

**xylem**  
Let's Solve Water

**INVESTOR BRIEFING**  
April 2017

# 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, 2015, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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  - **All 2018 and 2020 references are based on disclosures made at our 2015 Investor Day held on September 24, 2015.**
- **Certain references to financial performance metrics are on an adjusted basis. Refer to the appendix section for non-GAAP reconciliations.**

# TABLE OF CONTENTS

| <b>Page</b> | <b>Description</b>                 |
|-------------|------------------------------------|
| 5           | Xylem Overview                     |
| 12          | Long-term Financial Targets        |
| 13          | Financial Overview                 |
| 18          | Segment Overview                   |
| 21          | Q4 2016 Earnings Release           |
| 36          | Appendix: Non-GAAP Reconciliations |

# XYLEM OVERVIEW



**xylem**  
Let's Solve Water

# INVESTMENT THESIS

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## **WE WILL BENEFIT FROM A FAVORABLE MACRO OUTLOOK**

Well positioned in key end markets with sustainable growth profiles for the next 5 years



## **MARKET-PLUS GROWTH DRIVEN BY FOCUSED STRATEGIES**

Increased investment in faster-growth regions and innovation



## **RUNWAY FOR FURTHER MARGIN EXPANSION**

Multi-year plan continues to create value → 300 to 400 bps over next 5 years



## **ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE**

Strong cash flow generation and capital structure enables significant value creation



# XYLEM OVERVIEW

2016 Revenue

**\$3.8B**

2016 Adj.  
EBITDA\*

**\$675M**

2015 Adj.  
EBITDA%\*

**17.9%**

Employees

**~16,000**



**Global Scale**

**Fortress Brands**

**World Class Distribution**

**Large Installed Base**

**Strong Financial Position**

**UNIQUELY POSITIONED TO OUTPERFORM**

# FAVORABLE REGULATORY AND MACRO CONDITIONS PROVIDE FOR COMPELLING LONG-TERM GROWTH

## REGULATORY



- Environmental focus
- Quality standards
- Energy efficiency

## DEMOGRAPHICS



- Population growth
- Urbanization
- Increasing middle class in emerging markets

## INFRASTRUCTURE NEEDS



- Aging infrastructure
- Water scarcity
- Resilience to extreme weather

**WE ARE UNIQUELY POSITIONED  
TO SOLVE THE WORLD'S GROWING WATER CHALLENGES**



# WE ADDRESS CUSTOMER CHALLENGES ACROSS THE WATER CYCLE



TRANSPORT

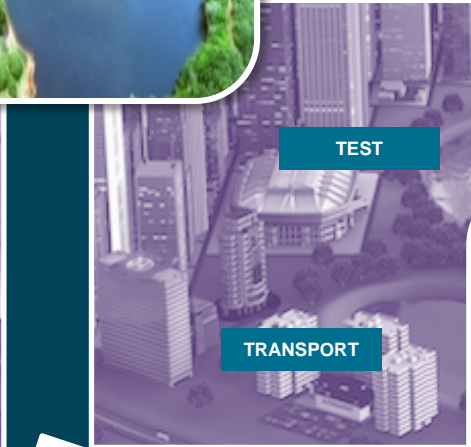


TREATMENT

TRANSPORT



TEST



TEST

TRANSPORT

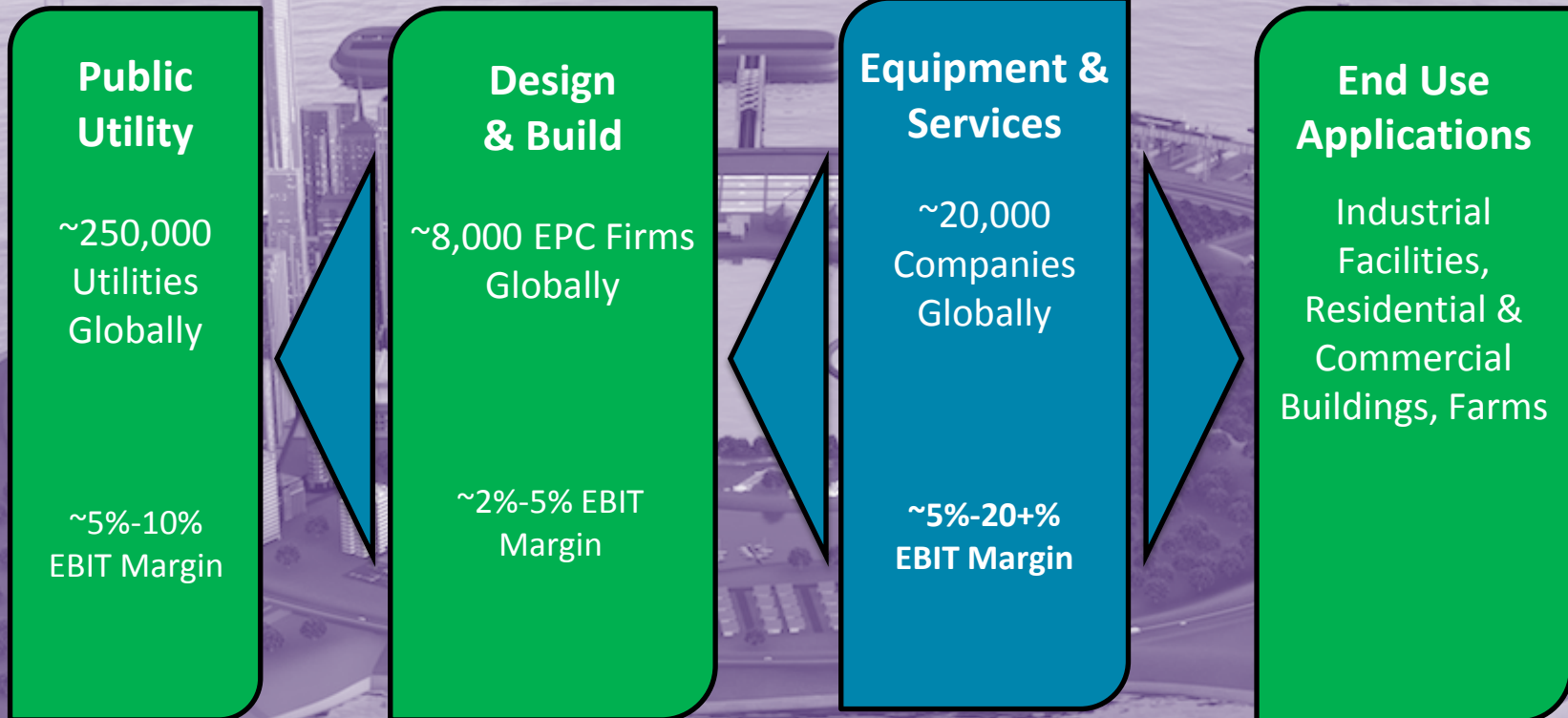


TREATMENT



TRANSPORT

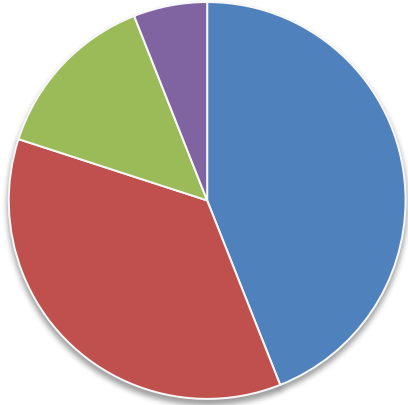
# GLOBAL WATER INDUSTRY >\$550B : VALUE CHAIN VIEW



**XYLEM FOCUSED ON SWEET SPOTS OF EQUIPMENT & SERVICES**

# WE HAVE A DIVERSIFIED PORTFOLIO

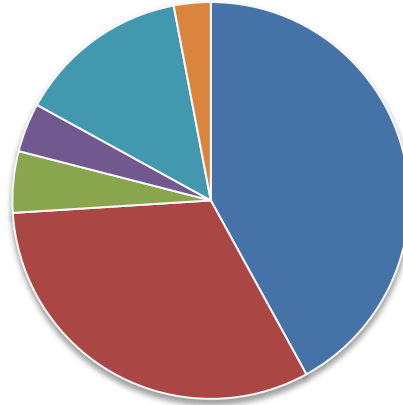
**2016 REVENUE  
BY END MARKET**



|   |     |
|---|-----|
| <span style="color: blue;">■</span> Industrial*   | 44% |
| <span style="color: red;">■</span> Public Utility | 36% |
| <span style="color: green;">■</span> Commercial   | 14% |
| <span style="color: purple;">■</span> Residential | 6%  |

*\*Note: Industrial includes Agriculture End Market (~2% of Total)*

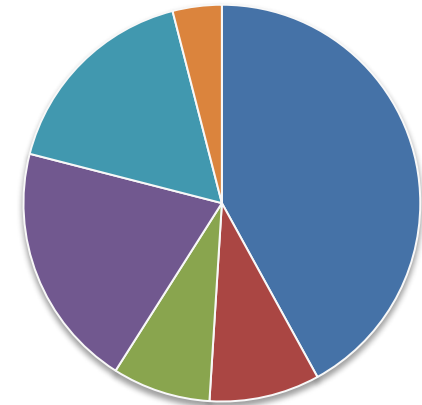
**2016 REVENUE  
BY GEOGRAPHY**



|   |     |
|---|-----|
| <span style="color: blue;">■</span> United States   | 42% |
| <span style="color: red;">■</span> Europe           | 32% |
| <span style="color: cyan;">■</span> Asia Pac        | 14% |
| <span style="color: green;">■</span> Latin America  | 5%  |
| <span style="color: purple;">■</span> ME/Africa     | 4%  |
| <span style="color: orange;">■</span> Rest of World | 3%  |

***A Growing Emerging Market Presence ... Today ~21%***

**2016 REVENUE  
BY APPLICATION**





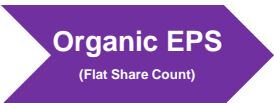


|   |     |
|---|-----|
| <span style="color: blue;">■</span> Transport         | 42% |
| <span style="color: red;">■</span> Treatment          | 9%  |
| <span style="color: green;">■</span> Test             | 8%  |
| <span style="color: purple;">■</span> Comm/Resi Bldgs | 20% |
| <span style="color: cyan;">■</span> Industrial Water* | 17% |
| <span style="color: orange;">■</span> Sensus          | 4%  |

*\*Note: Industrial Water includes Irrigation Application (~2% of Total)*

**OUR BROAD PORTFOLIO ALLOWS US TO ADDRESS A DIVERSE SET OF MARKETS AND PROVIDES FOR A UNIQUE INVESTMENT OPPORTUNITY**

# VALUE CREATION ROADMAP

|  |                                     |   | 2015<br>BASELINE* | TO<br>2018* | TO<br>2020* |
|--|-------------------------------------|---|-------------------|-------------|-------------|
|  | <b>Accelerate Profitable Growth</b> |  <b>Revenue / CAGR</b>                                   | \$3.65B           | 3 to 4%     | 3 to 5%     |
|  |                                     |  <b>Op Margin</b>  | 12.9%             | 14% to 15%  | 16% to 17%  |
|  | <b>Drive Continuous Improvement</b> |  <b>Organic EPS</b><br><small>(Flat Share Count)</small> | \$1.85            | 8% to 10%   | 8% to 12%   |



**Mergers & Acquisitions**



**Return of Capital to Shareholders**

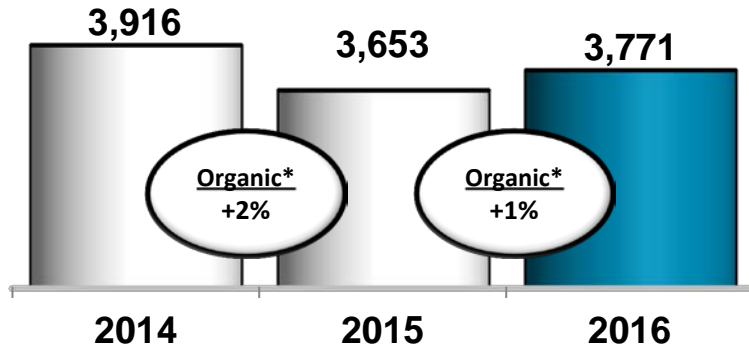
**HIGH-TEENS EPS GROWTH  
DRIVEN BY ACCELERATED  
CAPITAL DEPLOYMENT**

# FINANCIAL OVERVIEW

# FINANCIAL OVERVIEW

(Dollars, In Millions)

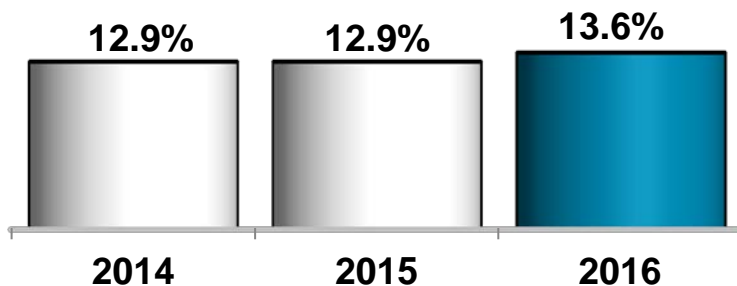
## REVENUE



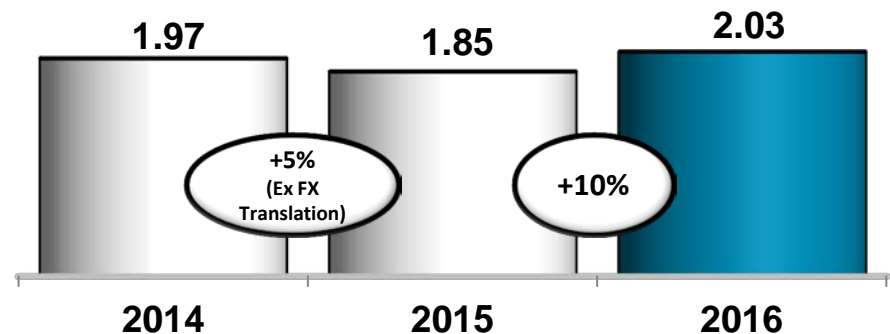
## TOP STRATEGIC PRIORITIES

- Enhance Commercial Leadership
- Grow in Emerging Markets
- Strengthen Innovation & Technology
- Build a Continuous Improvement Culture
- Cultivate Leadership and Talent Development

