

XYLEM INC.

Q2 2018 EARNINGS RELEASE

JULY 31, 2018



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements.” within the meaning of the Private Securities Litigation Act of 1995. 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 barriers and embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in “Item 1A Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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

Q2'18 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q2 2018	Adjusted* Q2 2018	GAAP YTD Q2 2018	Adjusted* YTD Q2 2018
Xylem Consolidated				
Revenue	1,317	1,317	2,534	2,534
Overall Growth	+13%	+13%	+13%	+13%
Constant Currency Growth		+11%		+10%
Organic Growth		+8%		+8%
Operating Income	171	182	284	317
Operating Margin	13%	13.8%	11.2%	12.5%
Earnings per Share	0.64	0.73	1.07	1.24
Segment Results				
Water Infrastructure				
Revenue	546	546	1,026	1,026
Overall Growth	+13%	+13%	+14%	+14%
Constant Currency Growth		+11%		+10%
Organic Growth		+11%		+10%
Operating Income	92	97	141	151
Operating Margin	16.8%	17.8%	13.7%	14.7%
Applied Water				
Revenue	388	388	754	754
Overall Growth	+7%	+7%	+9%	+9%
Constant Currency Growth		+5%		+5%
Organic Growth		+6%		+7%
Operating Income	61	63	111	116
Operating Margin	15.7%	16.2%	14.7%	15.4%
Measurement & Control Solutions				
Revenue	383	383	754	754
Overall Growth	+19%	+19%	+18%	+18%
Constant Currency Growth		+17%		+14%
Organic Growth		+8%		+7%
Operating Income	31	35	64	78
Operating Margin	8.1%	9.1%	8.5%	10.3%

Earnings Call Notes:

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

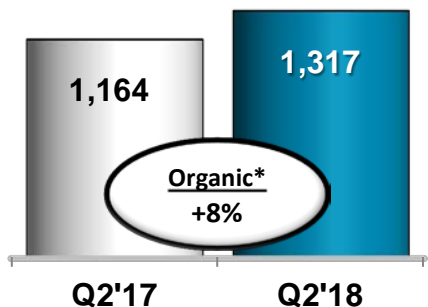
KEY MESSAGES

- **Robust Growth and Executional Performance in the 2nd Quarter**
 - *Organic Orders and Revenue Growth of 8%*
 - *Adj. Op. Margin of 13.8%, up 70 bps (up 90 bps ex. purchase accounting)*
 - *Adj. EBITDA of 19.3% (up 70 bps)*
 - *Free Cash Flow Conversion of 75% (up 800 bps) & on-track for >115% FY Guide*
 - *Adj. EPS of \$0.73, up 24%*
- **Achieving Traction on Pricing Actions & Strong Operational Execution ... Managing Headwinds from FX, Tariffs, Inflation and Mix**
- **Announcing Revenue Synergy Win Updates**
- **Updating the FY 2018 Outlook; Maintaining Midpoint of EPS Guide**

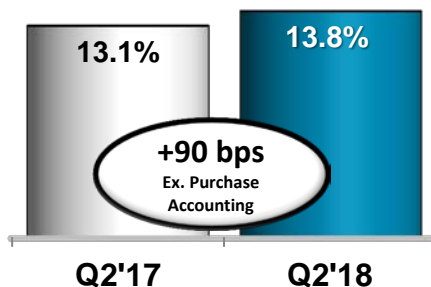
Q2'18 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

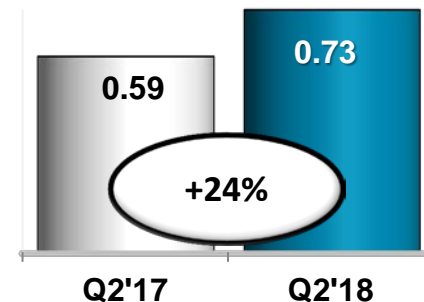
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Adj. EBITDA* 18.6% 19.3%

Organic Growth by End Market

+ Utilities	+11%
+ Industrial	+6%
+ Commercial	+6%
- Residential	-2%

Organic Growth by Region

+ U.S.	+9%
+ Emerging Mkts	+13%
+ W. Europe	+5%

Key Performance Drivers

- Strong growth in Utilities end market globally coupled with healthy growth in Industrial and Commercial end markets
- Robust growth in Emerging Markets paced by China (+19%), Latin America (+17%) and Middle East (+9%)
- Volume leverage, productivity & price offset inflation and mix headwinds
 - Cost reductions drive 310 bps Op Margin expansion (EPS +\$0.19)
 - Volume adds 160 bps to Op Margin (EPS +\$0.14)
 - Cost inflation reduces Op Margin by 220 bps (EPS -\$0.13)
 - Mix/Price/FX/other reduce Op Margin by 40 bps (EPS -\$0.01)
 - Purchase Accounting impact reduces Op Margin by 20 bps (EPS -\$0.01)
 - Strategic investments reduce Op Margin by 80 bps (EPS -\$0.05)
 - Other Non-Operating Income (EPS +\$0.01)

