

XYLEM INC.

Q1 2018 EARNINGS RELEASE

MAY 1, 2018



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “forecast,” “believe,” “target,” “will,” “could,” “would,” “should” and similar expressions identify forward-looking statements. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include any statements that are not historical in nature, including any statements about the capitalization of Xylem Inc. (the “Company”), the Company’s restructuring and realignment, future strategic plans and other statements that describe the Company’s business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 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.

Q1'18 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q1 2018	Adjusted* Q1 2018
Xylem Consolidated		
Revenue	1,217	1,217
Overall Growth	+14%	+14%
Constant Currency Growth		+9%
Organic Growth		+7%
Operating Income	113	135
Operating Margin	9.3%	11.1%
Earnings per Share	0.43	0.51
Segment Results		
Water Infrastructure		
Revenue	480	480
Overall Growth	+15%	+15%
Constant Currency Growth		+9%
Organic Growth		+9%
Operating Income	49	54
Operating Margin	10.2%	11.3%
Applied Water		
Revenue	366	366
Overall Growth	+10%	+10%
Constant Currency Growth		+6%
Organic Growth		+7%
Operating Income	50	53
Operating Margin	13.7%	14.5%
Measurement & Control Solutions		
Revenue	371	371
Overall Growth	+16%	+16%
Constant Currency Growth		+12%
Organic Growth		+5%
Operating Income	33	43
Operating Margin	8.9%	11.6%

Earnings Call Notes:

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

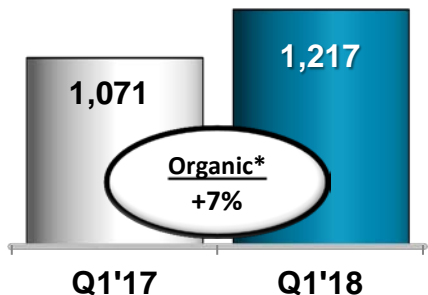
KEY MESSAGES

- **Off to a strong start in 2018 ... Momentum continues from 2H 2017**
 - *Organic* Orders Growth 10%*
 - *Organic* Revenue Growth 7%*
 - *Adj. Op. Margin* of 11.1%, up 60 bps (up 100 bps ex. purchase accounting)*
 - *Adj. EBITDA* of 17.5% (up 130 bps)*
 - *Adj. EPS* of \$0.51, up 31%*
- **Strong execution on productivity and working capital in 1Q**
- **On track for working capital & free cash flow full year 2018 targets**
- **FY2018 outlook reinforced by healthy markets; Holding FY Guidance**
- **Early success with Advanced Infrastructure Analytics (AIA) Platform ... Opportunities growing**

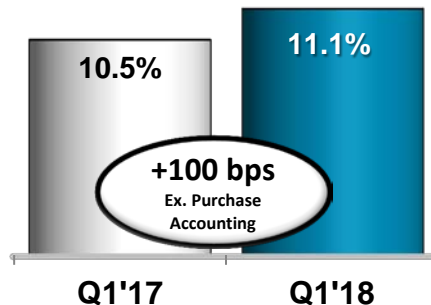
Q1'18 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

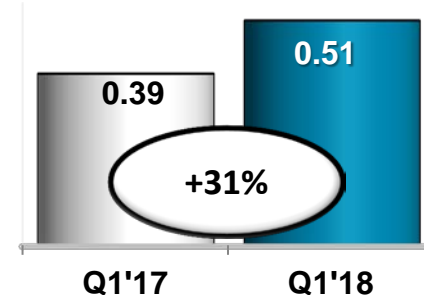
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Adj. EBITDA* 16.2% 17.5%