## OPERATING MARGIN \*



## EPS \*



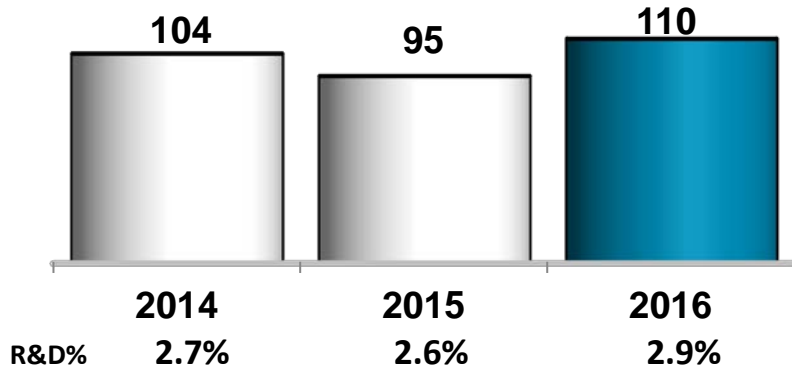
**SIGNIFICANT OPPORTUNITY TO CREATE SHAREHOLDER VALUE BY ACCELERATING REVENUE GROWTH & IMPROVING PROFITABILITY**



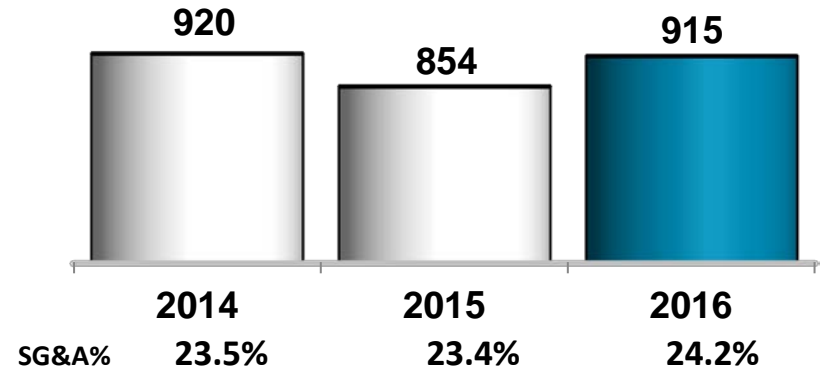
# FINANCIAL OVERVIEW

(Dollars, In Millions / % of Revenue)

## R&D

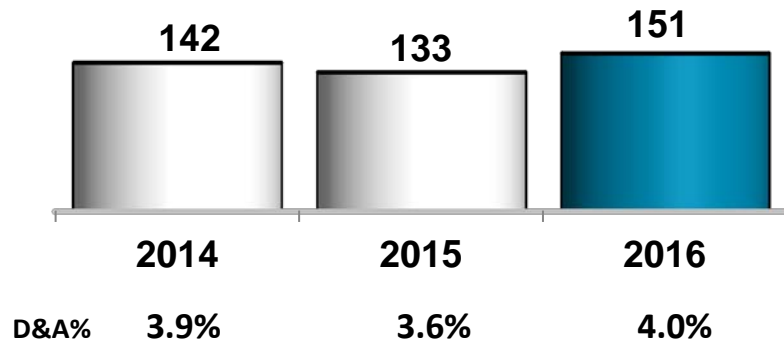


## SG&A

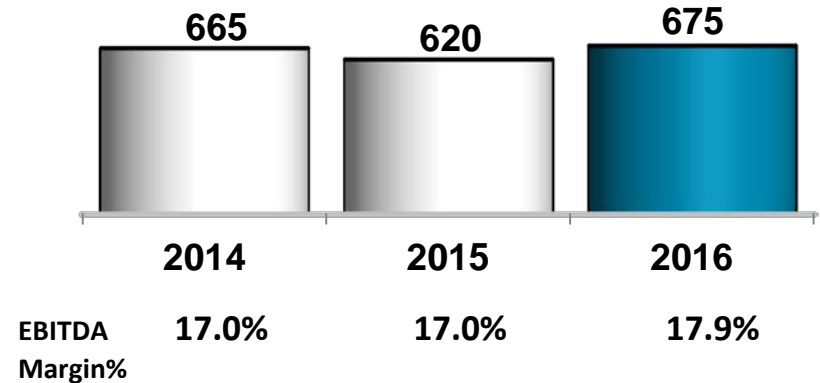


(Note: Includes Separation, Realignment & Acquisition Costs)

## DEPRECIATION & AMORTIZATION



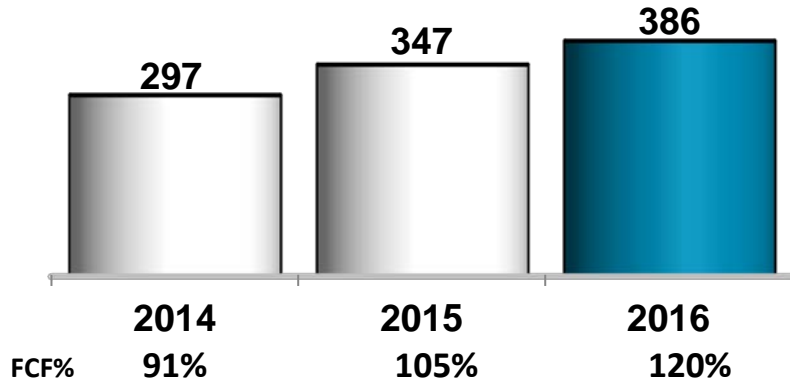
## EBITDA \*



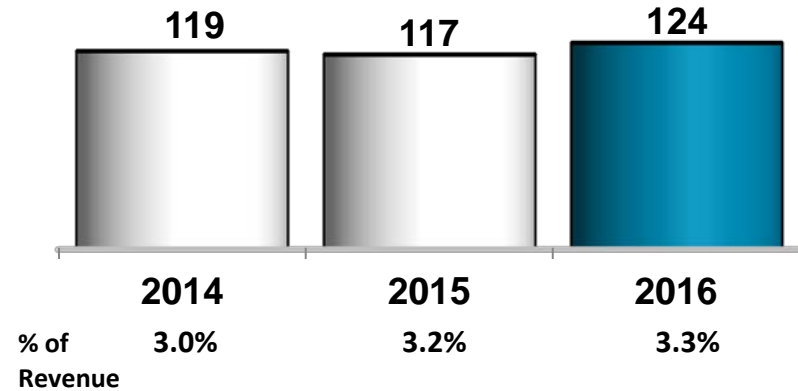
# FINANCIAL OVERVIEW

(Dollars, In Millions)

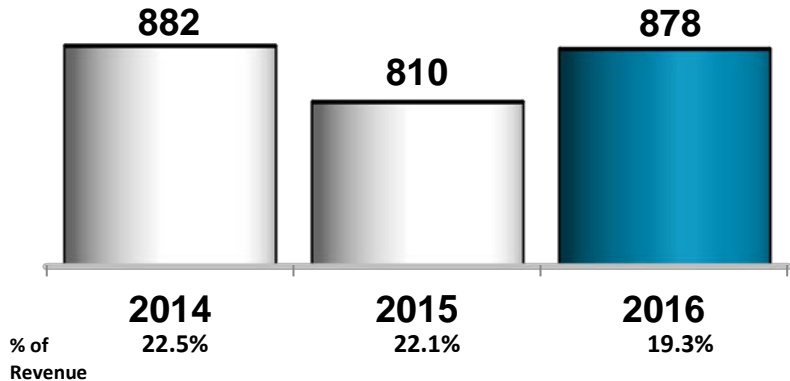
## FREE CASH FLOW \*



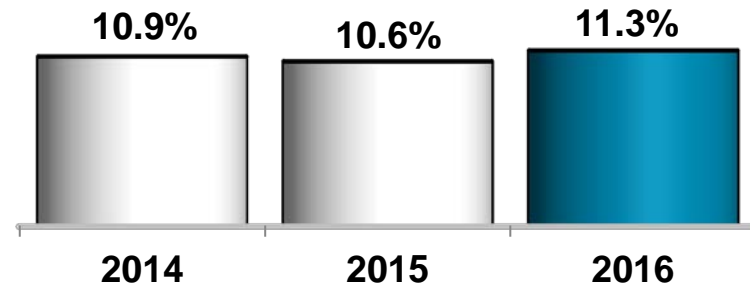
## CAPITAL EXPENDITURES



## WORKING CAPITAL



## ROIC \*\*





# FINANCIAL OVERVIEW

(Dollars, In Millions)

## CAPITAL SUMMARY

DECEMBER 31, 2016

|                         |       |
|-------------------------|-------|
| Cash                    | 308   |
| Debt                    | 2,368 |
| Net Debt                | 2,060 |
| Shareholders' Equity    | 2,190 |
| Net Capital             | 4,250 |
| Net Debt to Net Capital | 48%   |

### Long-Term Debt Summary

- \$600M Senior Notes @4.875% due 2021
- €500M Senior Notes @2.250 due 2023
- \$500M Senior Notes @3.250 due 2026
- \$400M Senior Notes @4.375 due 2046

### Liquidity and Cash Management

- Access to Revolver and Commercial Paper for Short-Term Liquidity Requirements

## CAPITAL DEPLOYMENT STRATEGY

### Manage Leverage

- Intend to maintain investment grade credit rating
- Target leverage ratio 2.5-3.0x EBITDA
- Expected to de-lever before end of 2018

### Invest in Growth

- High ROI investments to support growth and productivity
- Disciplined M&A to accelerate growth

### Return Cash to Shareholders

- Grow dividends in-line with earnings (Announced 16% increase in 2017 quarterly dividend)
- Opportunistic share repurchases (suspended until within target leverage ratio)

### Pension & Other EE Benefit Plan Obligations

- Status: 103% (Funded Plans); 66% (Overall) as of 12/31/16
- 2016 Contributions of \$27M; Expected FY'17 Contributions in range of \$20M to \$30M

**BALANCED CAPITAL DEPLOYMENT TO ENHANCE SHAREHOLDER RETURNS**

# SEGMENT OVERVIEW

# WATER INFRASTRUCTURE

(Dollars, In Millions)

## OVERVIEW

Served Market Size: \$23B

2016 Revenues: \$2.2B

2016 Op Margin\*: 15.2%



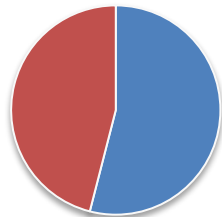
- Leading Wastewater Pump & Dewatering Services Provider
- Broad Portfolio of Filtration, Biological and Disinfection Technologies
- Industry-Leading Water & Environment Analytics Platform

## 2016 Revenue Profile

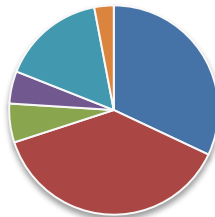
By Application



By End Market



By Region

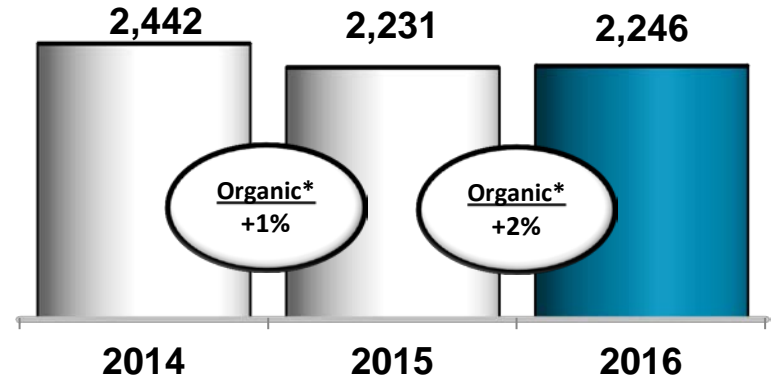


■ Transport 71%  
■ Treatment 15%  
■ Test 14%

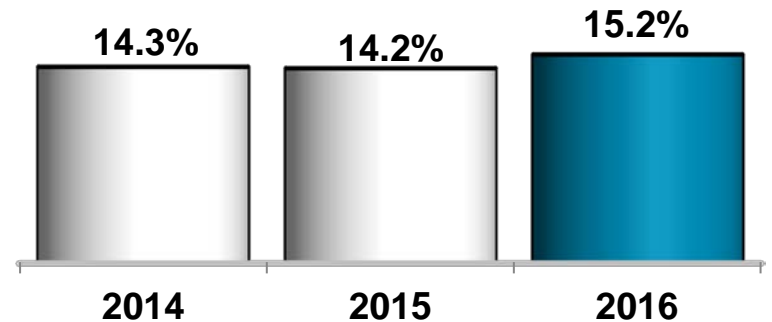
■ Public Utility 54%  
■ Industrial 46%

■ Europe 37%  
■ United States 33%  
■ Asia Pac 17%  
■ Latin America 5%  
■ ME/Africa 4%  
■ Rest of World 4%

## REVENUE



## OPERATING MARGIN\*



# APPLIED WATER

(Dollars, In Millions)