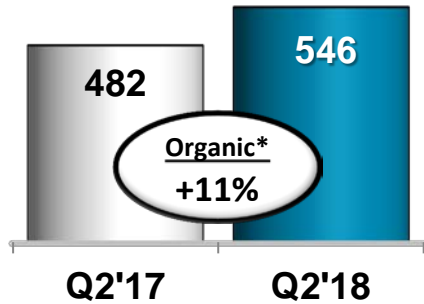
Other: Tax Rate* 19.6% Share Count 181.0M

CONTINUED STRONG MOMENTUM IN SECOND QUARTER

Q2'18 WATER INFRASTRUCTURE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Treatment + 28%
- + Transport + 7%

By Regions

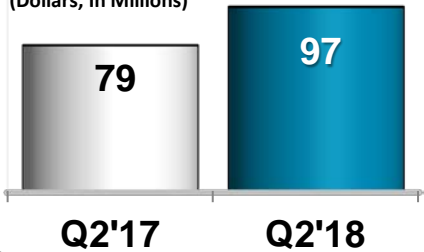
- + U.S. + 11%
- + Em. Mkts + 18%
- + W. Europe + 6%

Highlights

- + Treatment project deliveries in Emerging Markets and Europe along with strong aftermarket performance
- + Solid Utility growth in the U.S. from share gains, custom pump deliveries and market demand in Transport
- + Industrial up mid-single digits from global demand for Dewatering pumps & Treatment projects in Latin America
- + Healthy market with orders growth of 9% (including 25% in Treatment) & project bid pipeline up double-digits

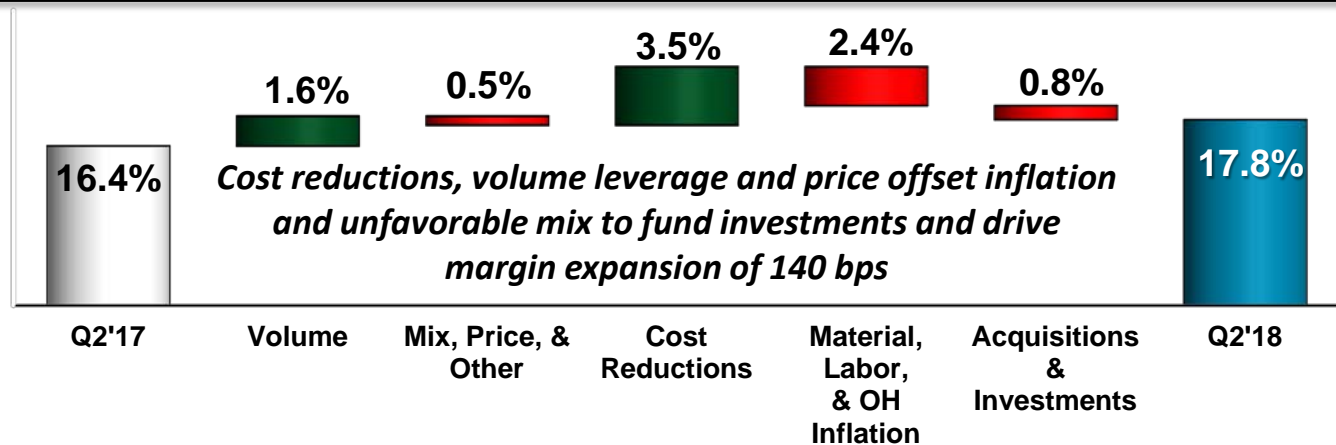
ADJ. OP INCOME*

(Dollars, In Millions)



Adj. EBITDA* 19.3%

20.1%

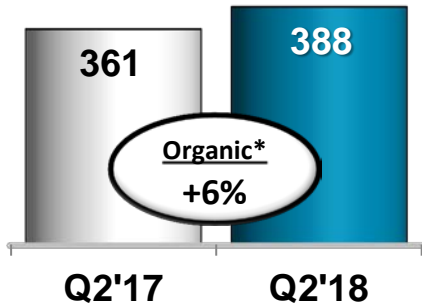


ROBUST GROWTH AND STRONG OPERATIONAL PERFORMANCE DRIVE HEALTHY MARGIN EXPANSION

Q2'18 APPLIED WATER

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Ind'l Water + 9%
- + Commercial + 6%
- Residential -2%

By Regions

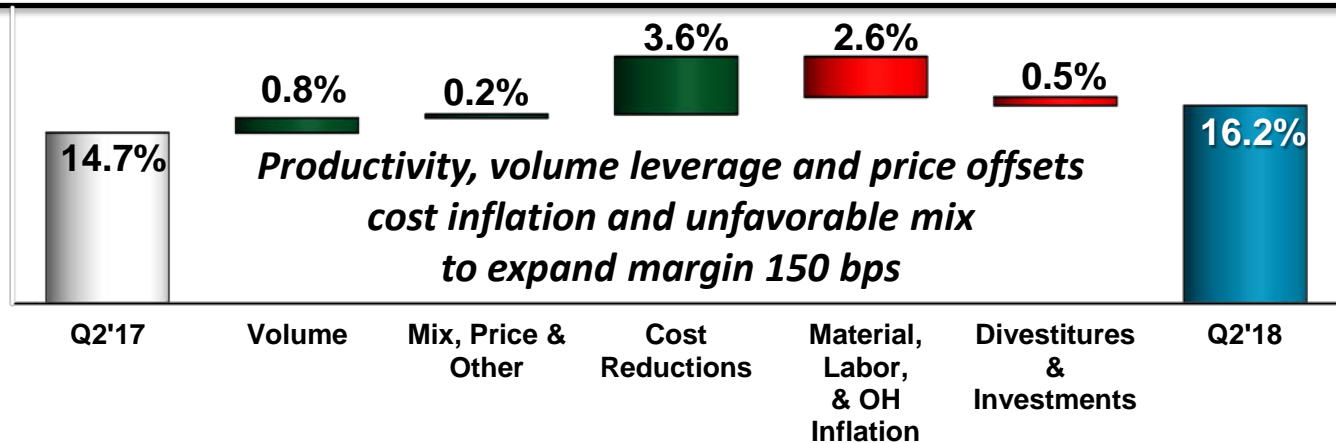
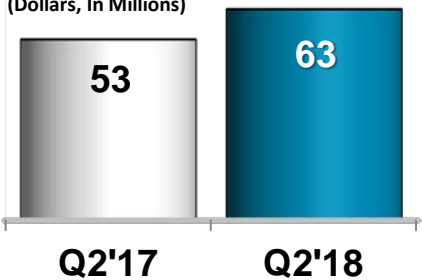
- + Em. Mkts + 14%
- + U.S. + 5%
- + W. Europe + 3%