Organic Growth by End Market

+ Utilities	+8%
+ Industrial	+6%
+ Commercial	+6%
+ Residential	+4%

Organic Growth by Region

+ U.S.	+9%
+ Emerging Mkts	+6%
+ W. Europe	+4%

Key Performance Drivers

- Growth across all end markets led by strength in U.S. Utilities and Industrial end markets
- China (+43%) and India (+34%) pace the continued solid momentum in Emerging Markets
- Volume leverage and productivity offset inflation and mix headwinds
 - Cost reductions drive 300 bps Op Margin expansion (EPS +\$0.16)
 - Volume adds 180 bps to Op Margin (EPS +\$0.12)
 - Cost inflation reduces Op Margin by 220 bps (EPS -\$0.12)
 - Mix/Price/FX/other reduce Op Margin by 100 bps (EPS -\$0.02)
 - Purchase Accounting impact reduces Op Margin by 40 bps (EPS -\$0.01)
 - Strategic investments reduce Op Margin by 60 bps (EPS -\$0.02)
 - Other Non-Operating Income (EPS +\$0.01)

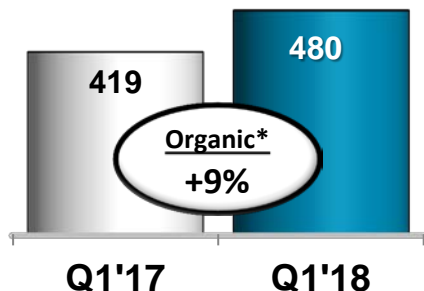
Other: Tax Rate* 20.5% Share Count 181.4M

SOLID START TO THE YEAR & MOMENTUM HEADING INTO 2Q

Q1'18 WATER INFRASTRUCTURE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Treatment + 13%
- + Transport + 8%

By Regions

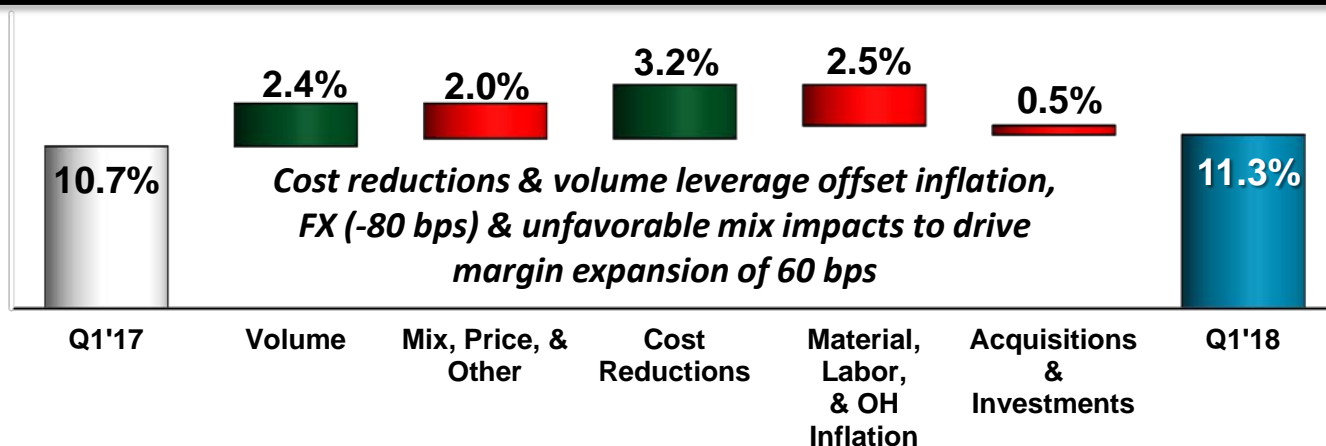
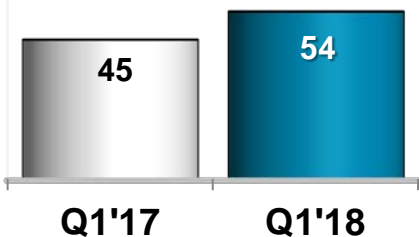
- + U.S. + 12%
- + Em. Mkts + 10%
- + W. Europe + 5%

Highlights

- + Treatment project execution and deliveries in Western Europe, U.S. and Canada
- + Continuation of strong Utility growth in emerging markets from product localization, particularly in China & India, and modest share gains in North America
- + Industrial up mid-single digits from solid performance in rental construction markets in U.S. and Canada
- + Orders growth of 13% (including 27% in Treatment) & project bid pipeline up mid-single digits

ADJ. OP INCOME*

(Dollars, In Millions)



Adj.