## OVERVIEW

Served Market Size: \$19B



2016 Revenues: \$1.4B

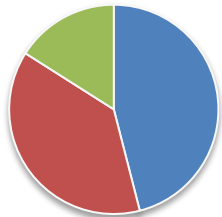


2016 Op Margin\*: 14.6%

- Leading Global Provider of a Broad Range of Energy-Efficient Solutions with a Large & Diverse Customer Base
- U.S. Leader in Building Services Equipment & Solutions
- U.S. Leader in Industrial Water Technologies

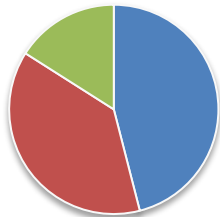
## 2016 Revenue Profile

By Application



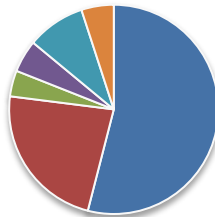
■ Industrial Water 45%  
 ■ Commercial Bldg 37%  
 ■ Residential Bldg 18%

By End Market



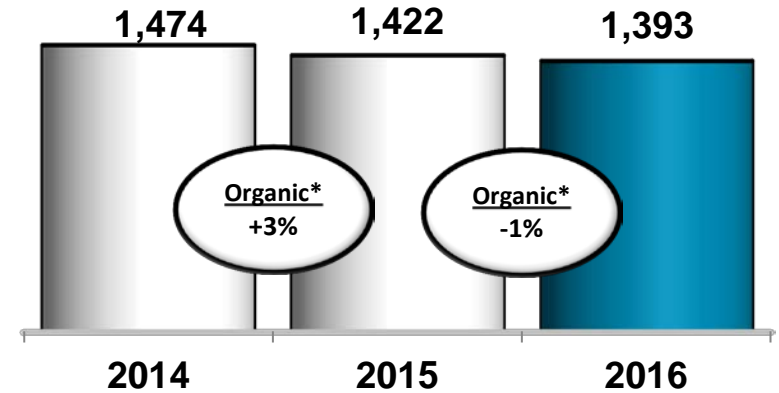
■ Industrial 45%  
 ■ Commercial 37%  
 ■ Residential 18%

By Region

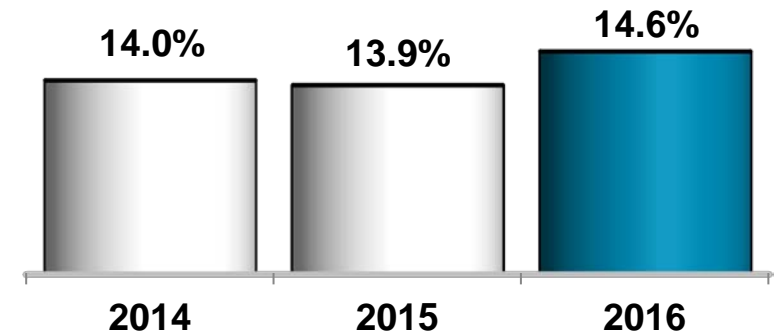


■ United States 52%  
 ■ Europe 25%  
 ■ Asia Pac 9%  
 ■ Latin America 5%  
 ■ ME/Africa 5%  
 ■ Rest of World 4%

## REVENUE



## OPERATING MARGIN\*



\* See appendix for non-GAAP reconciliations

# **XYLEM INC.**

## **Q4 2016 EARNINGS RELEASE**

**FEBRUARY 2, 2017**



**xylem**  
Let's Solve Water

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# Q4'16 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

|                             | GAAP<br>Q4 2016 | Adjusted*<br>Q4 2016 | GAAP<br>FY 2016 | Adjusted*<br>FY 2016 |
|-----------------------------|-----------------|----------------------|-----------------|----------------------|
| <b>Xylem Consolidated</b>   |                 |                      |                 |                      |
| Revenue                     | 1,095           | 1,095                | 3,771           | 3,771                |
| Overall Growth              | +10%            | +10%                 | +3%             | +3%                  |
| Constant Currency Growth    |                 | +12%                 |                 | +5%                  |
| Organic Growth              |                 | -2%                  |                 | +1%                  |
| Operating Income            | 109             | 167                  | 406             | 511                  |
| Operating Margin            | 10.0%           | 15.3%                | 10.8%           | 13.6%                |
| Earnings per Share          | 0.28            | 0.66                 | 1.45            | 2.03                 |
| <b>Segment Results</b>      |                 |                      |                 |                      |
| <b>Water Infrastructure</b> |                 |                      |                 |                      |
| Revenue                     | 612             | 612                  | 2,246           | 2,246                |
| Overall Growth              | -3%             | -3%                  | +1%             | +1%                  |
| Constant Currency Growth    |                 | 0%                   |                 | +3%                  |
| Organic Growth              |                 | -2%                  |                 | +2%                  |
| Operating Income            | 105             | 112                  | 308             | 341                  |
| Operating Margin            | 17.2%           | 18.3%                | 13.7%           | 15.2%                |
| <b>Applied Water</b>        |                 |                      |                 |                      |
| Revenue                     | 351             | 351                  | 1,393           | 1,393                |
| Overall Growth              | -4%             | -4%                  | -2%             | -2%                  |
| Constant Currency Growth    |                 | -2%                  |                 | -1%                  |
| Organic Growth              |                 | -2%                  |                 | -1%                  |
| Operating Income            | 48              | 55                   | 188             | 204                  |
| Operating Margin            | 13.7%           | 15.7%                | 13.5%           | 14.6%                |
| <b>Sensus</b>               |                 |                      |                 |                      |
| Revenue                     | 132             | 132                  | 132             | 132                  |
| Overall Growth              |                 |                      |                 |                      |
| Constant Currency Growth    |                 |                      |                 |                      |
| Organic Growth              |                 |                      |                 |                      |
| Operating Income            | -17             | 9                    | -17             | 9                    |
| Operating Margin            | -12.9%          | 6.8%                 | -12.9%          | 6.8%                 |

## 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.
- Additionally, please note that references to 2016 metrics include the financial impacts attributable to announced acquisitions, and have been adjusted to exclude non-recurring transaction and integration costs.

# KEY MESSAGES

- **Delivered strong FY financial results in the face of mixed market conditions**
  - ✗ *Organic Revenue Growth 1%*
  - ✓ *Strong Op. Margin performance up 70 bps to 13.6%; up 130 bps ex. acquisitions*
  - ✓ *EPS of \$2.03, up 10%*
  - ✓ *FCF Conversion of 120%*
- **Significant progress on our top strategic priorities**
- **Strategic investments and productivity actions expected to accelerate growth in 2017**
  - ☐ *2017 Revenue growth of 20% to 22%; Pro-Forma\*\* Organic Revenue Growth 2% to 4%*
  - ☐ *2017 EBITDA Margin expansion up to 130 bps*
  - ☐ *2017 EPS growth of 12% to 20% (ex. foreign exchange translation)*
  - ☐ *Targeting another strong year of FCF conversion, >110% in 2017*
- **Sensus integration tracking well, next update at April 4<sup>th</sup> Investor Day**

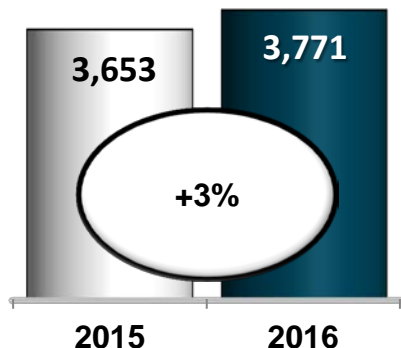
**ANOTHER STRONG YEAR OF EXECUTION  
... WELL POSITIONED TO DELIVER ACCELERATED GROWTH IN 2017**



# 2016 FINANCIAL SUMMARY

(Dollars, In Millions, except EPS)

## REVENUE



|                       |      |
|-----------------------|------|
| <i>Acquisitions</i>   | + 4% |
| <i>Organic growth</i> | + 1% |
| <i>FX Translation</i> | - 2% |

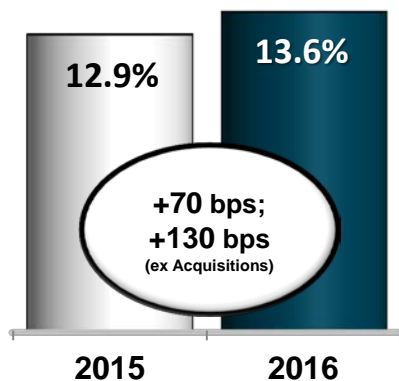
### Key Organic Growth Drivers

|                  |      |
|------------------|------|
| + Public Utility | + 8% |
| + Commercial     | + 2% |
| - Industrial     | - 4% |
| - Residential    | - 3% |
| - Agriculture    | - 3% |

### Organic Growth by Region

|                    |      |
|--------------------|------|
| + W. Europe        | + 3% |
| + Emerging Markets | + 1% |
| - U.S.             | - 1% |

## ADJ. OP MARGIN\*

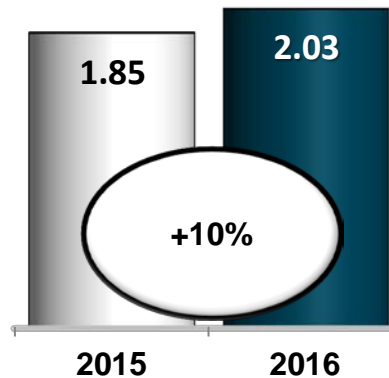


|              |       |       |
|--------------|-------|-------|
| Adj. EBITDA* | 2015  | 2016  |
|              | 17.0% | 17.9% |

### Key Performance Drivers

|                       |        |
|-----------------------|--------|
| + Cost Reductions     | + 3.6% |
| + Vol/Price/Mix/Other | + 0.1% |
| - Cost Inflation      | - 1.7% |
| - Invest/Acquisitions | - 1.3% |

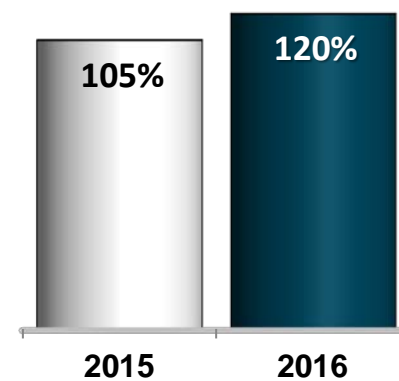
## ADJ. EPS\*



### Key Performance Drivers

|                       |          |
|-----------------------|----------|
| + Cost Reductions     | + \$0.60 |
| - Cost Inflation      | - \$0.28 |
| - Invest/Acquisitions | - \$0.13 |
| - Vol/Price/Mix/Other | - \$0.01 |

## FCF\* CONVERSION



### Key Performance Drivers

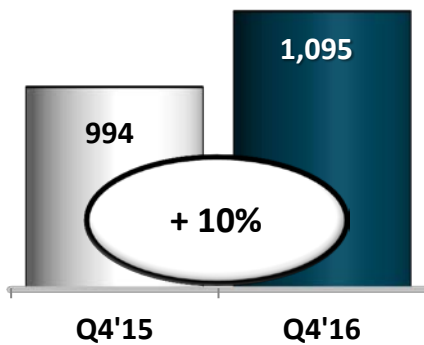
|   |
|---|
| + FCF of \$386, up 11%  |
| + Working Capital % improves 70 bps ex. FX Translation and Acquisitions |

**STRONG FINANCIAL PERFORMANCE AMIDST CHALLENGING MARKET CONDITIONS**

# Q4'16 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

## REVENUE



**Acquisitions** + 14%  
**Organic growth** - 2%  
**FX Translation** - 2%

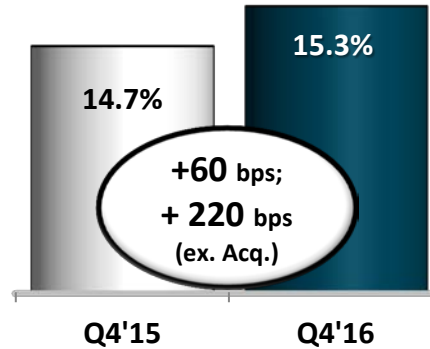
### Key Organic Growth Drivers

+ Commercial +1%  
 = Public Utility Flat  
 - Industrial -3%  
 - Residential -3%  
 - Agriculture -3%

### Organic Growth by Region

- U.S. -7%  
 - W. Europe -1%  
 + Emerging +6%

## ADJ. OP MARGIN\*

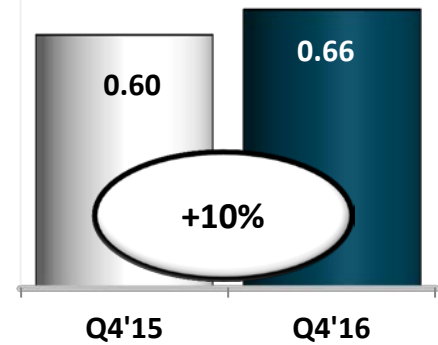


Adj. EBITDA\* 18.2%      19.8%

### Key Performance Drivers

- Acquisition of Sensus drives increase in revenue
- Productivity actions drive Op Margin expansion and earnings growth
  - Vol/price/mix/other: Op Margin: - 30 bps      EPS: - \$0.07
  - Cost reductions: Op Margin: + 430 bps      EPS: + \$0.21
  - Invest/Acquisitions: Op Margin: - 190 bps      EPS: - \$0.01
  - Cost inflation: Op Margin: - 150 bps      EPS: - \$0.07
- Other: Tax Rate 20.8%      Share Count 180M