Highlights

- + Industrial market strength primarily in the U.S. and China from increased project business; General industrial & specialty flow business up high single digits
- + Commercial growth driven by continued strong market performance in the U.S. and Canada; Healthy project business in China & India
- Residential softness from moderating U.S./Canada markets from tough PY comp (+15%); Pockets of growth in Western Europe

ADJ. OP INCOME*

(Dollars, In Millions)



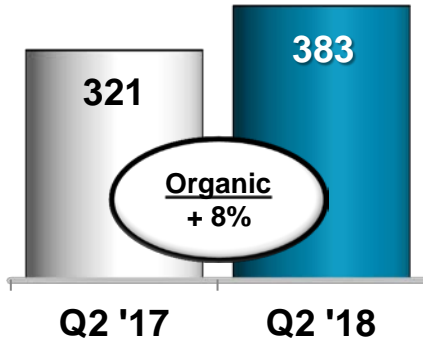
Adj. EBITDA* 16.9% 18.0%

COMMERCIAL FOCUS & OPERATIONAL EXECUTION DRIVE PROFITABLE GROWTH

Q2'18 MEASUREMENT & CONTROL SOLUTIONS

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

+ Smart Gas	+26%
+ SaaS/Other	+29%
+ Test	+6%
+ Smart Electric	+5%
+ Smart Water	+1%

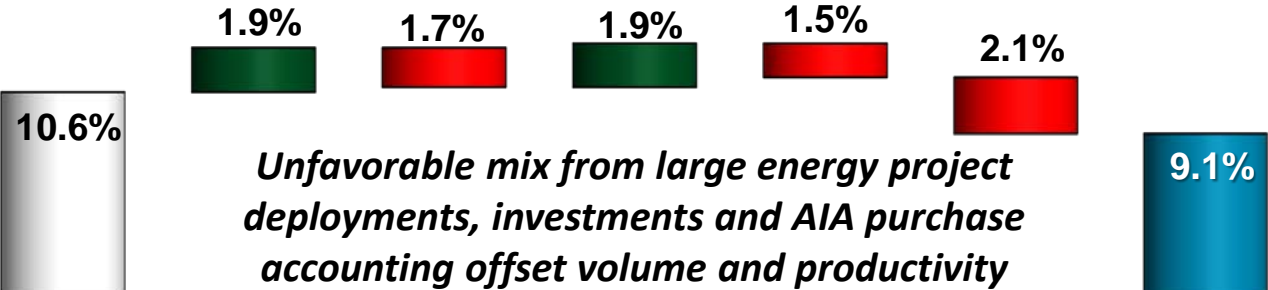
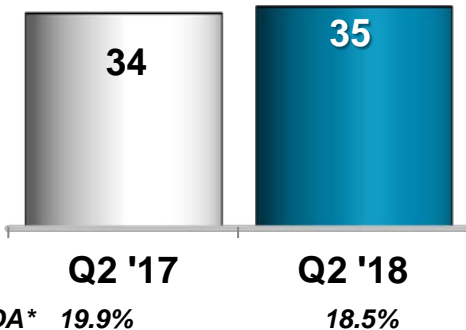
By Regions

+ U.S.	+10%
+ W. Europe	+3%
+ Em. Mkts	+3%

Highlights

- + Strength in Gas from Nicor project deployment in the U.S.
- + Growth in SaaS/Other from service and installation contracts in U.K. and U.S.
- + Test strength in Europe, U.S. and Latin America from outdoor & wastewater projects
- + Water orders up double digits in North America; Modest revenue growth in Water partly offset by lapping of UK deployment