EBITDA* 14.3%

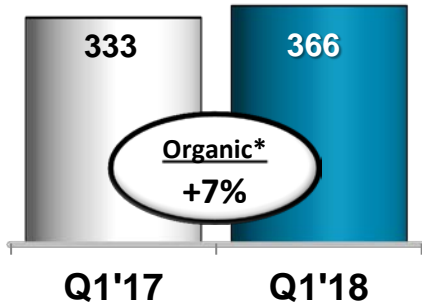
14.6%

**CAPITALIZING ON LEADING MARKET POSITIONS
& MANAGING INFLATIONARY PRESSURES TO DRIVE PROFITABLE GROWTH**

Q1'18 APPLIED WATER

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Ind'l Water + 9%
- + Commercial + 6%
- + Residential + 4%

By Regions

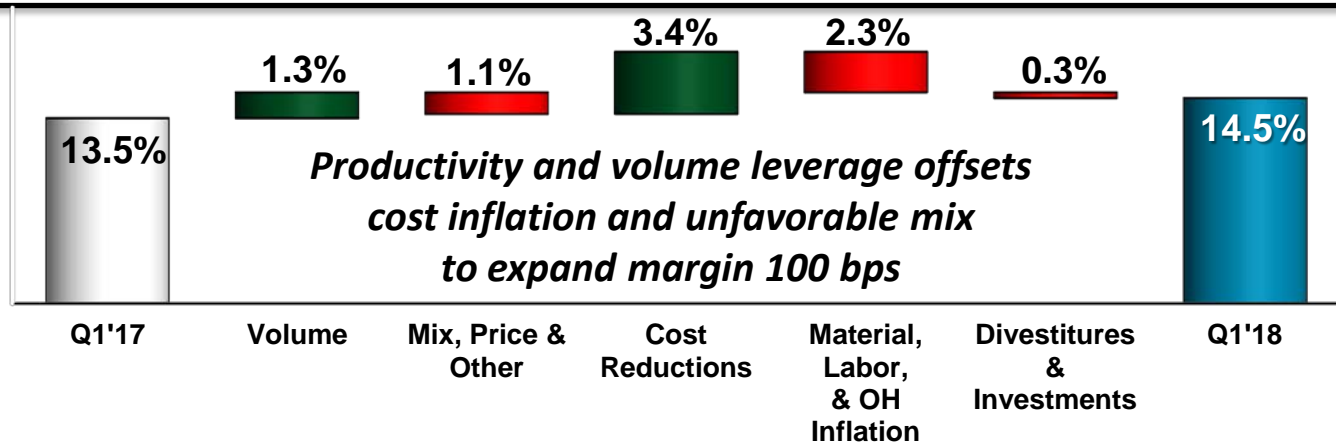
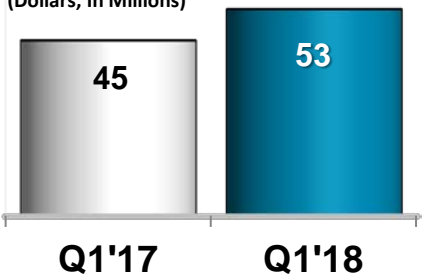
- + W. Europe + 10%
- + U.S. + 6%
- + Em. Mkts + 8%

Highlights

- + Industrial market strength in the U.S. and Europe driven by recovery in large project business & healthy general industry demand
- + Commercial growth driven by distributor restocking from cold weather in the U.S. and from improving market conditions in China
- + Residential growth from modest share gains in Europe offset by moderating U.S. market from tough PY comp

ADJ. OP INCOME*

(Dollars, In Millions)