## ADJ. EPS\*

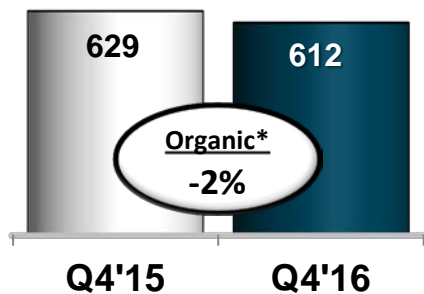


**PRODUCTIVITY DRIVES STRONG EARNINGS GROWTH**

# 2016 WATER INFRASTRUCTURE PERFORMANCE

## 4Q REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application:

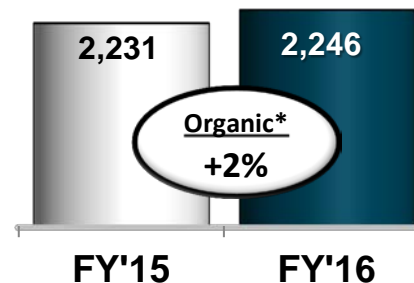
|             |      |
|-------------|------|
| + Treatment | + 6% |
| + Test      | + 3% |
| - Transport | - 4% |

#### By Region:

|             |      |
|-------------|------|
| - U.S.      | - 6% |
| - W. Europe | - 2% |
| + Emerging  | + 1% |

## FY REVENUE

(Dollars, In Millions)



### Organic Growth

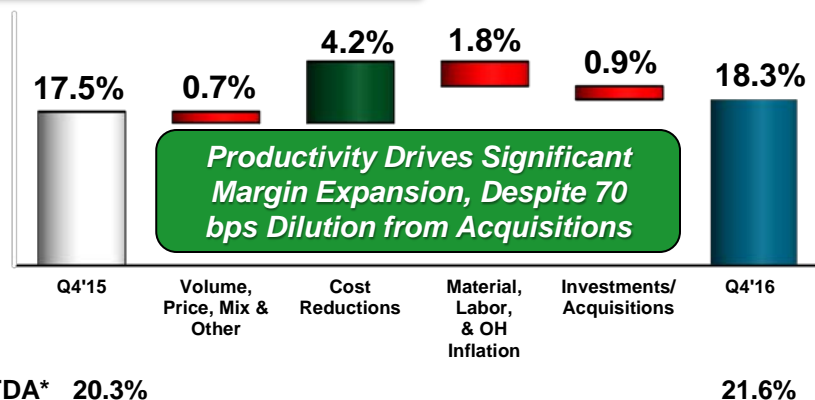
#### By Application:

|             |      |
|-------------|------|
| + Treatment | + 8% |
| + Transport | + 1% |
| - Test      | - 2% |

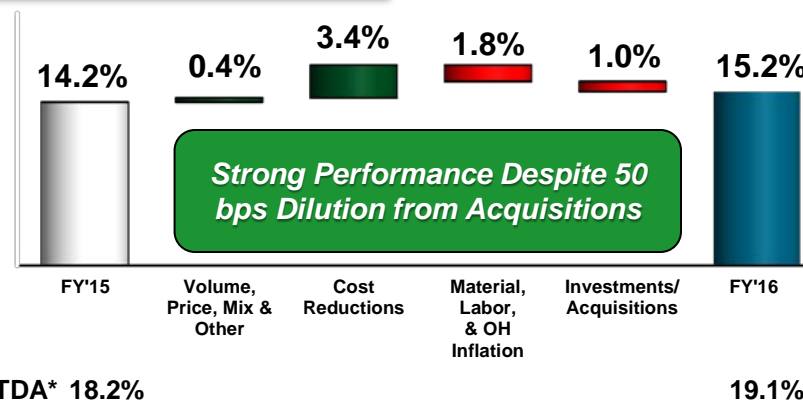
#### By Region:

|             |      |
|-------------|------|
| + U.S.      | + 3% |
| + W. Europe | + 2% |
| + Emerging  | + 1% |

## 4Q ADJ. OP MARGIN\*



## FY ADJ. OP MARGIN\*

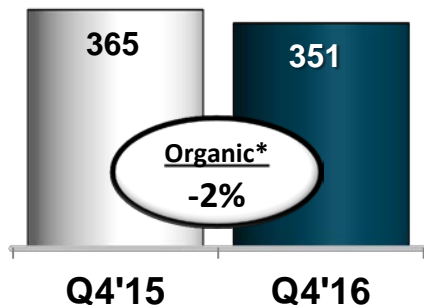


**STRONG OPERATIONAL PERFORMANCE DESPITE MIXED MARKET CONDITIONS**

# 2016 APPLIED WATER PERFORMANCE

## 4Q REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application:

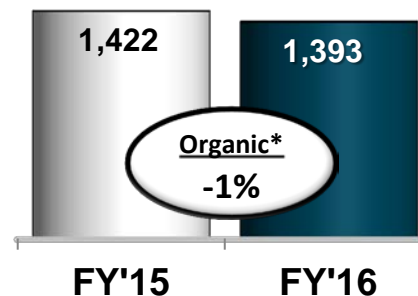
|               |     |
|---------------|-----|
| + Commercial  | +1% |
| - Ind'l Water | -3% |
| - Residential | -3% |
| - Irrigation  | -6% |

#### By Region:

|             |      |
|-------------|------|
| + W. Europe | +2%  |
| + Emerging  | +15% |
| - U.S.      | -9%  |

## FY REVENUE

(Dollars, In Millions)



### Organic Growth

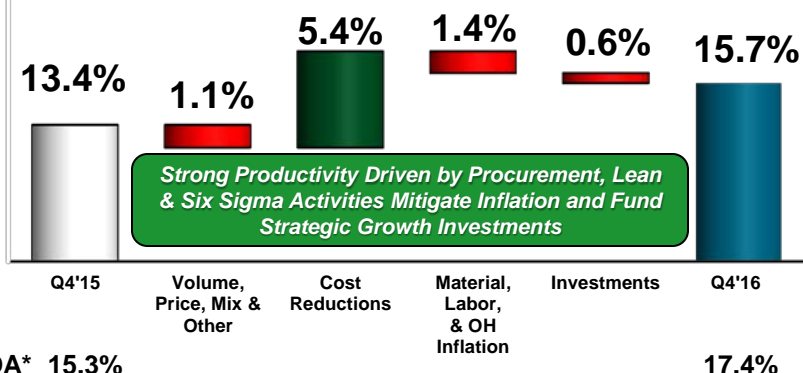
#### By Application:

|               |     |
|---------------|-----|
| + Commercial  | +2% |
| - Ind'l Water | -2% |
| - Residential | -3% |
| - Irrigation  | -4% |

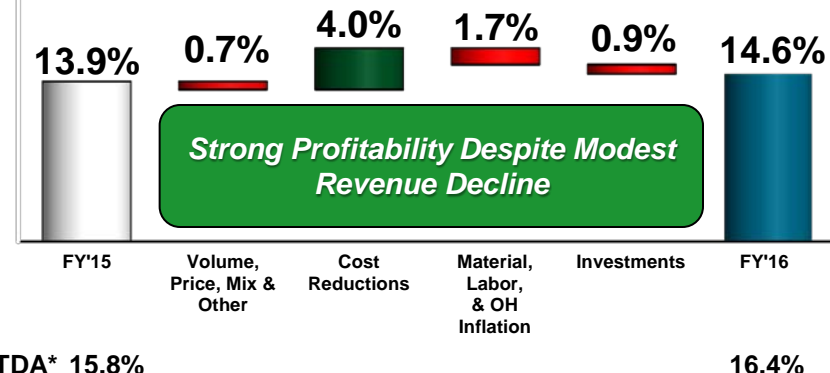
#### By Region:

|             |     |
|-------------|-----|
| + W. Europe | +7% |
| + Emerging  | +2% |
| - U.S.      | -5% |

## 4Q ADJ. OP MARGIN\*



## FY ADJ. OP MARGIN\*

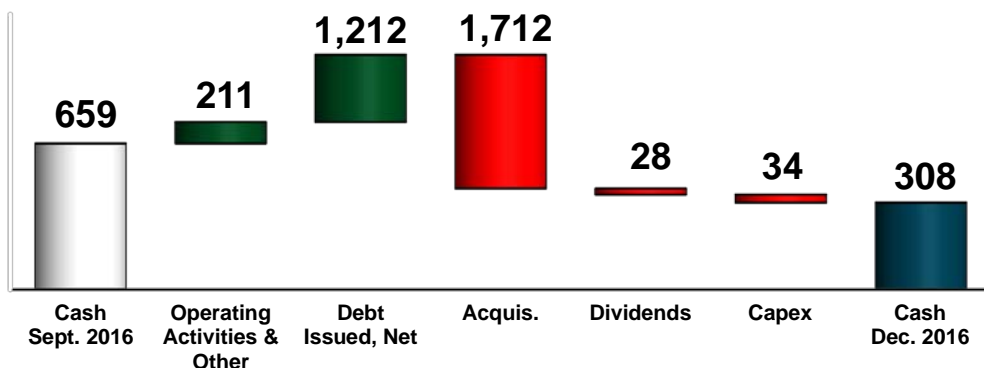


**STRONG EXECUTION & PRODUCTIVITY GAINS DRIVE SIGNIFICANT MARGIN EXPANSION**

# XYLEM FINANCIAL POSITION

(Dollars, In Millions)

## CASH DRIVERS

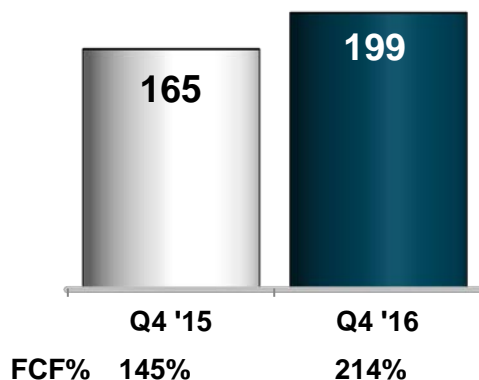


## CAPITAL SUMMARY

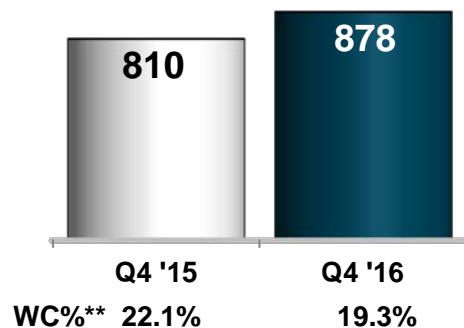
DECEMBER 31, 2016

|                         |       |
|-------------------------|-------|
| Cash                    | 308   |
| Debt                    | 2,368 |
| Net Debt                | 2,060 |
| Shareholders' Equity    | 2,190 |
| Net Capital             | 4,250 |
| Net Debt to Net Capital | 48%   |

## FREE CASH FLOW \*



## WORKING CAPITAL

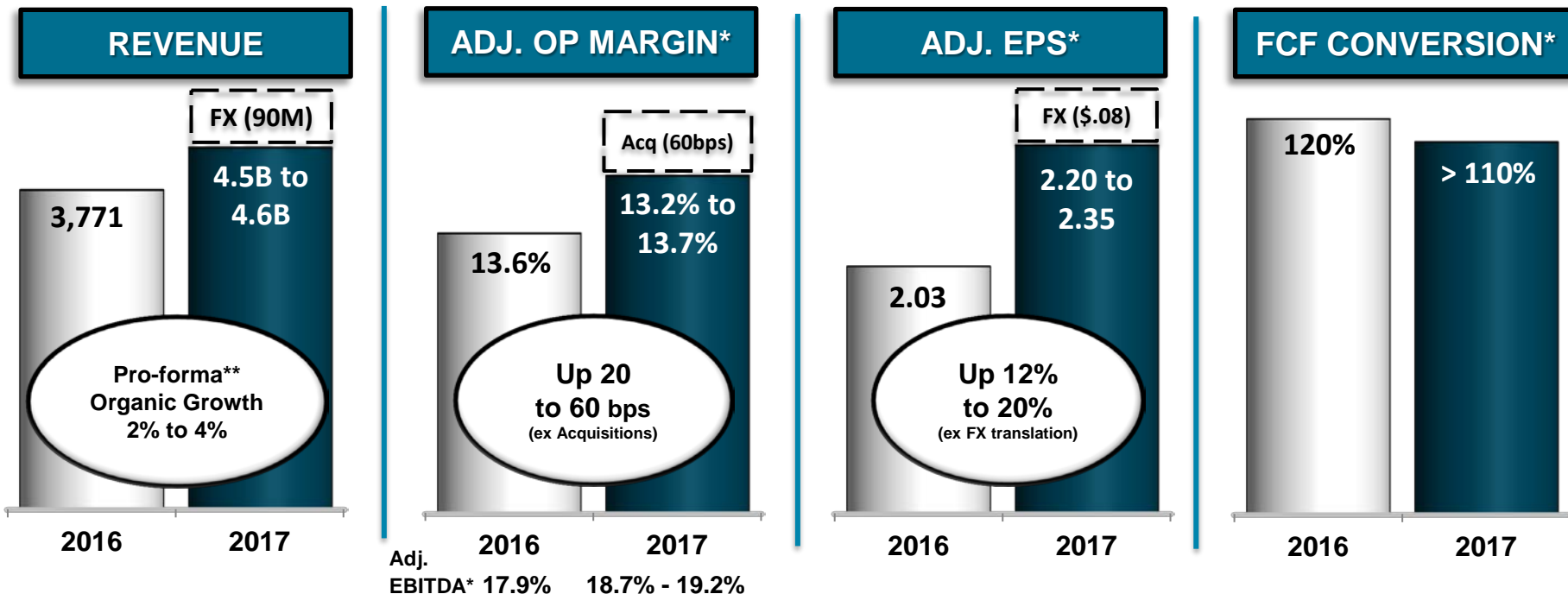


## Financial Highlights

- Record FY FCF generation / conversion
  - Strong 4Q performance
  - Sensus improves working capital profile
- Acquired Sensus on October 31st for \$1.7B
  - Issued ~\$1.3B in Short & LT Debt
  - Utilized ~\$400M of foreign cash
- Committed to maintaining Investment Grade Credit (BBB/Baa2)