ADJ. OP MARGIN*

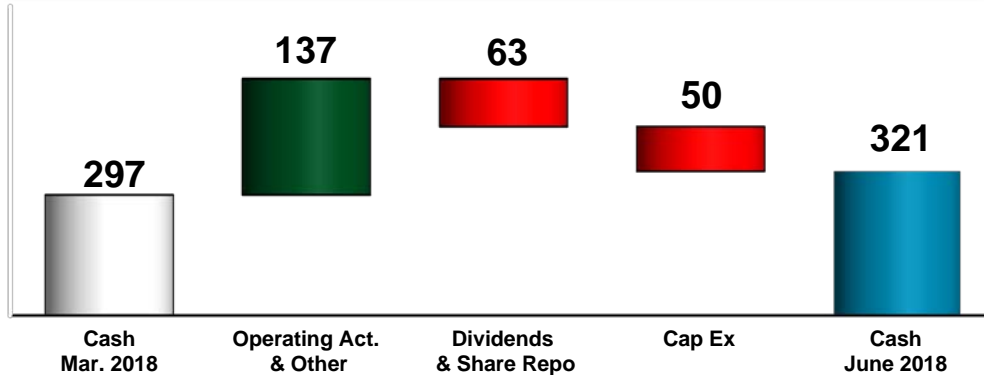


INVESTING TO DRIVE HIGHER GROWTH AND PROFITABILITY

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

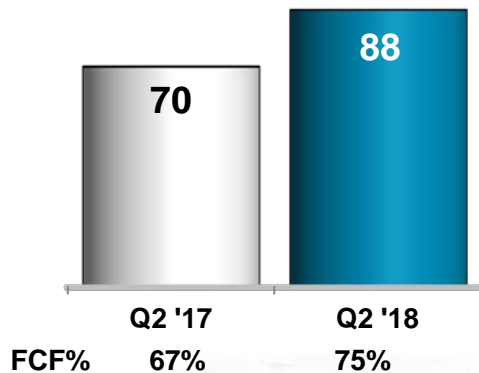


CAPITAL SUMMARY

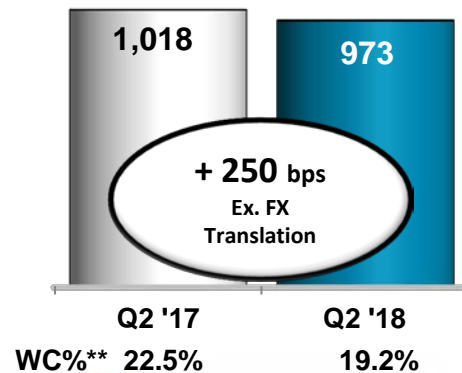
June 30, 2018

Cash	321
Debt	2,540
Net Debt	2,219
Shareholders' Equity	2,513
Net Capital	4,732
Net Debt to Net Capital	47%

FREE CASH FLOW *



WORKING CAPITAL



Financial Highlights

- On track for FY FCF conversion target of >115%; 800 bps improvement in FCF conversion in 2Q
- Continued healthy improvement in working capital through execution
- Committed to maintaining Investment Grade Credit (BBB/Baa2)
- Opportunistically repurchased \$50M of shares in 1H

2018 END MARKET OUTLOOK



Utilities (~50% of 2017 Revenue)

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



Industrial (~35% of 2017 Revenue)

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



Commercial (~10% of 2017 Revenue)

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

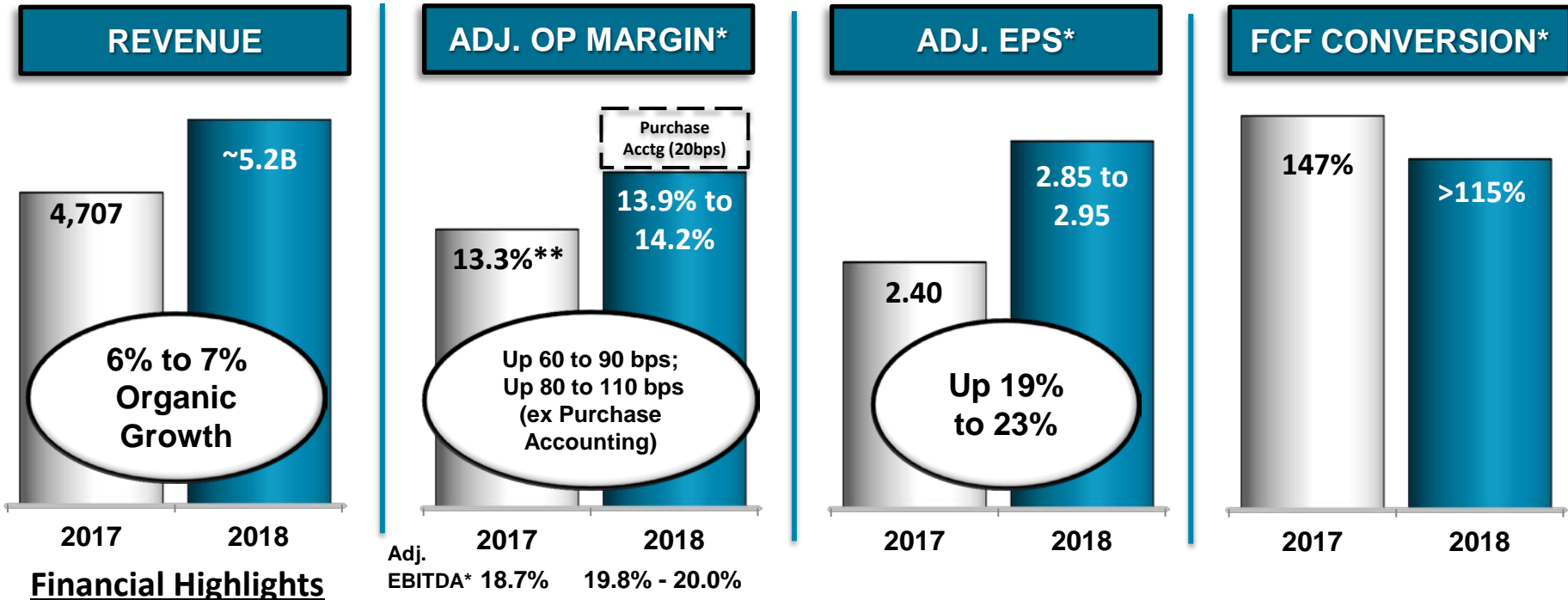


Residential (~5% of 2017 Revenue)