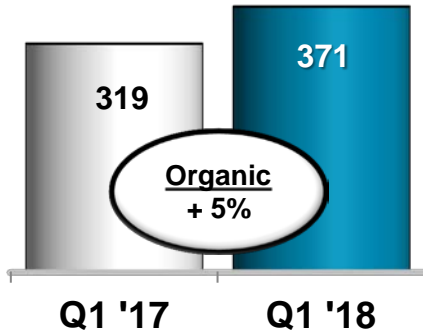
Adj. EBITDA* 15.0% 16.1%

COMMERCIAL FOCUS & OPERATIONAL EXECUTION DRIVE PROFITABLE GROWTH

Q1'18 MEASUREMENT & CONTROL SOLUTIONS

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

+ SaaS/Other	+ 35%
+ Smart Electric	+ 21%
+ Smart Gas	+ 14%
+ Test	+ 3%
- Smart Water	- 3%

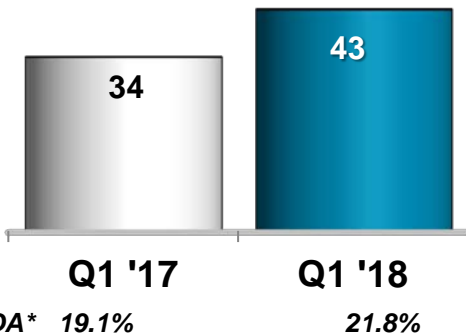
By Regions

+ U.S.	+ 10%
- W. Europe	- 4%
- Em. Mkts	- 3%

Highlights

- + Strength in SaaS/Other from service contract deployments in the UK and U.S.
- + Growth in Electric and Gas from large deployments in the U.S. for Alliant and Nicor
- + Test strength from outdoor & wastewater monitoring in China, India, & Middle East
- Softness in Water driven by project timing from Thames Water and Middle East in PY; Orders up double digits in North America

ADJ. OP MARGIN*



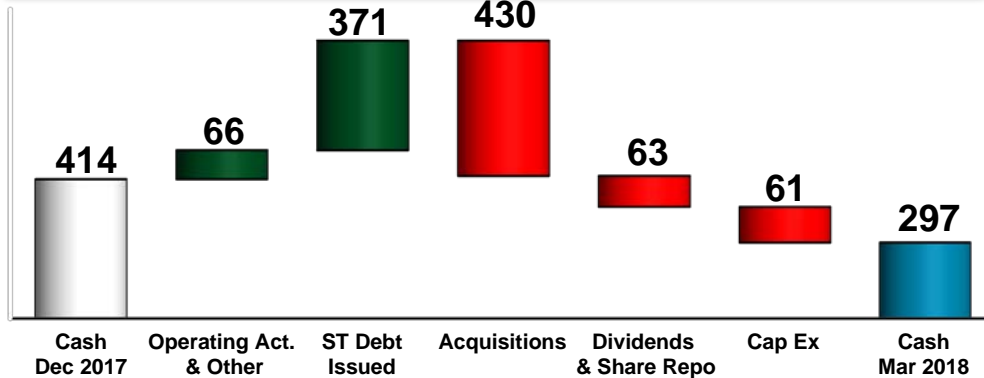
Margins expand 90 bps from productivity benefits and favorable volume/price while funding investments & offsetting AIA dilution

INCREASING OPPORTUNITIES ENHANCED BY AIA PLATFORM

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

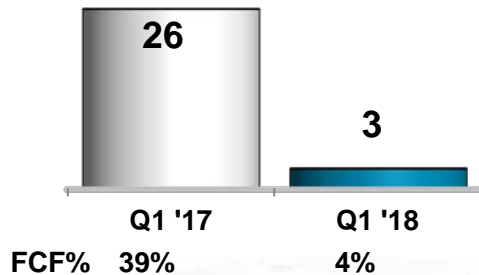


CAPITAL SUMMARY

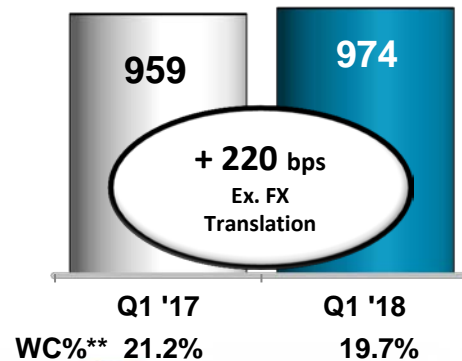
MARCH 31, 2018

Cash	297
Debt	2,599
Net Debt	2,302
Shareholders' Equity	2,541
Net Capital	4,843
Net Debt to Net Capital	48%