# 2017 OUTLOOK

(Dollars, In Millions, except EPS)



## Financial Highlights

- Xylem Pro-Forma Organic growth of 2% to 4%
  - Xylem’s base Organic Revenue growth of 1% to 3%; Sensus Organic Growth of 6% to 7%
- Expecting strong underlying Op Margin expansion; On-track to deliver long-term targets (ex. acquisitions)
- Sensus acquisition accelerates Revenue, EBITDA margin and earnings growth profile

**ACQUISITIONS ACCELERATE REVENUE & EPS GROWTH ...  
EXECUTION & PRODUCTIVITY FOCUS DRIVES STRONG OP MARGIN EXPANSION**



# 2017 END MARKET OUTLOOK



## Public Utility (36% of 2016 Revenue)

- 2017 Organic Growth: Up Low to Mid Single Digits
- Tough '16 compare mutes U.S. growth
- Project activity fuels growth in China and India
- Continued growth in the UK (3<sup>rd</sup> Year of Amp 6 Cycle)



## Industrial\*\* (44% of 2016 Revenue)

- 2017 Organic Growth: Flat to Up Low Single Digits
- Soft U.S. market conditions; modest 2H improvement
- O&G weakness in 1H; stabilizing over the 2H; Mining down
- Mixed emerging market conditions



## Commercial (14% of 2016 Revenue)

- 2017 Organic Growth: Up Low Single Digits
- Strong U.S. position; Architecture Billings Index (slightly) above 50 suggests stable low-growth market
- Flat EU construction market

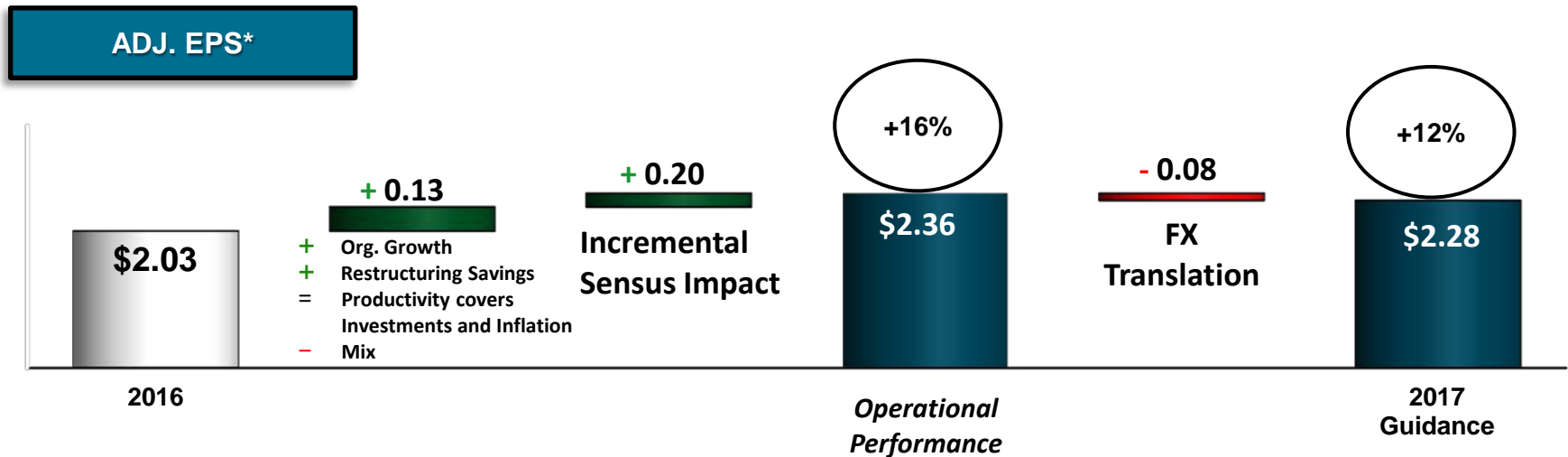
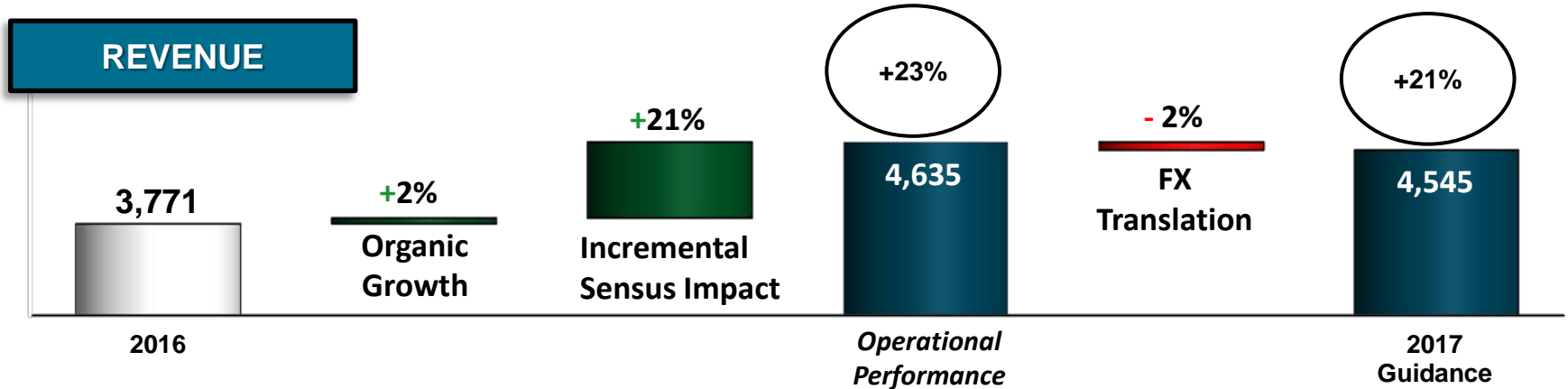


## Residential (6% of 2016 Revenue)

- 2017 Organic Growth: Up Low Single Digits
- Competitive U.S. market; replacement driven demand
- Improving EU market outlook based on increased residential building permitting

# 2017 OUTLOOK (Mid-Point Illustration)

(Dollars, In Millions, except EPS)



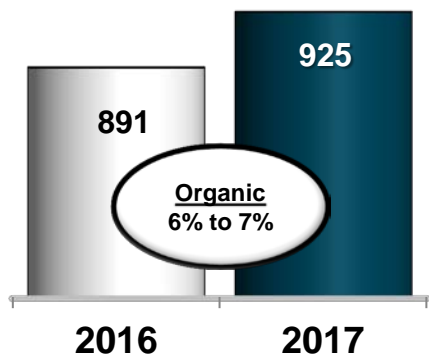
**STRONG PERFORMANCE EXPECTED TO DELIVER ABOVE AVERAGE GROWTH**



# 2017 SENSUS OUTLOOK

## REVENUE

(Dollars, In Millions)



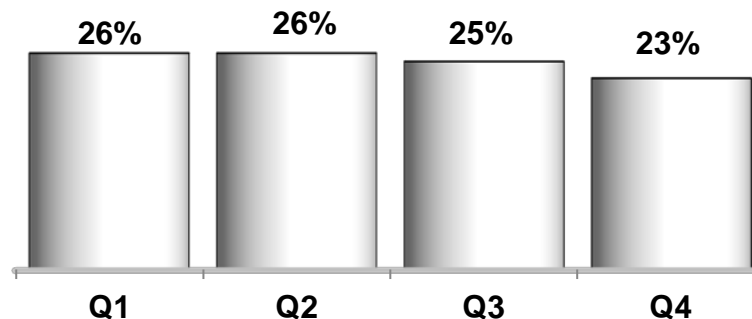
### Organic Highlights

- + Smart Water
- + Smart Electric
- + SAAS
- = Smart Gas

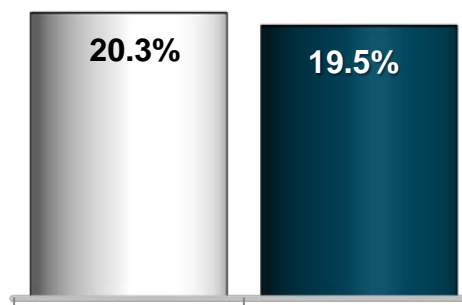
### Other Financial Highlights

- Anticipated 6% to 7% Organic Revenue growth
- Net cost synergies of \$15M (Sensus 50%/Base 50%)
  - Gross cost synergies of \$30M
  - Dis-synergies of \$15M
- 2017 Op Margin performance impacted by non-cash purchase price adjustments, including incremental depreciation and amortization of ~\$20M
- FY'17 Depreciation & Amortization of \$84M

## Historical Quarterly Revenue Profile (2015-2016)



## ADJ. EBITDA\*



### Highlights

- + Volume
- + Cost Synergies
- Strategic Growth Investment
- Foreign Exchange

|                 | 2016  | 2017  |
|-----------------|-------|-------|
| Adj. Op Margin* | 13.1% | 10.2% |

**RESHAPING XYLEM'S PORTFOLIO WITH HIGHER GROWTH AND HIGHER MARGIN SYSTEMS INTELLIGENCE SOLUTIONS**

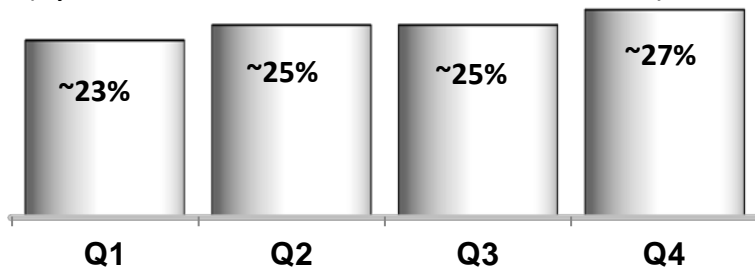
# 2017 OUTLOOK

(Dollars, In Millions)

## HISTORIC QUARTERLY PROFILE

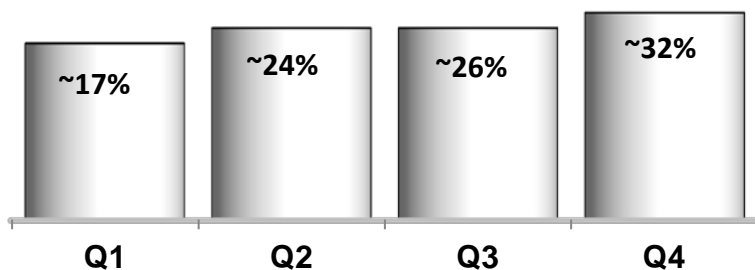
### Revenue As a % of Full Year

(Xylem 2012 – 2016 & Sensus 2015 - 2016)



### Adj. EPS As a % of Full Year

(Xylem 2012 – 2016)



## PLANNING ASSUMPTIONS

- 2017 Revenue and EPS quarterly split in line with historical profiles
  - 1Q Organic Growth: -2% to -1%
- Segment Op Margin: 14.2% to 14.7%
- FY Interest/Other Expense: ~ \$80M
- Operating Tax Rate: ~ 22%
- Share count: ~182M
- Excluded from 2017 Outlook:
  - Sensus Integration, Restructuring & Realignment Costs ~\$30M

|              | 2017 Guidance Rate | Impact on 2017 Revenue | Impact on 2017 EPS | Revenue Impact of 5% Decrease in Rate* | EPS Impact of 5% Decrease in Rate* |
|--------------|--------------------|------------------------|--------------------|--|------------------------------------|
| Euro         | 1.04               | (\$40M)                | (\$0.09)           | (\$35M)                                | (\$0.08)                           |
| GBP          | 1.23               | (22)                   | -                  | (15)                                   | -                                  |
| SEK          | .1091              | (8)                    | \$0.02             | (6)                                    | \$0.01                             |
| All Other    |                    | (20)                   | (\$0.01)           | (22)                                   | -                                  |
| <b>Total</b> |                    | <b>(\$90M)</b>         | <b>(\$0.08)</b>    | <b>(\$85M)</b>                         | <b>(\$0.07)</b>                    |

\* Increase in rate would have inverse impact on results.

**1Q OUTLOOK: ORGANIC REVENUE DECLINE DRIVEN BY TOUGH PRIOR COMPARISON ...  
OP MARGIN DOWN 70 TO 110 BPS INCLUDING SENSUS NON-CASH AMORTIZATION**

# SUMMARY

- Continued strong execution in a challenged industrial environment
  - Delivered significant margin expansion and 10% EPS growth
  - Acquisition of Sensus accelerates revenue and earnings growth profile
  - Positioned to outperform in 2017
- 

## Save the Date!

### 2017 Investor & Analyst Day

Date: April 4<sup>th</sup>

Location: Sensus Technology Center, Raleigh, N.C.

Expect full details/agenda in March

# APPENDIX

## Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, working capital, and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including but not limited to, dividends acquisitions, share repurchases and debt repayment. However, other than with respect to total revenue, we only provide guidance on a non-GAAP basis and do not provide reconciliations of such forward-looking measures to GAAP due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as integration and acquisition-related costs, special charges and tax related special items. 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 assumes no change in exchange rates from the prior period.

**"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 on sale of business and special charges.

**"Adjusted Operating Income", "Adjusted Segment Operating Income", and "Adjusted EPS"** defined as operating income, segment operating income and earnings per share, adjusted to exclude restructuring and realignment costs, Sensus acquisition related costs, gain on 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 flows 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 transaction costs, integration costs, costs related to the recognition of the inventory step up and amortization of the backlog intangible asset recorded in purchase accounting.

