xylem	112	92	155	121	267	213
• Water Infrastructure	44	56	79	72	123	128
• Applied Water	45	42	54	54	99	96
• Sensus & Analytics	34	6	34	7	68	13
• Total Segments	123	104	167	133	290	237
Adjusted Operating Margin						
• Total Xylem	10.5%	10.9%	13.3%	13.0%	11.9%	12.0%
• Water Infrastructure	10.5%	12.7%	16.4%	14.9%	13.7%	13.9%
• Applied Water	13.5%	12.6%	15.0%	14.8%	14.3%	13.7%
• Sensus & Analytics	10.7%	8.1%	10.6%	8.5%	10.6%	8.3%
• Total Segments	11.5%	12.3%	14.3%	14.3%	13.0%	13.3%

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

	2017				Total
	Q1	Q2	Q3	Q4	
Net Income	56	100			156
Income Tax Expense	14	21			35
Interest Expense (Income), net	20	20			40
Depreciation	28	27			55
Amortization	31	30			61
Stock Compensation	6	5			11
EBITDA	155	203	-	-	358
Restructuring & Realignment	11	12			23
Gain on sale of business	(5)	-			(5)
Sensus Acquisition Related Costs	7	2			9
Special Charges	5	-			5
Adjusted EBITDA	173	217	-	-	390
Revenue	1,071	1,164			2,235
Adjusted EBITDA Margin	16.2%	18.6%			17.4%
		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
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)

	Q2 2017			Q2 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,164		1,164	932		932
Operating Income	139	16 a	155	109	12 a	121
Operating Margin	11.9%		13.3%	11.7%		13.0%
Interest Expense	(21)		(21)	(20)	8 b	(12)
Other Non-Operating Income (Expense)	3		3	1		1
Income before Taxes	121	16	137	90	20	110
Provision for Income Taxes	(21)	(9) c	(30)	(19)	(4) c	(23)
Minority interest	(1)		(1)	-		-
Net Income attributable to Xylem	99	7	106	71	16	87
Diluted Shares	180.6		180.6	179.9		179.9
Diluted EPS	\$ 0.55	\$ 0.04	\$ 0.59	\$ 0.39	\$ 0.09	\$ 0.48
Year-over-year currency translation impact on current year diluted EPS	\$ (0.02)		\$ (0.02)			
Diluted EPS at Constant Currency	\$ 0.57	\$ 0.04	\$ 0.61			

	Q2 YTD 2017			Q2 YTD 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	2,235		2,235	1,779		1,779
Operating Income	225	42 a	267	188	25 a	213
Operating Margin	10.1%		11.9%	10.6%		12.0%
Interest Expense	(41)		(41)	(34)	8 b	(26)
Other Non-Operating Income (Expense)	2		2	1		1
Gain from sale of business	5	(5)	-	-		-
Income before Taxes	191	37	228	155	33	188
Provision for Income Taxes	(35)	(15) c	(50)	(18)	(21) c	(39)
Minority interest	(1)		(1)			
Net Income attributable to Xylem	155	22	177	137	12	149
Diluted Shares	180.6		180.6	179.6		179.6
Diluted EPS	\$ 0.86	\$ 0.12	\$ 0.98	\$ 0.76	\$ 0.07	\$ 0.83
Year-over-year currency translation impact on current year diluted EPS	\$ (0.04)	\$ 0.01	\$ (0.03)			
Diluted EPS at Constant Currency	\$ 0.90	\$ 0.11	\$ 1.01			

a Second quarter: Restructuring & realignment costs of \$12 million and \$11 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$4 million in 2017 and special charges of \$1 million of initial acquisition costs in 2016.

First half: Restructuring & realignment costs of \$23 million and \$20 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$19 million in 2017 and special charges of \$5 million of initial acquisition costs in 2016.

b Special charges consisting of \$8 million of costs related to the early extinguishment of debt for the second quarter and first half of 2016.

c Second quarter: Net tax impact on restructuring & realignment costs of \$5 million and \$3 million in 2017 and 2016, respectively, net tax impact on Sensus acquisition related costs of \$1 million in 2017, net tax impact on special charges of \$4 million in 2016 and tax-related special items of \$3 million of expense in 2017 and \$3 million of benefit in 2016.

First half: Net tax impact on restructuring & realignment costs of \$7 million and \$5 million in 2017 and 2016, respectively, net tax impact on Sensus acquisition related costs of \$5 million in 2017, net tax impact on special charges of \$2 million and \$5 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 \$3 million and \$11 million in 2017 and 2016, respectively.