FREE CASH FLOW *



WORKING CAPITAL

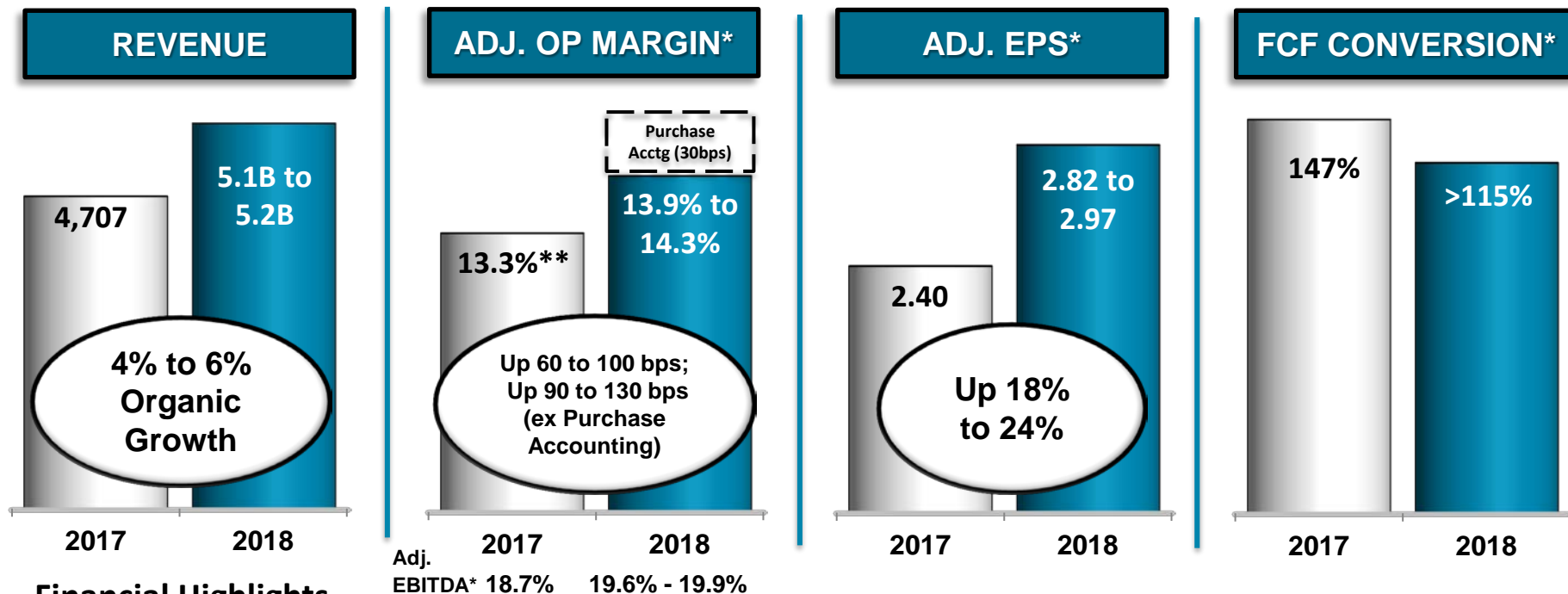


Financial Highlights

- Secured term loan to fund purchase of Pure Technologies; Payable in 12 mo.
- On track for FY FCF conversion target
 - Timing of Cap Ex projects in 1Q
 - Healthy improvement in working capital through execution
- Committed to maintaining Investment Grade Credit (BBB/Baa2)