**"Special charges"** defined as costs incurred by the Company, such as interest expense related to the early extinguishment of debt during Q2 2016, financing costs related to the bridge loan entered into in Q3 2016 for the Sensus acquisition, initial acquisition costs not related to Sensus, costs incurred for the contractual indemnification of tax obligations to ITT 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)

|  | (As Reported - GAAP) |                |                        |                          | (As Adjusted - Organic)        |           |                             |                               | Constant Currency |           |
|--|----------------------|----------------|------------------------|--------------------------|--------------------------------|-----------|-----------------------------|-------------------------------|-------------------|-----------|
|  | (A)                  |                | (B)                    |                          | (C)                            |           | (D)                         |                               | (E) = B+C+D       | (F) = E/A |
|  | Orders<br>2016       | Orders<br>2015 | Change<br>2016 v. 2015 | % Change<br>2016 v. 2015 | Acquisitions /<br>Divestitures | FX Impact | Change<br>Adj. 2016 v. 2015 | % Change<br>Adj. 2016 v. 2015 |                   |           |
| <b><u>Year Ended December 31</u></b>     |                      |                |                        |                          |                                |           |                             |                               |                   |           |
| <b>Xylem Inc.</b>                        | 3,824                | 3,711          | 113                    | 3%                       | (179)                          | 78        | 12                          | 0%                            | 5%                |           |
| Water Infrastructure                     | 2,272                | 2,296          | (24)                   | -1%                      | (32)                           | 58        | 2                           | 0%                            | 1%                |           |
| Applied Water                            | 1,405                | 1,415          | (10)                   | -1%                      | -                              | 20        | 10                          | 1%                            | 1%                |           |
| Sensus                                   | 147                  | -              | 147                    | N/A                      | (147)                          | -         | -                           | N/A                           | N/A               |           |
| <b><u>Quarter Ended December 31</u></b>  |                      |                |                        |                          |                                |           |                             |                               |                   |           |
| <b>Xylem Inc.</b>                        | 1,067                | 913            | 154                    | 17%                      | (155)                          | 19        | 18                          | 2%                            | 19%               |           |
| Water Infrastructure                     | 572                  | 559            | 13                     | 2%                       | (8)                            | 14        | 19                          | 3%                            | 5%                |           |
| Applied Water                            | 348                  | 354            | (6)                    | -2%                      | -                              | 5         | (1)                         | 0%                            | 0%                |           |
| Sensus                                   | 147                  | -              | 147                    | N/A                      | (147)                          | -         | -                           | N/A                           | N/A               |           |
| <b><u>Quarter Ended September 30</u></b> |                      |                |                        |                          |                                |           |                             |                               |                   |           |
| <b>Xylem Inc.</b>                        | 946                  | 939            | 7                      | 1%                       | (10)                           | 15        | 12                          | 1%                            | 2%                |           |
| Water Infrastructure                     | 604                  | 590            | 14                     | 2%                       | (10)                           | 9         | 13                          | 2%                            | 4%                |           |
| Applied Water                            | 342                  | 349            | (7)                    | -2%                      | -                              | 6         | (1)                         | 0%                            | 0%                |           |
| <b><u>Quarter Ended June 30</u></b>      |                      |                |                        |                          |                                |           |                             |                               |                   |           |
| <b>Xylem Inc.</b>                        | 923                  | 944            | (21)                   | -2%                      | (9)                            | 13        | (17)                        | -2%                           | -1%               |           |
| Water Infrastructure                     | 562                  | 585            | (23)                   | -4%                      | (9)                            | 11        | (21)                        | -4%                           | -2%               |           |
| Applied Water                            | 361                  | 359            | 2                      | 1%                       | -                              | 2         | 4                           | 1%                            | 1%                |           |
| <b><u>Quarter Ended March 31</u></b>     |                      |                |                        |                          |                                |           |                             |                               |                   |           |
| <b>Xylem Inc.</b>                        | 888                  | 915            | (27)                   | -3%                      | (5)                            | 31        | (1)                         | 0%                            | 0%                |           |
| Water Infrastructure                     | 534                  | 562            | (28)                   | -5%                      | (5)                            | 24        | (9)                         | -2%                           | -1%               |           |
| Applied Water                            | 354                  | 353            | 1                      | 0%                       | -                              | 7         | 8                           | 2%                            | 2%                |           |

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<br>2016      | Revenue<br>2015 | Change<br>2016 v. 2015 | % Change<br>2016 v. 2015 | Acquisitions /<br>Divestitures | FX Impact | Change<br>Adj. 2016 v. 2015 | % Change<br>Adj. 2016 v. 2015 |                   |           |                   |
| <b><u>Year Ended December 31</u></b>     |                      |                 |                        |                          |                                |           |                             |                               |                   |           |                   |
| <b>Xylem Inc.</b>                        | 3,771                | 3,653           | 118                    | 3%                       | (163)                          | 74        | 29                          | 1%                            | 5%                |           |                   |
| Water Infrastructure                     | 2,246                | 2,231           | 15                     | 1%                       | (32)                           | 55        | 38                          | 2%                            | 3%                |           |                   |
| Applied Water                            | 1,393                | 1,422           | (29)                   | -2%                      | -                              | 20        | (9)                         | -1%                           | -1%               |           |                   |
| Sensus                                   | 132                  | -               | 132                    | N/A                      | (131)                          | (1)       | -                           | N/A                           | N/A               |           |                   |
| <b><u>Quarter Ended December 31</u></b>  |                      |                 |                        |                          |                                |           |                             |                               |                   |           |                   |
| <b>Xylem Inc.</b>                        | 1,095                | 994             | 101                    | 10%                      | (138)                          | 20        | (17)                        | -2%                           | 12%               |           |                   |
| Water Infrastructure                     | 612                  | 629             | (17)                   | -3%                      | (7)                            | 14        | (10)                        | -2%                           | 0%                |           |                   |
| Applied Water                            | 351                  | 365             | (14)                   | -4%                      | -                              | 7         | (7)                         | -2%                           | -2%               |           |                   |
| Sensus                                   | 132                  | -               | 132                    | N/A                      | (131)                          | (1)       | -                           | N/A                           | N/A               |           |                   |
| <b><u>Quarter Ended September 30</u></b> |                      |                 |                        |                          |                                |           |                             |                               |                   |           |                   |
| <b>Xylem Inc.</b>                        | 897                  | 902             | (5)                    | -1%                      | (8)                            | 14        | 1                           | 0%                            | 1%                |           |                   |
| Water Infrastructure                     | 554                  | 551             | 3                      | 1%                       | (8)                            | 9         | 4                           | 1%                            | 2%                |           |                   |
| Applied Water                            | 343                  | 351             | (8)                    | -2%                      | -                              | 5         | (3)                         | -1%                           | -1%               |           |                   |
| <b><u>Quarter Ended June 30</u></b>      |                      |                 |                        |                          |                                |           |                             |                               |                   |           |                   |
| <b>Xylem Inc.</b>                        | 932                  | 920             | 12                     | 1%                       | (11)                           | 13        | 14                          | 2%                            | 3%                |           |                   |
| Water Infrastructure                     | 566                  | 551             | 15                     | 3%                       | (11)                           | 11        | 15                          | 3%                            | 5%                |           |                   |
| Applied Water                            | 366                  | 369             | (3)                    | -1%                      | -                              | 2         | (1)                         | 0%                            | 0%                |           |                   |
| <b><u>Quarter Ended March 31</u></b>     |                      |                 |                        |                          |                                |           |                             |                               |                   |           |                   |
| <b>Xylem Inc.</b>                        | 847                  | 837             | 10                     | 1%                       | (6)                            | 27        | 31                          | 4%                            | 4%                |           |                   |
| Water Infrastructure                     | 514                  | 500             | 14                     | 3%                       | (6)                            | 21        | 29                          | 6%                            | 7%                |           |                   |
| Applied Water                            | 333                  | 337             | (4)                    | -1%                      | -                              | 6         | 2                           | 1%                            | 1%                |           |                   |

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

|  | Q1    |       | Q2    |       | Q3    |       | Q4     |       | YTD    |       |
|--|-------|-------|-------|-------|-------|-------|--------|-------|--------|-------|
|  | 2016  | 2015  | 2016  | 2015  | 2016  | 2015  | 2016   | 2015  | 2016   | 2015  |
| <b>Total Revenue</b>                         |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 847   | 837   | 932   | 920   | 897   | 902   | 1,095  | 994   | 3,771  | 3,653 |
| • Water Infrastructure                       | 514   | 500   | 566   | 551   | 554   | 551   | 612    | 629   | 2,246  | 2,231 |
| • Applied Water                              | 333   | 337   | 366   | 369   | 343   | 351   | 351    | 365   | 1,393  | 1,422 |
| • Sensus                                     | -     | -     | -     | -     | -     | -     | 132    | -     | 132    | -     |
| <b>Operating Income</b>                      |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 79    | 83    | 109   | 104   | 109   | 120   | 109    | 142   | 406    | 449   |
| • Water Infrastructure                       | 54    | 47    | 70    | 65    | 79    | 83    | 105    | 108   | 308    | 303   |
| • Applied Water                              | 39    | 46    | 51    | 51    | 50    | 46    | 48     | 47    | 188    | 190   |
| • Sensus                                     | -     | -     | -     | -     | -     | -     | (17)   | -     | (17)   | -     |
| • Total Segments                             | 93    | 93    | 121   | 116   | 129   | 129   | 136    | 155   | 479    | 493   |
| <b>Operating Margin</b>                      |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 9.3%  | 9.9%  | 11.7% | 11.3% | 12.2% | 13.3% | 10.0%  | 14.3% | 10.8%  | 12.3% |
| • Water Infrastructure                       | 10.5% | 9.4%  | 12.4% | 11.8% | 14.3% | 15.1% | 17.2%  | 17.2% | 13.7%  | 13.6% |
| • Applied Water                              | 11.7% | 13.6% | 13.9% | 13.8% | 14.6% | 13.1% | 13.7%  | 12.9% | 13.5%  | 13.4% |
| • Sensus                                     | N/A   | N/A   | N/A   | N/A   | N/A   | N/A   | -12.9% | N/A   | -12.9% | N/A   |
| • Total Segments                             | 11.0% | 11.1% | 13.0% | 12.6% | 14.4% | 14.3% | 12.4%  | 15.6% | 12.7%  | 13.5% |
| <b>Sensus Acquisition Related Costs</b>      |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | -     | -     | -     | -     | 10    | -     | 43     | -     | 53     | -     |
| • Water Infrastructure                       | -     | -     | -     | -     | -     | -     | -      | -     | -      | -     |
| • Applied Water                              | -     | -     | -     | -     | -     | -     | -      | -     | -      | -     |
| • Sensus                                     | -     | -     | -     | -     | -     | -     | 25     | -     | 25     | -     |
| • Total Segments                             | -     | -     | -     | -     | -     | -     | 25     | -     | 25     | -     |
| <b>Special Charges</b>                       |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 4     | 1     | 1     | -     | -     | -     | -      | -     | 5      | 1     |
| • Water Infrastructure                       | 4     | 1     | 1     | -     | -     | -     | -      | -     | 5      | 1     |
| • Applied Water                              | -     | -     | -     | -     | -     | -     | -      | -     | -      | -     |
| • Sensus                                     | -     | -     | -     | -     | -     | -     | -      | -     | -      | -     |
| • Total Segments                             | 4     | 1     | 1     | -     | -     | -     | -      | -     | 5      | 1     |
| <b>Restructuring &amp; Realignment Costs</b> |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 9     | 6     | 11    | 6     | 12    | 4     | 15     | 4     | 47     | 20    |
| • Water Infrastructure                       | 4     | 5     | 8     | 4     | 9     | 2     | 7      | 2     | 28     | 13    |
| • Applied Water                              | 3     | 1     | 3     | 2     | 3     | 2     | 7      | 2     | 16     | 7     |
| • Sensus                                     | -     | -     | -     | -     | -     | -     | 1      | -     | 1      | -     |
| • Total Segments                             | 7     | 6     | 11    | 6     | 12    | 4     | 15     | 4     | 45     | 20    |
| <b>Adjusted Operating Income</b>             |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 92    | 90    | 121   | 110   | 131   | 124   | 167    | 146   | 511    | 470   |
| • Water Infrastructure                       | 62    | 53    | 79    | 69    | 88    | 85    | 112    | 110   | 341    | 317   |
| • Applied Water                              | 42    | 47    | 54    | 53    | 53    | 48    | 55     | 49    | 204    | 197   |
| • Sensus                                     | -     | -     | -     | -     | -     | -     | 9      | -     | 9      | -     |
| • Total Segments                             | 104   | 100   | 133   | 122   | 141   | 133   | 176    | 159   | 554    | 514   |
| <b>Adjusted Operating Margin</b>             |       |       |       |       |       |       |        |       |        |       |
| • Total Xylem                                | 10.9% | 10.8% | 13.0% | 12.0% | 14.6% | 13.7% | 15.3%  | 14.7% | 13.6%  | 12.9% |
| • Water Infrastructure                       | 12.1% | 10.6% | 14.0% | 12.5% | 15.9% | 15.4% | 18.3%  | 17.5% | 15.2%  | 14.2% |
| • Applied Water                              | 12.6% | 13.9% | 14.8% | 14.4% | 15.5% | 13.7% | 15.7%  | 13.4% | 14.6%  | 13.9% |
| • Sensus                                     | N/A   | N/A   | N/A   | N/A   | N/A   | N/A   | 6.8%   | N/A   | 6.8%   | N/A   |
| • Total Segments                             | 12.3% | 11.9% | 14.3% | 13.3% | 15.7% | 14.7% | 16.1%  | 16.0% | 14.7%  | 14.1% |