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

2018 OUTLOOK

(Dollars, In Millions, except EPS)

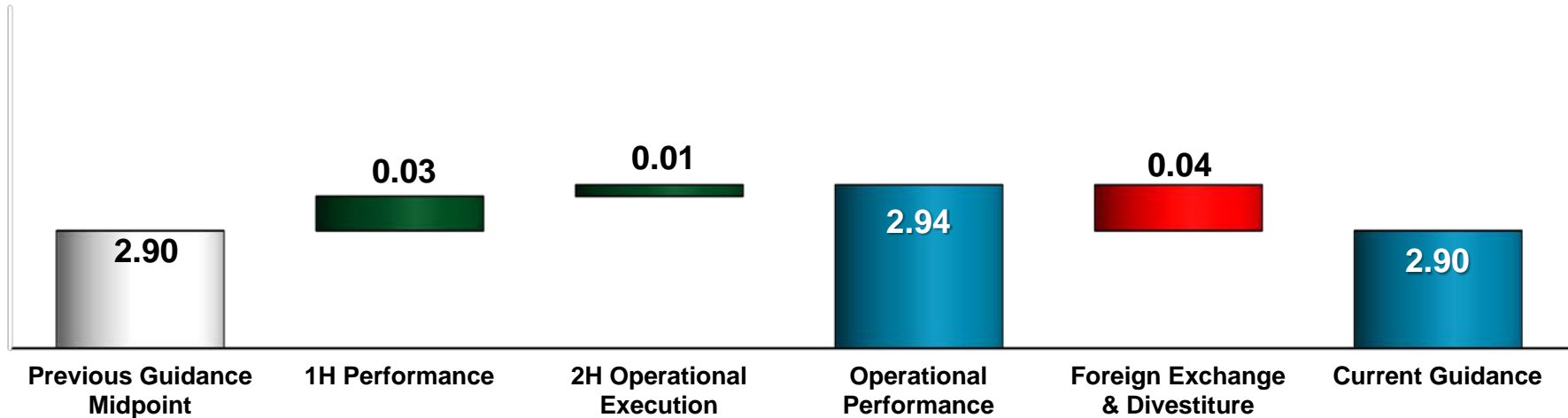


- Raising organic growth to 6% to 7%; Raising from previous guidance of 4% to 6%
- Narrowing Operating Margin expansion; On-track to deliver on long-term targets
- Adjusted EPS expected in the range of \$2.85 to \$2.95 (Raising low end & narrowing range from \$2.82 to \$2.97)
- Expecting Free Cash Flow conversion of >115% driven by execution and working capital improvement

DRIVING ABOVE MARKET GROWTH IN KEY END MARKETS ...

STRONG OPERATIONAL EXECUTION & PRICE REALIZATION MORE THAN OFFSET COST HEADWINDS

2018 EPS MIDPOINT GUIDANCE UPDATE



Summary of Operational Dynamics

- + Outperformance in 1H from strong growth and execution
- + Price realization efforts in 2H
- + Continued momentum in Continuous Improvement
- Tariffs impact
- Project mix
- Investments for MCS synergies & scaling of AIA platform

Other Dynamics

- Euro/USD decline from previous assumption of 1.21 to 1.17 (Q2 – Q4)
- Divestiture of non-core business

RAISING FULL YEAR OPERATIONAL OUTLOOK

2018 ASSUMPTIONS & OUTLOOK

2H 2018 TARIFF & PRICE/COST UPDATE

- Product localization strategy provides natural mitigation of trade tariffs
 - ~85% of products manufactured in China are sold domestically in China
 - Remainder largely serves surrounding Asia Pacific region; limited amount imported to U.S.
- Managing impacts from section 232 and 301 tariffs
 - Proactively addressing direct and indirect impacts of affected goods in supply chain
 - Procurement, operations & commercial teams closely monitoring additional targeted tariffs and evaluating additional mitigation plans
 - Expect minor impact in 2H 2018
- Inflation remains consistent with previous outlook with positive signs of price realization
 - Expect teams will continue to leverage leading market positions to drive price realization in the market
 - Anticipate price will largely offset any incremental cost inflation to outlook in addition to tariff impacts

FY 2018 PLANNING ASSUMPTIONS

Xylem Organic* Growth	+6% to 7%
Water Infrastructure	+6% to 7%
Applied Water	+5% to 6%
Measurement & Control Solutions	+8% to 9%
FX Euro Rate	1.17
Adjusted Operating Margin*	13.9% to 14.2%
AIA Purchase Accounting Impact	-20 bps
Corporate Expense	~\$55M
Restructuring, Realignment & Integration Costs	~\$45M
Dividends	~\$150M
Capex	~\$190 to \$200M
Interest Expense	~\$82M
Other Income**	~\$9M
Estimated Tax Rate:	~20%
Share Count:	~181M
Adjusted EPS*	\$2.85 to \$2.95