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

	Q1		Q2		Six Months Ended	
	2017	2016	2017	2016	2017	2016
Net Cash - Operating Activities	\$ 58	\$ 41	\$ 93	\$ 84	\$ 151	\$ 125
Capital Expenditures	(49)	(37)	(28)	(25)	(77)	(62)
Free Cash Flow	<u>\$ 9</u>	<u>\$ 4</u>	<u>\$ 65</u>	<u>\$ 59</u>	<u>\$ 74</u>	<u>\$ 63</u>
Cash paid for Sensus acquisition related costs	(17)	-	(5)	-	(22)	-
Free Cash Flow, excluding Sensus Acquisition Related Costs	<u>\$ 26</u>	<u>\$ 4</u>	<u>\$ 70</u>	<u>\$ 59</u>	<u>\$ 96</u>	<u>\$ 63</u>
Net Income	56	66	100	71	156	137
Gain from sale of business	(5)	-	-	-	(5)	-
Special Charges - Non-cash impairment	5	-	-	(8)	5	(8)
Sensus acquisition related costs	(10)	-	(4)	-	(14)	-
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>\$ 170</u>	<u>\$ 145</u>
Free Cash Flow Conversion	<u>39%</u>	<u>6%</u>	<u>67%</u>	<u>75%</u>	<u>56%</u>	<u>43%</u>

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

	2017				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	41	73			114
Interest Expense (Income), net	-	-			-
Depreciation	11	11			22
Amortization	5	4			9
Stock Compensation	1	-			1
EBITDA	<u>58</u>	<u>88</u>	<u>-</u>	<u>-</u>	<u>146</u>
Restructuring & Realignment	4	5			9
Adjusted EBITDA	<u>62</u>	<u>93</u>	<u>-</u>	<u>-</u>	<u>155</u>
Revenue	<u>419</u>	<u>482</u>			<u>901</u>
Adjusted EBITDA Margin	<u>14.8%</u>	<u>19.3%</u>			<u>17.2%</u>

	2016				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
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	<u>69</u>	<u>82</u>	<u>94</u>	<u>114</u>	<u>359</u>
Restructuring & Realignment	3	6	5	2	16
Special Charges	2	-	-	-	2
Adjusted EBITDA	<u>74</u>	<u>88</u>	<u>99</u>	<u>116</u>	<u>377</u>
Revenue	<u>440</u>	<u>484</u>	<u>478</u>	<u>530</u>	<u>1,932</u>
Adjusted EBITDA Margin	<u>16.8%</u>	<u>18.2%</u>	<u>20.7%</u>	<u>21.9%</u>	<u>19.5%</u>

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

	2017				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	38	49			87
Interest, net	-	-			-
Depreciation	5	5			10
Amortization	1	1			2
Stock Compensation	-	1			1
EBITDA	<u>44</u>	<u>56</u>	<u>-</u>	<u>-</u>	<u>100</u>
Restructuring & Realignment	4	5			9
Gain on sale of business	(5)	-			(5)
Special Charges	5	-			5
Adjusted EBITDA	<u>48</u>	<u>61</u>	<u>-</u>	<u>-</u>	<u>109</u>
Revenue	<u>333</u>	<u>361</u>			<u>694</u>
Adjusted EBITDA Margin	<u>14.4%</u>	<u>16.9%</u>			<u>15.7%</u>

	2016				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
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	<u>44</u>	<u>59</u>	<u>56</u>	<u>54</u>	<u>213</u>
Restructuring & Realignment	3	3	3	7	16
Gain on sale of business	-	-			-
Adjusted EBITDA	<u>47</u>	<u>62</u>	<u>59</u>	<u>61</u>	<u>229</u>
Revenue	<u>333</u>	<u>366</u>	<u>343</u>	<u>351</u>	<u>1,393</u>
Adjusted EBITDA Margin	<u>14.1%</u>	<u>16.9%</u>	<u>17.2%</u>	<u>17.4%</u>	<u>16.4%</u>

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

Sensus & Analytics

(\$ Millions)

	2017				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	24	30			54
Interest, net	-	-			-
Depreciation	8	8			16
Amortization	23	22			45
Stock Compensation	-	1			1
EBITDA	55	61	-	-	116
Restructuring & Realignment	3	2			5
Sensus acquisition related costs	3	1			4
Adjusted EBITDA	61	64	-	-	125
Revenue	319	321			640
Adjusted EBITDA Margin	19.1%	19.9%			19.5%
	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

Sensus & Analytics - *Pro forma*

(\$ Millions)