2018 OUTLOOK

(Dollars, In Millions, except EPS)



Financial Highlights

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

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

2018 END MARKET OUTLOOK



Utilities (~50% of 2017 Revenue)

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



Industrial (~35% of 2017 Revenue)

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



Commercial (~10% of 2017 Revenue)

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



Residential (~5% of 2017 Revenue)

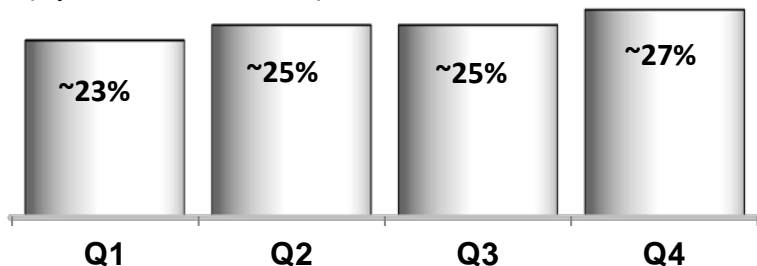
- **2018 Organic Growth: Up Mid Single Digits**
- Competitive U.S. market dynamics continue; replacement driven demand
- Market share gains from increased selling focus in Europe
- Increased demand in China and other Asia Pacific countries for secondary clean water source

2018 OUTLOOK

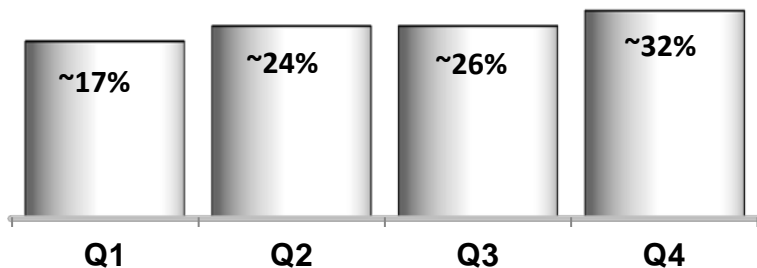
(Dollars, In Millions)

HISTORIC QUARTERLY PROFILE

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



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



FY 2018 PLANNING ASSUMPTIONS

Xylem Organic Growth	+4% to 6%
Water Infrastructure	+4% to 6%
Applied Water	+3% to 5%
Measurement & Control Solutions	+7% to 8%
FX Euro Rate	1.21
Adjusted Operating Margin	13.9% to 14.3%
AIA Purchase Accounting Impact	-30 bps
Corporate Expense	~\$55M
Restructuring, Realignment & Integration Costs	~\$35M
Dividends	~\$150M
Capex	~\$190 to \$200M
Interest Expense	~\$82
Other Income**	~\$7M
Estimated Tax Rate:	~20%
Share Count:	~181.5
Adjusted EPS	\$2.82 to \$2.97

Q2 2018 PLANNING ASSUMPTIONS

Xylem Organic Growth	+5% to 6%
Adjusted Operating Margin	13.6% to 13.9%
Adjusted EBITDA	19.4% to 19.7%
AIA Purchase Accounting Impact	-30 bps Op Margin

**OUTLOOK REMAINS LARGELY UNCHANGED ...
MARKET PERFORMANCE & ORDERS REINFORCE FY OUTLOOK**

SUMMARY

- **Strong 1Q start underpinned by continued momentum in Revenue & Orders**
- **Maintaining fundamental outlook to deliver on financial commitments ... Reaffirming**
- **Excited by additional capabilities & opportunities stemming from integration of Advanced Infrastructure Analytics platform**
- **Well-positioned to continue to execute & deliver on our 2020 Plan**

APPENDIX

FOREIGN EXCHANGE TRANSLATION SENSITIVITY

Foreign Exchange Translation

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

	2018 Guidance Rate	Rates assuming 5% increase in Guidance Rate	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

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

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

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

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

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

"Tax-related special items" defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, significant reserves for cash repatriation, excess tax benefits/losses and other discrete tax adjustments.