Q3 2018 PLANNING ASSUMPTIONS

Xylem Organic Growth	+6% to 7%
Adjusted Operating Margin*	14.6% to 14.8%
Adjusted EBITDA*	20.3% to 20.5%
AIA Purchase Accounting Impact	-20 bps Op Margin

MANAGING NEAR TERM HEADWINDS TO DELIVER ON OUR 2018 FINANCIAL COMMITMENTS

SUMMARY

- **Momentum continues to rise with strong organic growth in revenue and orders**
- **Executing on productivity and pricing efforts to mitigate global headwinds**
- **Tangible results on revenue synergies ... and pipeline continues to grow with broad Xylem portfolio offering**
- **Narrowing the FY 2018 Outlook; Maintaining Midpoint of EPS Guidance through growth and operational execution**

APPENDIX

FOREIGN EXCHANGE TRANSLATION SENSITIVITY

Foreign Exchange Translation

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

Currency	2018 Guidance Rate	Rates assuming 5% increase in Guidance Rate	Revenue Impact on Remainder of 2018 of 5% Increase in Rate	EPS Impact on Remainder of 2018 of 5% Increase in Rate
Euro	1.21	1.27	\$36M	\$0.07
GBP	1.35	1.41	\$11M	-
SEK	0.12	0.13	\$5M	-\$0.01
RMB	0.15	0.16	\$11M	\$0.01
All Other			\$42M	\$0.01
Total			\$105M	\$0.08

* Decrease in rate would have inverse impact on results

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

Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, working capital and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and to provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including but not limited to, dividends acquisitions, share repurchases and debt repayment. Excluding revenue, Xylem provides guidance only on a non-GAAP basis due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as discrete tax items, without unreasonable effort. These adjusted metrics are consistent with how management views our business and are used to make financial, operating and planning decisions. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operating activities as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

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

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

"EBITDA" defined as earnings before interest, taxes, depreciation and amortization expense. "Adjusted EBITDA" reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, Sensus acquisition related costs, gain or loss from sale of businesses and special charges.

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

"Free Cash Flow" defined as net cash from operating activities, as reported in the Statement of Cash Flow, less capital expenditures as well as adjustments for other significant items that impact current results which management believes are not related to our ongoing operations and performance. Our definition of free cash flow does not consider certain non-discretionary cash payments, such as debt.

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

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

"Special charges" defined as costs incurred by the Company, such as non-cash impairment charges, due diligence costs, acquisition and integration related costs not related to Sensus 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)	Change	% Change	(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
Six Months Ended June 30	Orders 2018	Orders 2017	2018 v. 2017	2018 v. 2017	Acq. / Div.	FX Impact	Change Adj. 2018 v. 2017	% Change Adj. 2018 v. 2017	
Xylem Inc.	2698	2349	349	15%	(42)	(86)	221	9%	11%
Water Infrastructure	1134	988	146	15%	0	(42)	104	11%	11%
Applied Water	785	729	56	8%	10	(23)	43	6%	5%
Measurement & Control Solutions	779	632	147	23%	(52)	(21)	74	12%	20%
Quarter Ended June 30									
Xylem Inc.	1378	1212	166	14%	(34)	(30)	102	8%	11%
Water Infrastructure	580	521	59	11%	0	(14)	45	9%	9%
Applied Water	401	375	26	7%	4	(9)	21	6%	5%
Measurement & Control Solutions	397	316	81	26%	(38)	(7)	36	11%	23%
Quarter Ended March 31									
Xylem Inc.	1320	1137	183	16%	(8)	(56)	119	10%	11%
Water Infrastructure	554	467	87	19%	0	(28)	59	13%	13%
Applied Water	384	354	30	8%	6	(14)	22	6%	5%
Measurement & Control Solutions	382	316	66	21%	(14)	(14)	38	12%	16%

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)	(B)	Change	% Change	(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
Six Months Ended June 30	2018 Revenue	2017 Revenue	2018 v. 2017	2018 v. 2017	Acq. / Div.	FX Impact	Change Adj. 2018 v. 2017	% Change Adj. 2018 v. 2017	
Xylem Inc.	2,534	2,235	299	13%	(41)	(83)	175	8%	10%
Water Infrastructure	1,026	901	125	14%	-	(38)	87	10%	10%
Applied Water	754	694	60	9%	8	(22)	46	7%	5%
Measurement & Control Solutions	754	640	114	18%	(49)	(23)	42	7%	14%
Quarter Ended June 30									
Xylem Inc.	1,317	1,164	153	13%	(26)	(29)	98	8%	11%
Water Infrastructure	546	482	64	13%	-	(13)	51	11%	11%
Applied Water	388	361	27	7%	3	(8)	22	6%	5%
Measurement & Control Solutions	383	321	62	19%	(29)	(8)	25	8%	17%
Quarter Ended March 31									
Xylem Inc.	1,217	1,071	146	14%	(15)	(54)	77	7%	9%
Water Infrastructure	480	419	61	15%	-	(25)	36	9%	9%
Applied Water	366	333	33	10%	5	(14)	24	7%	6%
Measurement & Control Solutions	371	319	52	16%	(20)	(15)	17	5%	12%