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

|                                      | Q4 2016        |                |                | Q4 2015        |                  |                |
|--------------------------------------|----------------|----------------|----------------|----------------|------------------|----------------|
|                                      | As Reported    | Adjustments    | Adjusted       | As Reported    | Adjustments      | Adjusted       |
| Total Revenue                        | 1,095          |                | 1,095          | 994            |                  | 994            |
| Operating Income                     | 109            | 58 a           | 167            | 142            | 4 a              | 146            |
| Operating Margin                     | 10.0%          |                | 15.3%          | 14.3%          |                  | 14.7%          |
| Interest Expense                     | (20)           | 1 b            | (19)           | (14)           |                  | (14)           |
| Other Non-Operating Income (Expense) | 1              |                | 1              | -              | b                | -              |
| Income before Taxes                  | 90             | 59             | 149            | 128            | 4                | 132            |
| Provision for Income Taxes           | (40)           | 9 c            | (31)           | (14)           | (10) c           | (24)           |
| Net Income                           | 50             | 68             | 118            | 114            | (6)              | 108            |
| Diluted Shares                       | 180.6          |                | 180.6          | 180.0          |                  | 180.0          |
| <b>Diluted EPS</b>                   | <b>\$ 0.28</b> | <b>\$ 0.38</b> | <b>\$ 0.66</b> | <b>\$ 0.63</b> | <b>\$ (0.03)</b> | <b>\$ 0.60</b> |

|                                      | Q4 YTD 2016    |                |                | Q4 YTD 2015    |                  |                |
|--------------------------------------|----------------|----------------|----------------|----------------|------------------|----------------|
|                                      | As Reported    | Adjustments    | Adjusted       | As Reported    | Adjustments      | Adjusted       |
| Total Revenue                        | 3,771          |                | 3,771          | 3,653          |                  | 3,653          |
| Operating Income                     | 406            | 105 a          | 511            | 449            | 21 a             | 470            |
| Operating Margin                     | 10.8%          |                | 13.6%          | 12.3%          |                  | 12.9%          |
| Interest Expense                     | (70)           | 13 b           | (57)           | (55)           |                  | (55)           |
| Other Non-Operating Income (Expense) | 4              |                | 4              | -              | 4 b              | 4              |
| Gain from sale of businesses         | -              |                | -              | 9              | (9)              | -              |
| Income before Taxes                  | 340            | 118            | 458            | 403            | 16               | 419            |
| Provision for Income Taxes           | (80)           | (14) c         | (94)           | (63)           | (20) c           | (83)           |
| Net Income                           | 260            | 104            | 364            | 340            | (4)              | 336            |
| Diluted Shares                       | 180.0          |                | 180.0          | 181.7          |                  | 181.7          |
| <b>Diluted EPS</b>                   | <b>\$ 1.45</b> | <b>\$ 0.58</b> | <b>\$ 2.03</b> | <b>\$ 1.87</b> | <b>\$ (0.02)</b> | <b>\$ 1.85</b> |

a Restructuring & realignment costs of \$15 million and \$4 million in the fourth quarter of 2016 and 2015, respectively and Sensus acquisition related costs of \$43 million in the fourth quarter of 2016. Restructuring & realignment costs of \$47 million and \$20 million year-to-date 2016 and 2015, respectively, special charges of \$5 million and \$1 million year-to-date 2016 and 2015, respectively and Sensus acquisition related costs of \$53 million year-to-date 2016.

b 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 and \$4 million of other special charges in 2015.

c Net tax impact on restructuring & realignment costs of \$4 million and \$1 million in the fourth quarter of 2016 and 2015, respectively, net tax impact on Sensus acquisition related costs of \$15 million in the fourth quarter of 2016 and tax-related special items of \$28 million of benefit and \$9 million of expense for the fourth quarter of 2016 and 2015, respectively. Net tax impact on year-to-date restructuring & realignment costs of \$13 million and \$5 million and on special charges of \$7 million and \$0 million in 2016 and 2015, respectively, net tax impact on Sensus acquisition related costs of \$15 million in 2016 and tax-related special items of \$21 million of benefit and \$15 million of expense for year-to-date 2016 and 2015, respectively.

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

|   | Q1           |              | Q2           |              | Q3            |               | Q4            |               | Year Ended    |               |
|---|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | 2016         | 2015         | 2016         | 2015         | 2016          | 2015          | 2016          | 2015          | 2016          | 2015          |
| <b>Net Cash - Operating Activities</b>  | \$ 41        | \$ 39        | \$ 84        | \$ 84        | \$ 149        | \$ 137        | \$ 223        | \$ 204        | \$ 497        | \$ 464        |
| Capital Expenditures  | (37)         | (37)         | (25)         | (20)         | (28)          | (21)          | (34)          | (39)          | (124)         | (117)         |
| <b>Free Cash Flow</b>   | <u>\$ 4</u>  | <u>\$ 2</u>  | <u>\$ 59</u> | <u>\$ 64</u> | <u>\$ 121</u> | <u>\$ 116</u> | <u>\$ 189</u> | <u>\$ 165</u> | <u>\$ 373</u> | <u>\$ 347</u> |
| Cash paid for Sensus Acquisition Related Costs  | -            | -            | -            | -            | (3)           | -             | (10)          | -             | (13)          | -             |
| <b>Free Cash Flow, excluding Sensus Acquisition Related Costs</b>   | <u>\$ 4</u>  | <u>\$ 2</u>  | <u>\$ 59</u> | <u>\$ 64</u> | <u>\$ 124</u> | <u>\$ 116</u> | <u>\$ 199</u> | <u>\$ 165</u> | <u>\$ 386</u> | <u>\$ 347</u> |
| Net Income  | 66           | 64           | 71           | 74           | 73            | 88            | 50            | 114           | 260           | 340           |
| Gain from sale of businesses  | -            | 9            | -            | -            | -             | -             | -             | -             | -             | 9             |
| Special Charges - Interest on debt extinguishment   | -            | -            | (8)          | -            | -             | -             | -             | -             | (8)           | -             |
| Sensus Acquisition Related Costs  | -            | -            | -            | -            | (10)          | -             | (43)          | -             | (53)          | -             |
| <b>Net Income, excluding gain on sale of businesses, Interest on debt extinguishment and Sensus Acquisition Related Costs</b> | <u>\$ 66</u> | <u>\$ 55</u> | <u>\$ 79</u> | <u>\$ 74</u> | <u>\$ 83</u>  | <u>\$ 88</u>  | <u>\$ 93</u>  | <u>\$ 114</u> | <u>\$ 321</u> | <u>\$ 331</u> |
| <b>Free Cash Flow Conversion</b>  | <u>6%</u>    | <u>4%</u>    | <u>75%</u>   | <u>86%</u>   | <u>149%</u>   | <u>132%</u>   | <u>214%</u>   | <u>145%</u>   | <u>120%</u>   | <u>105%</u>   |

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

|                                  | 2016  |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|-------|
|                                  | Q1    | Q2    | Q3    | Q4    | Total |
| Pre-Tax Income                   | 65    | 90    | 95    | 90    | 340   |
| 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% |

|                                | 2015  |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|
|                                | Q1    | Q2    | Q3    | Q4    | Total |
| Pre-Tax Income                 | 77    | 91    | 107   | 128   | 403   |
| Interest Expense (Income), net | 13    | 13    | 13    | 14    | 53    |
| Depreciation                   | 24    | 23    | 22    | 19    | 88    |
| Amortization                   | 11    | 11    | 11    | 12    | 45    |
| Stock Compensation             | 4     | 4     | 3     | 4     | 15    |
| EBITDA                         | 129   | 142   | 156   | 177   | 604   |
| Restructuring & Realignment    | 6     | 6     | 4     | 4     | 20    |
| Gain on sale of businesses     | (9)   | -     | -     | -     | (9)   |
| Special Charges                | 2     | 1     | 2     | -     | 5     |
| Adjusted EBITDA                | 128   | 149   | 162   | 181   | 620   |
| Revenue                        | 837   | 920   | 902   | 994   | 3,653 |
| Adjusted EBITDA Margin         | 15.3% | 16.2% | 18.0% | 18.2% | 17.0% |

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

|                                | 2016  |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|
|                                | Q1    | Q2    | Q3    | Q4    | Total |
| Pre-Tax Income                 | 54    | 70    | 80    | 105   | 309   |
| Interest Expense (Income), net | -     | -     | -     | (1)   | (1)   |
| Depreciation                   | 12    | 12    | 12    | 12    | 48    |
| Amortization                   | 10    | 9     | 10    | 9     | 38    |
| Stock Compensation             | 1     | -     | 1     | -     | 2     |
| EBITDA                         | 77    | 91    | 103   | 125   | 396   |
| Restructuring & Realignment    | 4     | 8     | 9     | 7     | 28    |
| Special Charges                | 4     | 1     | -     | -     | 5     |
| Adjusted EBITDA                | 85    | 100   | 112   | 132   | 429   |
| Revenue                        | 514   | 566   | 554   | 612   | 2,246 |
| Adjusted EBITDA Margin         | 16.5% | 17.7% | 20.2% | 21.6% | 19.1% |

|                                | 2015  |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|
|                                | Q1    | Q2    | Q3    | Q4    | Total |
| Pre-Tax Income                 | 55    | 65    | 84    | 108   | 312   |
| Interest Expense (Income), net | -     | (1)   | -     | -     | (1)   |
| Depreciation                   | 16    | 14    | 13    | 10    | 53    |
| Amortization                   | 9     | 9     | 9     | 8     | 35    |
| Stock Compensation             | 1     | -     | 1     | -     | 2     |
| EBITDA                         | 81    | 87    | 107   | 126   | 401   |
| Restructuring & Realignment    | 5     | 4     | 2     | 2     | 13    |
| Gain on sale of business       | (8)   | -     | -     | -     | (8)   |
| Special Charges                | 1     | -     | -     | -     | 1     |
| Adjusted EBITDA                | 79    | 91    | 109   | 128   | 407   |
| Revenue                        | 500   | 551   | 551   | 629   | 2,231 |
| Adjusted EBITDA Margin         | 15.8% | 16.5% | 19.8% | 20.3% | 18.2% |

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

Applied Water  
(\$ Millions)

|                             | 2016  |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|-------|
|                             | Q1    | Q2    | Q3    | Q4    | Total |
| Pre-Tax Income              | 38    | 52    | 50    | 48    | 188   |
| Interest, net               | -     | -     | -     | -     | -     |
| Depreciation                | 5     | 5     | 5     | 5     | 20    |
| Amortization                | 1     | 1     | 1     | 1     | 4     |
| Stock Compensation          | -     | 1     | -     | -     | 1     |
| EBITDA                      | 44    | 59    | 56    | 54    | 213   |
| Restructuring & Realignment | 3     | 3     | 3     | 7     | 16    |
| 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% |

|                             | 2015  |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|-------|
|                             | Q1    | Q2    | Q3    | Q4    | Total |
| Pre-Tax Income              | 46    | 51    | 47    | 46    | 190   |
| Interest, net               | -     | -     | -     | -     | -     |
| Depreciation                | 5     | 5     | 7     | 4     | 21    |
| Amortization                | 1     | 1     | -     | 3     | 5     |
| Stock Compensation          | 1     | -     | -     | 1     | 2     |
| EBITDA                      | 53    | 57    | 54    | 54    | 218   |
| Restructuring & Realignment | 1     | 2     | 2     | 2     | 7     |
| Gain on sale of business    | (1)   | -     | -     | -     | (1)   |
| Adjusted EBITDA             | 53    | 59    | 56    | 56    | 224   |
| Revenue                     | 337   | 369   | 351   | 365   | 1,422 |
| Adjusted EBITDA Margin      | 15.7% | 16.0% | 16.0% | 15.3% | 15.8% |

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

Sensus  
(\$ Millions)

|                                  | 2016 |    |    |       |       |
|----------------------------------|------|----|----|-------|-------|
|                                  | Q1   | Q2 | Q3 | Q4    | Total |
| Pre-Tax Income                   |      |    |    | (17)  | (17)  |
| Interest, net                    |      |    |    | -     | -     |
| Depreciation                     |      |    |    | 4     | 4     |
| Amortization                     |      |    |    | 17    | 17    |
| Stock Compensation               |      |    |    | -     | -     |
| EBITDA                           | -    | -  | -  | 4     | 4     |
| Restructuring & Realignment      |      |    |    | 1     | 1     |
| Sensus Acquisition Related Costs |      |    |    | 18    | 18    |
| Adjusted EBITDA                  | -    | -  | -  | 23    | 23    |
| Revenue                          |      |    |    | 132   | 132   |
| Adjusted EBITDA Margin           |      |    |    | 17.4% | 17.4% |

Sensus Historical Non\_GAAP Reconciliation  
Adjusted Operating Income  
(\$ Millions)

|  | <u>QTD 12/31/16</u> | <u>YTD 12/31/16</u> |
|--|---------------------|---------------------|
| Revenue                                | 200                 | 891                 |
| Operating Income                       | (50)                | 69                  |
| Operating Margin                       | -25.0%              | 7.7%                |
| Reversal of product warranty reserve   | -                   | (27)                |
| Restructuring & realignment costs      | 1                   | 5                   |
| Sensus transaction related charges (a) | 63                  | 64                  |
| Management fees                        | -                   | 5                   |
| Other non-recurring charges            | -                   | 1                   |
| Adjusted Operating Income              | 14                  | 117                 |
| Adjusted Operating Margin              | 7.0%                | 13.1%               |

(a) Includes Sensus seller transaction expenses and change in control retention compensation charges for the period prior to acquisition of \$39 million.

Sensus Historical Non\_GAAP Reconciliation  
Adjusted EBITDA  
(\$ Millions)

|  | <u>QTD 12/31/16</u> | <u>YTD 12/31/16</u> |
|--|---------------------|---------------------|
| Pre-Tax Income                         | (92)                | (9)                 |
| Interest Expense (Income), Net         | 30                  | 66                  |
| Depreciation and Amortization          | 26                  | 71                  |
| EBITDA                                 | (36)                | 128                 |
| Reversal of product warranty reserve   | -                   | (27)                |
| Restructuring & realignment costs      | 1                   | 5                   |
| Sensus transaction related charges (a) | 56                  | 57                  |
| Management fees                        | -                   | 5                   |
| Other non-recurring charges (b)        | 12                  | 13                  |
| Adjusted EBITDA                        | 33                  | 181                 |
| Revenue                                | 200                 | 891                 |
| Adjusted EBITDA Margin                 | 16.5%               | 20.3%               |

(a) Includes Sensus seller transaction expenses and change in control retention compensation charges for the period prior to acquisition of \$39 million.