"Pro forma" defined as including the results of Sensus for the calendar period prior to the acquisition of Sensus by Xylem Inc. on October 31, 2016.

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders	Orders	Change	% Change	Acquisitions /	FX Impact	Change	% Change			
	2018	2017	2018 v. 2017	2018 v. 2017	Divestitures		Adj. 2018 v. 2017	Adj. 2018 v. 2017			
Quarter Ended March 31											
Xylem Inc.	1,320	1,137	183	16%	(8)	(56)	119	10%		11%	
Water Infrastructure	554	467	87	19%	-	(28)	59	13%		13%	
Applied Water	384	354	30	8%	6	(14)	22	6%		5%	
Measurement & Control Solutions	382	316	66	21%	(14)	(14)	38	12%		16%	

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Impact	Change	% Change			
	2018	2017	2018 v. 2017	2018 v. 2017	Divestitures		Adj. 2018 v. 2017	Adj. 2018 v. 2017			
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		Q3		Q4		YTD	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Total Revenue										
• Total Xylem	1,217	1,071	1,164	1,195	1,277	1,217	4,707			
• Water Infrastructure	480	419	482	520	583	480	2,004			
• Applied Water	366	333	361	354	373	366	1,421			
• Measurement & Control Solutions	371	319	321	321	321	371	1,282			
Operating Income										
• Total Xylem	113	86	137	152	177	113	552			
• Water Infrastructure	49	41	74	91	106	49	312			
• Applied Water	50	36	48	50	60	50	194			
• Measurement & Control Solutions	33	25	29	27	29	33	110			
• Total Segments	132	102	151	168	-	195	616			
Operating Margin										
• Total Xylem	9.3%	8.0%	11.8%	12.7%	13.9%	9.3%	11.7%			
• Water Infrastructure	10.2%	9.8%	15.4%	17.5%	18.2%	10.2%	15.6%			
• Applied Water	13.7%	10.8%	13.3%	14.1%	16.1%	13.7%	13.7%			
• Measurement & Control Solutions	8.9%	7.8%	9.0%	8.4%	9.0%	8.9%	8.6%			
• Total Segments	10.8%	9.5%	13.0%	14.1%	15.3%	10.8%	13.1%			
Sensus Acquisition Related Costs										
• Total Xylem	-	10	4	5	3	-	22			
• Water Infrastructure	-	-	-	-	-	-	-			
• Applied Water	-	-	-	-	-	-	-			
• Measurement & Control Solutions	-	6	3	4	2	-	15			
• Total Segments	-	6	3	4	2	-	15			
Special Charges										
• Total Xylem	6	5	-	3	3	6	11			
• Water Infrastructure	-	-	-	-	-	-	-			
• Applied Water	-	5	-	-	-	-	5			
• Measurement & Control Solutions	2	-	-	-	-	2	-			
• Total Segments	2	5	-	-	-	2	5			
Restructuring & Realignment Costs										
• Total Xylem	16	11	12	9	9	16	41			
• Water Infrastructure	5	4	5	3	4	5	16			
• Applied Water	3	4	5	5	3	3	17			
• Measurement & Control Solutions	8	3	2	1	2	8	8			
• Total Segments	16	11	12	9	9	16	41			
Adjusted Operating Income										
• Total Xylem	135	112	153	169	192	135	626			
• Water Infrastructure	54	45	79	94	110	54	328			
• Applied Water	53	45	53	55	63	53	216			
• Measurement & Control Solutions	43	34	34	32	33	43	133			
• Total Segments	150	124	166	181	206	150	677			
Adjusted Operating Margin										
• Total Xylem	11.1%	10.5%	13.1%	14.1%	15.0%	11.1%	13.3%			
• Water Infrastructure	11.3%	10.7%	16.4%	18.1%	18.9%	11.3%	16.4%			
• Applied Water	14.5%	13.5%	14.7%	15.5%	16.9%	14.5%	15.2%			
• Measurement & Control Solutions	11.6%	10.7%	10.6%	10.0%	10.3%	11.6%	10.4%			
• Total Segments	12.3%	11.6%	14.3%	15.1%	16.1%	12.3%	14.4%			