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

	Q1		Q2		YTD	
	2018	2017	2018	2017	2018	2017
Total Revenue						
• Total Xylem	1217	1071	1317	1164	2534	2235
• Water Infrastructure	480	419	546	482	1026	901
• Applied Water	366	333	388	361	754	694
• Measurement & Control Solutions	371	319	383	321	754	640
Operating Income						
• Total Xylem	113	86	171	137	284	223
• Water Infrastructure	49	41	92	74	141	115
• Applied Water	50	36	61	48	111	84
• Measurement & Control Solutions	33	25	31	29	64	54
• Total Segments	132	102	184	151	316	253
Operating Margin						
• Total Xylem	9.3%	8.0%	13.0%	11.8%	11.2%	10.0%
• Water Infrastructure	10.2%	9.8%	16.8%	15.4%	13.7%	12.8%
• Applied Water	13.7%	10.8%	15.7%	13.3%	14.7%	12.1%
• Measurement & Control Solutions	8.9%	7.8%	8.1%	9.0%	8.5%	8.4%
• Total Segments	10.8%	9.5%	14.0%	13.0%	12.5%	11.3%
Sensus Acquisition Related Costs						
• Total Xylem	-	10	-	4	-	14
• Water Infrastructure	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-
• Measurement & Control Solutions	-	6	-	3	-	9
• Total Segments	-	6	-	3	-	9
Special Charges						
• Total Xylem	6	5	1	-	7	5
• Water Infrastructure	-	-	-	-	-	-
• Applied Water	-	5	-	-	-	5
• Measurement & Control Solutions	2	-	1	-	3	-
• Total Segments	2	5	1	-	3	5
Restructuring & Realignment Costs						
• Total Xylem	16	11	10	12	26	23
• Water Infrastructure	5	4	5	5	10	9
• Applied Water	3	4	2	5	5	9
• Measurement & Control Solutions	8	3	3	2	11	5
• Total Segments	16	11	10	12	26	23
Adjusted Operating Income						
• Total Xylem	135	112	182	153	317	265
• Water Infrastructure	54	45	97	79	151	124
• Applied Water	53	45	63	53	116	98
• Measurement & Control Solutions	43	34	35	34	78	68
• Total Segments	150	124	195	166	345	290
Adjusted Operating Margin						
• Total Xylem	11.1%	10.5%	13.8%	13.1%	12.5%	11.9%
• Water Infrastructure	11.3%	10.7%	17.8%	16.4%	14.7%	13.8%
• Applied Water	14.5%	13.5%	16.2%	14.7%	15.4%	14.1%
• Measurement & Control Solutions	11.6%	10.7%	9.1%	10.6%	10.3%	10.6%
• Total Segments	12.3%	11.6%	14.8%	14.3%	13.6%	13.0%

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

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

	Q2 2018			Q2 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,317		1,317	1,164		1,164
Operating Income	171	11 a	182	137	16 a	153
Operating Margin	13.0%		13.8%	11.8%		13.1%
Interest Expense	(21)		(21)	(21)		(21)
Other Non-Operating Income (Expense)	2		2	5		5
(Loss)/Gain from sale of business	(2)	2	-	-		-
Income before Taxes	150	13	163	121	16	137
Provision for Income Taxes	(35)	3 b	(32)	(21)	(9) b	(30)
Income attributable to minority interest			-	(1)		(1)
Net Income attributable to Xylem	115	16	131	99	7	106
Diluted Shares	181.0		181.0	180.6		180.6
Diluted EPS	\$ 0.64	\$ 0.09	\$ 0.73	\$ 0.55	\$ 0.04	\$ 0.59
Year-over-year currency translation impact on current year diluted EPS	\$ 0.03	\$ -	\$ 0.03			
Diluted EPS at Constant Currency	\$ 0.61	\$ 0.09	\$ 0.70			

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

	Q2 YTD 2018			Q2 YTD 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	2,534		2,534	2,235		2,235
Operating Income	284	33 a	317	223	42 a	265
Operating Margin	11.2%		12.5%	10.0%		11.9%
Interest Expense	(42)		(42)	(41)		(41)
Other Non-Operating Income (Expense)	5		5	4		4
Gain from sale of business	(2)	2	-	5	(5)	-
Income before Taxes	245	35	280	191	37	228
Provision for Income Taxes	(51)	(5) b	(56)	(35)	(15) b	(50)
Income attributable to minority interest	-		-	(1)		(1)
Net Income attributable to Xylem	194	30	224	155	22	177
Diluted Shares	181.2		181.2	180.6		180.6
Diluted EPS	\$ 1.07	\$ 0.17	\$ 1.24	\$ 0.86	\$ 0.12	\$ 0.98
Year-over-year currency translation impact on current year diluted EPS	\$ 0.09	\$ -	\$ 0.09			
Diluted EPS at Constant Currency	\$ 0.98	\$ 0.17	\$ 1.15			

a. Second quarter: Restructuring & realignment costs of \$10 million and \$12 million in 2018 and 2017, respectively; special charges of \$1 million of acquisition related costs in 2018 and \$4 million of Sensus acquisition related costs in 2017.

b. Second quarter: Net tax impact on restructuring & realignment costs of \$3 million and \$5 million in 2018 and 2017, respectively; net tax impact on 2017 Sensus acquisition related costs of \$1 million and tax-related special items of \$6 million of benefit and \$3 million of expense in 2018 and 2017, respectively.