	2017				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	24	30			54
Interest, net	-	-			-
Depreciation	8	8			16
Amortization	23	22			45
Stock Compensation	-	1			1
EBITDA	55	61	-	-	116
Restructuring & Realignment	3	2			5
Sensus acquisition related costs	3	1			4
Adjusted EBITDA	61	64	-	-	125
Revenue	319	321			640
Adjusted EBITDA Margin	19.1%	19.9%			19.5%
	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 reserve	(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%

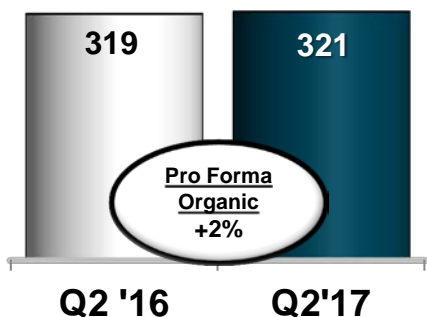
(a) Includes Sensus and Visenti results for the six months ended June 30 2016 which was prior to Xylem acquiring the businesses.

Q2'17 SENSUS & ANALYTICS PRO FORMA REVENUE & EBITDA

Note: Results reflect combination of Xylem Analytics, Sensus and Visenti businesses as of 2Q 2017.

REVENUE

(Dollars, In Millions)



Pro Forma Organic* Growth Highlights

By Application

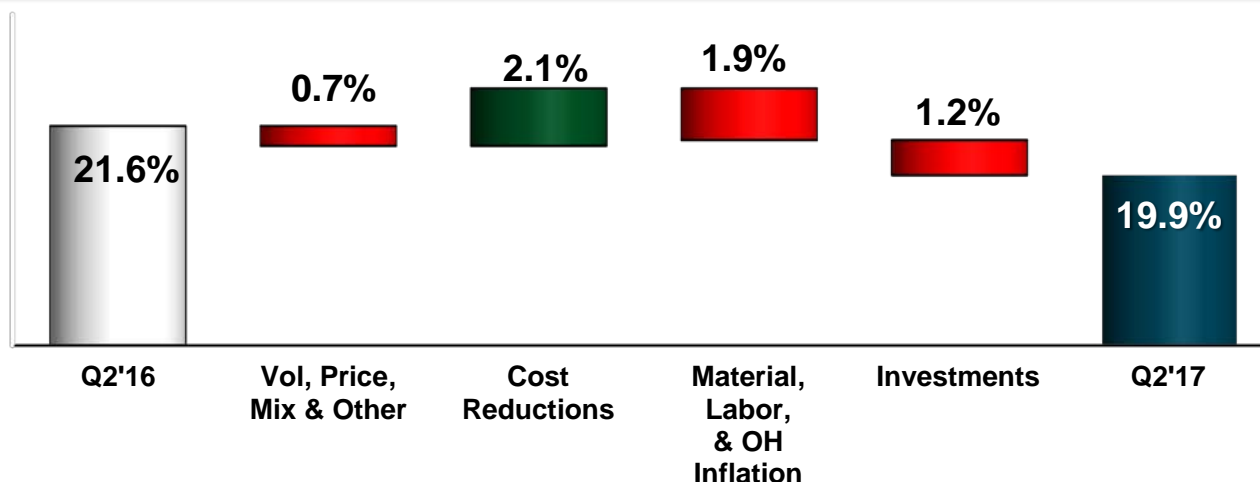
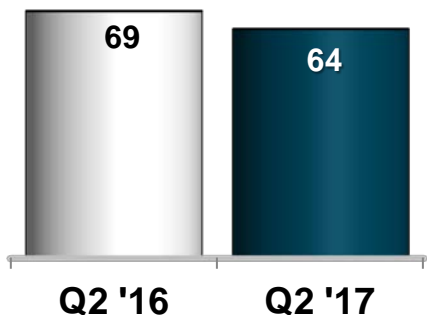
+ Smart Electric	+53%
- Smart Water	-8%
+ Smart Gas	+10%
+ Saas/Other	+11%
+ Test	+2%

By Regions

+ U.S.	+4%
+ Emerging	+13%
- W. Europe	-9%

- + Strength in Electric from strong new product performance (Stratus) and large U.S. project deployments
- Softness in Water as expected due to PY comps including distributor re-stocking of iPerl in NA and Thames Water (UK) deployment
- + Growth in Test from strong environmental monitoring business in NA
- + Orders up double digits in Sensus; up HSD in Analytics

ADJ. EBITDA*



COMBINATION OF BUSINESSES BRINGS NATURAL SYNERGIES & SIGNIFICANT OPPORTUNITIES TO DRIVE GROWTH

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