(b) Includes a write-down on a minority owned joint venture in October 2016

# HISTORICAL FINANCIAL APPENDIX

# NON-GAAP MEASURES

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<br>2015      | Revenue<br>2014 | Change<br>2015 v. 2014 | % Change<br>2015 v. 2014 | Acquisitions /<br>Divestitures | FX Contribution | Change<br>Adj. 2015 v. 2014 | % Change<br>Adj. 2015 v. 2014 |                   |    |
| <b><u>Year Ended December 31</u></b>     |                      |                 |                        |                          |                                |                 |                             |                               |                   |    |
| <b>Xylem Inc.</b>                        | 3,653                | 3,916           | (263)                  | -7%                      | 10                             | 313             | 60                          | 2%                            |                   | 1% |
| Water Infrastructure                     | 2,231                | 2,442           | (211)                  | -9%                      | (1)                            | 234             | 22                          | 1%                            |                   | 1% |
| Applied Water                            | 1,422                | 1,474           | (52)                   | -4%                      | 11                             | 79              | 38                          | 3%                            |                   | 2% |
| <b><u>Quarter Ended December 31</u></b>  |                      |                 |                        |                          |                                |                 |                             |                               |                   |    |
| <b>Xylem Inc.</b>                        | 994                  | 1,042           | (48)                   | -5%                      | (1)                            | 70              | 21                          | 2%                            |                   | 2% |
| Water Infrastructure                     | 629                  | 672             | (43)                   | -6%                      | (1)                            | 54              | 10                          | 1%                            |                   | 2% |
| Applied Water                            | 365                  | 370             | (5)                    | -1%                      | -                              | 16              | 11                          | 3%                            |                   | 3% |
| <b><u>Quarter Ended September 30</u></b> |                      |                 |                        |                          |                                |                 |                             |                               |                   |    |
| <b>Xylem Inc.</b>                        | 902                  | 963             | (61)                   | -6%                      | -                              | 81              | 20                          | 2%                            |                   | 2% |
| Water Infrastructure                     | 551                  | 602             | (51)                   | -8%                      | -                              | 61              | 10                          | 2%                            |                   | 2% |
| Applied Water                            | 351                  | 361             | (10)                   | -3%                      | -                              | 20              | 10                          | 3%                            |                   | 3% |
| <b><u>Quarter Ended June 30</u></b>      |                      |                 |                        |                          |                                |                 |                             |                               |                   |    |
| <b>Xylem Inc.</b>                        | 920                  | 1,005           | (85)                   | -8%                      | 6                              | 89              | 10                          | 1%                            |                   | 0% |
| Water Infrastructure                     | 551                  | 616             | (65)                   | -11%                     | -                              | 65              | -                           | 0%                            |                   | 0% |
| Applied Water                            | 369                  | 389             | (20)                   | -5%                      | 6                              | 24              | 10                          | 3%                            |                   | 1% |
| <b><u>Quarter Ended March 31</u></b>     |                      |                 |                        |                          |                                |                 |                             |                               |                   |    |
| <b>Xylem Inc.</b>                        | 837                  | 906             | (69)                   | -8%                      | 5                              | 73              | 9                           | 1%                            |                   | 0% |
| Water Infrastructure                     | 500                  | 552             | (52)                   | -9%                      | -                              | 54              | 2                           | 0%                            |                   | 0% |
| Applied Water                            | 337                  | 354             | (17)                   | -5%                      | 5                              | 19              | 7                           | 2%                            |                   | 1% |

# NON-GAAP MEASURES

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

|  | YTD    |       |       |
|--|--------|-------|-------|
|  | 2016   | 2015  | 2014  |
| <b>Total Revenue</b>                         |        |       |       |
| • Total Xylem                                | 3,771  | 3,653 | 3,916 |
| • Water Infrastructure                       | 2,246  | 2,231 | 2,442 |
| • Applied Water                              | 1,393  | 1,422 | 1,474 |
| • Sensus                                     | 132    | -     | -     |
| <b>Operating Income</b>                      |        |       |       |
| • Total Xylem                                | 406    | 449   | 463   |
| • Water Infrastructure                       | 308    | 303   | 321   |
| • Applied Water                              | 188    | 190   | 193   |
| • Sensus                                     | (17)   | -     | -     |
| • Total Segments                             | 479    | 493   | 514   |
| <b>Operating Margin</b>                      |        |       |       |
| • Total Xylem                                | 10.8%  | 12.3% | 11.8% |
| • Water Infrastructure                       | 13.7%  | 13.6% | 13.1% |
| • Applied Water                              | 13.5%  | 13.4% | 13.1% |
| • Sensus                                     | -12.9% | N/A   | N/A   |
| • Total Segments                             | 12.7%  | 13.5% | 13.1% |
| <b>Sensus Acquisition Related Costs</b>      |        |       |       |
| • Total Xylem                                | 53     | -     | -     |
| • Water Infrastructure                       | -      | -     | -     |
| • Applied Water                              | -      | -     | -     |
| • Sensus                                     | 25     | -     | -     |
| • Total Segments                             | 25     | -     | -     |
| <b>Special Charges</b>                       |        |       |       |
| • Total Xylem                                | 5      | 1     | -     |
| • Water Infrastructure                       | 5      | 1     | -     |
| • Applied Water                              | -      | -     | -     |
| • Sensus                                     | -      | -     | -     |
| • Total Segments                             | 5      | 1     | -     |
| <b>Restructuring &amp; Realignment Costs</b> |        |       |       |
| • Total Xylem                                | 47     | 20    | 43    |
| • Water Infrastructure                       | 28     | 13    | 29    |
| • Applied Water                              | 16     | 7     | 13    |
| • Sensus                                     | 1      | -     | -     |
| • Total Segments                             | 45     | 20    | 42    |
| <b>Adjusted Operating Income</b>             |        |       |       |
| • Total Xylem                                | 511    | 470   | 506   |
| • Water Infrastructure                       | 341    | 317   | 350   |
| • Applied Water                              | 204    | 197   | 206   |
| • Sensus                                     | 9      | -     | -     |
| • Total Segments                             | 554    | 514   | 556   |
| <b>Adjusted Operating Margin</b>             |        |       |       |
| • Total Xylem                                | 13.6%  | 12.9% | 12.9% |
| • Water Infrastructure                       | 15.2%  | 14.2% | 14.3% |
| • Applied Water                              | 14.6%  | 13.9% | 14.0% |
| • Sensus                                     | 6.8%   | N/A   | N/A   |
| • Total Segments                             | 14.7%  | 14.1% | 14.2% |



# NON-GAAP MEASURES

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

|  | Q4 2014        |                |                | Q4 2015        |                  |                |
|--|----------------|----------------|----------------|----------------|------------------|----------------|
|  | As Reported    | Adjustments    | Adjusted       | As Reported    | Adjustments      | Adjusted       |
| Total Revenue  | 1,042          |                | 1,042          | 994            |                  | 994            |
| Operating Income   | 141            | 12 a           | 153            | 142            | 4 a              | 146            |
| Operating Margin   | 13.5%          |                | 14.7%          | 14.3%          |                  | 14.7%          |
| Interest Expense   | (13)           |                | (13)           | (14)           |                  | (14)           |
| Other Non-Operating Income (Expense)                                   | -              |                | -              | -              |                  | -              |
| Gain from sale of business   | -              |                | -              | -              |                  | -              |
| Income before Taxes  | 128            | 12             | 140            | 128            | 4                | 132            |
| Provision for Income Taxes   | (32)           | 6 c            | (26)           | (14)           | (10) c           | (24)           |
| Net Income   | 96             | 18             | 114            | 114            | (6)              | 108            |
| Diluted Shares   | 183.3          |                | 183.4          | 180.0          |                  | 180.0          |
| <b>Diluted EPS</b>   | <b>\$ 0.52</b> | <b>\$ 0.10</b> | <b>\$ 0.62</b> | <b>\$ 0.63</b> | <b>\$ (0.03)</b> | <b>\$ 0.60</b> |
| Year-over-year currency translation impact on current year diluted EPS |                |                |                | \$ (0.05)      | \$ 0.01          | \$ (0.04)      |
| <b>Diluted EPS at Constant Currency</b>                                |                |                |                | <b>\$ 0.68</b> | <b>\$ (1.32)</b> | <b>\$ 0.64</b> |

|  | Q4 YTD 2014    |                |                | Q4 YTD 2015    |                  |                |
|--|----------------|----------------|----------------|----------------|------------------|----------------|
|  | As Reported    | Adjustments    | Adjusted       | As Reported    | Adjustments      | Adjusted       |
| Total Revenue  | 3,916          |                | 3,916          | 3,653          |                  | 3,653          |
| Operating Income   | 463            | 43 a           | 506            | 449            | 21 a             | 470            |
| Operating Margin   | 11.8%          |                | 12.9%          | 12.3%          |                  | 12.9%          |
| Interest Expense   | (54)           |                | (54)           | (55)           |                  | (55)           |
| Other Non-Operating Income (Expense)                                   | 1              |                | 1              | -              | 4 b              | 4              |
| Gain from sale of businesses   | 11             | (11)           | -              | 9              | (9)              | 0              |
| Income before Taxes  | 421            | 32             | 453            | 403            | 16               | 419            |
| Provision for Income Taxes   | (84)           | (7) c          | (91)           | (63)           | (20) c           | (83)           |
| Net Income   | 337            | 25             | 362            | 340            | (4)              | 336            |
| Diluted Shares   | 184.2          |                | 184.2          | 181.7          |                  | 181.7          |
| <b>Diluted EPS</b>   | <b>\$ 1.83</b> | <b>\$ 0.14</b> | <b>\$ 1.97</b> | <b>\$ 1.87</b> | <b>\$ (0.02)</b> | <b>\$ 1.85</b> |
| Year-over-year currency translation impact on current year diluted EPS |                |                |                | \$ (0.22)      | \$ -             | \$ (0.22)      |
| <b>Diluted EPS at Constant Currency</b>                                |                |                |                | <b>\$ 2.09</b> | <b>\$ (0.02)</b> | <b>\$ 2.07</b> |

a Restructuring & realignment costs in 2014 and 2015 and special charges in 2015

b Special charges

c Net tax impact of restructuring & realignment costs and special charges, and tax-related special items

# NON-GAAP MEASURES

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

|                                | 2015       |            |            |            |            |
|--------------------------------|------------|------------|------------|------------|------------|
|                                | Q1         | Q2         | Q3         | Q4         | Total      |
| Pre-Tax Income                 | 77         | 91         | 107        | 128        | 403        |
| Interest Expense (Income), net | 13         | 13         | 13         | 14         | 53         |
| Depreciation                   | 24         | 23         | 22         | 19         | 88         |
| Amortization                   | 11         | 11         | 11         | 12         | 45         |
| Stock Compensation             | 4          | 4          | 3          | 4          | 15         |
| <b>EBITDA</b>                  | <b>129</b> | <b>142</b> | <b>156</b> | <b>177</b> | <b>604</b> |
| Restructuring & Realignment    | 6          | 6          | 4          | 4          | 20         |
| Gain on sale of business       | (9)        | -          | -          | -          | (9)        |
| Special Charges                | 2          | 1          | 2          | -          | 5          |
| <b>Adjusted EBITDA</b>         | <b>128</b> | <b>149</b> | <b>162</b> | <b>181</b> | <b>620</b> |
| Revenue                        | 837        | 920        | 902        | 994        | 3,653      |
| Adjusted EBITDA Margin         | 15.3%      | 16.2%      | 18.0%      | 18.2%      | 17.0%      |
|                                | 2014       |            |            |            |            |
|                                | Q1         | Q2         | Q3         | Q4         | Total      |
| Pre-Tax Income                 | 61         | 104        | 128        | 128        | 421        |
| Interest Expense (Income), net | 13         | 14         | 12         | 13         | 52         |
| Depreciation                   | 23         | 24         | 23         | 25         | 95         |
| Amortization                   | 13         | 12         | 12         | 10         | 47         |
| Stock Compensation             | 4          | 5          | 5          | 4          | 18         |
| <b>EBITDA</b>                  | <b>114</b> | <b>159</b> | <b>180</b> | <b>180</b> | <b>633</b> |
| Restructuring & Realignment    | 18         | 9          | 4          | 12         | 43         |
| Gain on sale of business       | -          | -          | (11)       | -          | (11)       |
| <b>Adjusted EBITDA</b>         | <b>132</b> | <b>168</b> | <b>173</b> | <b>192</b> | <b>665</b> |
| Revenue                        | 906        | 1,005      | 963        | 1,042      | 3,916      |
| Adjusted EBITDA Margin         | 14.6%      | 16.7%      | 18.0%      | 18.4%      | 17.0%      |

# NON-GAAP MEASURES

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

|   | 2015          | Year Ended<br>2014 |
|---|---------------|--------------------|
| <b>Net Cash - Operating Activities</b>                  | \$ 464        | \$ 416             |
| Capital Expenditures                                    | (117)         | (119)              |
| <b>Free Cash Flow</b>                                   | <u>\$ 347</u> | <u>\$ 297</u>      |
| Net Income  | 340           | 337                |
| Gain from sale of businesses                            | <u>9</u>      | <u>11</u>          |
| <b>Net Income, excluding gain on sale of businesses</b> | <u>\$ 331</u> | <u>\$ 326</u>      |
| <b>Free Cash Flow Conversion</b>                        | <u>105%</u>   | <u>91%</u>         |

# xylem

## Let's Solve Water

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