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

	2018				
	Q1	Q2	Q3	Q4	Total
Net Income	79	115			194
Income Tax Expense	35	35			51
Interest Expense (Income), net	20	20			40
Depreciation	29	29			58
Amortization	38	36			74
EBITDA	182	235	-	-	417
Share-based Compensation	9	7			16
Restructuring & Realignment	16	9			25
Loss from sale of business	-	2			2
Sensus Acquisition Related Costs	-	-			-
Special Charges	6	1			7
Adjusted EBITDA	213	254	-	-	467
Revenue	1,217	1,317			2,534
Adjusted EBITDA Margin	17.5%	19.3%			18.4%

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

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

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	47	90			137
Interest Expense (Income), net	-	(1)			(1)
Depreciation	12	11			23
Amortization	5	5			10
EBITDA	64	105	-	-	169
Share-based Compensation	1	-			1
Restructuring & Realignment	5	5			10
Adjusted EBITDA	70	110	-	-	180
Revenue	480	546			1,026
Adjusted EBITDA Margin	14.6%	20.1%			17.5%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	39	73	90	105	307
Interest Expense (Income), net	-	-	(1)	(1)	(2)
Depreciation	11	11	12	11	45
Amortization	5	4	5	5	19
EBITDA	55	88	106	120	369
Share-based Compensation	1	-	-	1	2
Restructuring & Realignment	4	5	3	4	16
Special Charges	-	-	-	-	-
Adjusted EBITDA	60	93	109	125	387
Revenue	419	482	520	583	2,004
Adjusted EBITDA Margin	14.3%	19.3%	21.0%	21.4%	19.3%

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

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

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	33	28			61
Interest Expense (Income), net	-	-			-
Depreciation	8	9			17
Amortization	29	27			56
EBITDA	70	64	-	-	134
Share-based Compensation	1	1			2
Restructuring & Realignment	8	3			11
Loss from sale of business	-	2			-
Special Charges	2	1			3
Adjusted EBITDA	81	71	-	-	150
Revenue	371	383			754
Adjusted EBITDA Margin	21.8%	18.5%			19.9%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	24	30	26	11	91
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	8	8	7	7	30
Amortization	23	22	22	25	92
EBITDA	55	60	55	42	212
Share-based Compensation	-	1	-	1	2
Restructuring & Realignment	3	2	1	2	8
Loss from sale of business	-	-	-	16	16
Sensus Acquisition Related Costs	3	1	2	1	7
Special Charges	-	-	-	2	2
Adjusted EBITDA	61	64	58	64	247
Revenue	319	321	321	321	1,282
Adjusted EBITDA Margin	19.1%	19.9%	18.1%	19.9%	19.3%

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

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

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	50	61			111
Interest Expense (Income), net	-	-			-
Depreciation	5	5			10
Amortization	-	1			1
EBITDA	55	67	-	-	122
Share-based Compensation	1	1			2
Restructuring & Realignment	3	2			5
Adjusted EBITDA	59	70	-	-	129
Revenue	366	388			754
Adjusted EBITDA Margin	16.1%	18.0%			17.1%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	40	49	49	62	200
Interest Expense (Income), net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	-	3
EBITDA	46	55	55	67	223
Share-based Compensation	-	1	1	-	2
Restructuring & Realignment	4	5	5	3	17
Gain from sale of business	(5)	-	1	(2)	(6)
Special Charges	5	-	-	-	5
Adjusted EBITDA	50	61	62	68	241
Revenue	333	361	354	373	1,421
Adjusted EBITDA Margin	15.0%	16.9%	17.5%	18.2%	17.0%

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

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

	Q1		Q2		Six Months Ended	
	2018	2017	2018	2017	2018	2017
Net Cash - Operating Activities	\$63	\$52	\$138	\$99	\$201	\$151
Capital Expenditures	(61)	(43)	(50)	(34)	(111)	(77)
Free Cash Flow	\$2	\$9	\$88	\$65	\$90	\$74
Cash paid for Sensus acquisition related costs	(1)	(17)	-	(5)	(1)	(22)
Free Cash Flow, excluding Sensus Acquisition Related Costs	\$3	\$26	\$88	\$70	\$91	\$96
Net Income	79	56	115	100	194	156
Gain/(Loss) from sale of businesses	-	5	(2)	-	(2)	5
Special Charges - non-cash impairment and early debt extinguishment	-	(5)	-	-	-	(5)
Sensus acquisition related costs	-	(10)	-	(4)	-	(14)
Net Income, excluding gain on sale of businesses, non-cash impairment charges and Sensus Acquisition Related Costs	\$79	\$66	\$117	\$104	\$196	\$170
Free Cash Flow Conversion	4%	39%	75%	67%	46%	56%

xylem

Let's Solve Water

NYSE: XYL

Matt Latino, Senior Director, Investor Relations
(914) 323-5821

Dawn Powell, Investor Relations Coordinator
(914) 323-5931

<http://www.xylem.com/en-us/investors/>