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)

	Q1 2018			Q1 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,217		1,217	1,071		1,071
Operating Income	113	22 a	135	86	26 a	112
Operating Margin	9.3%		11.1%	8.0%		10.5%
Interest Expense	(21)		(21)	(20)		(20)
Other Non-Operating Income (Expense)	3		3	(1)		(1)
(Loss)/Gain from sale of business	-		-	5	(5)	-
Income before Taxes	95	22	117	70	21	91
Provision for Income Taxes	(16)	(8) b	(24)	(14)	(6) b	(20)
Net Income attributable to Xylem	79	14	93	56	15	71
Diluted Shares	181.4		181.4	180.7		180.7
Diluted EPS	\$ 0.43	\$ 0.08	\$ 0.51	\$ 0.31	\$ 0.08	\$ 0.39
Year-over-year currency translation impact on current year diluted EPS	\$ 0.05	\$ 0.01	\$ 0.06			
Diluted EPS at Constant Currency	\$ 0.38	\$ 0.07	\$ 0.45			

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

a Restructuring & realignment costs of \$16 million and \$11 million in 2018 and 2017, respectively; special charges of \$6 million of acquisition costs in 2018 and \$5 million of asset impairment in 2017 and Sensus acquisition related costs of \$10 million in 2017.

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

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

	Q1	
	2018	2017
Net Cash - Operating Activities	\$ 63	\$ 52
Capital Expenditures	(61)	(43)
Free Cash Flow	<u>\$ 2</u>	<u>\$ 9</u>
Cash paid for Sensus acquisition related costs	(1)	(17)
Free Cash Flow, excluding Sensus Acquisition Related Costs	<u>\$ 3</u>	<u>\$ 26</u>
Net Income	79	56
Gain/(Loss) from sale of businesses	-	5
Special Charges - non-cash impairment and early debt extinguishment	-	(5)
Sensus acquisition related costs	-	(10)
Net Income, excluding gain on sale of businesses, non-cash impairment charges and Sensus Acquisition Related Costs	<u>\$ 79</u>	<u>\$ 66</u>
Free Cash Flow Conversion	<u>4%</u>	<u>39%</u>

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

(\$ Millions)

	2018				Total
	Q1	Q2	Q3	Q4	
Net Income	79				79
Income Tax Expense	16				16
Interest Expense (Income), net	20				20
Depreciation	29				29
Amortization	38				38
EBITDA	182	-	-	-	182
Share-based Compensation	9				9
Restructuring & Realignment	16				16
Gain on sale of business	-				-
Sensus Acquisition Related Costs	-				-
Special Charges	6				6
Adjusted EBITDA	<u>213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213</u>
Revenue	1,217				1,217
Adjusted EBITDA Margin	<u>17.5%</u>				<u>17.5%</u>
	2017				Total
	Q1	Q2	Q3	Q4	
Net Income	56	100	104	70	330
Income Tax Expense	14	21	27	74	136
Interest Expense (Income), net	20	20	20	19	79
Depreciation	28	27	28	26	109
Amortization	31	30	30	34	125
EBITDA	149	198	209	223	779
Share-based Compensation	6	5	5	5	21
Restructuring & Realignment	11	12	9	9	41
Gain on sale of business	(5)	-	1	14	10
Sensus Acquisition Related Costs	7	2	3	2	14
Special Charges	5	-	3	5	13
Adjusted EBITDA	<u>173</u>	<u>217</u>	<u>230</u>	<u>258</u>	<u>878</u>
Revenue	1,071	1,164	1,195	1,277	4,707
Adjusted EBITDA Margin	<u>16.2%</u>	<u>18.6%</u>	<u>19.2%</u>	<u>20.2%</u>	<u>18.7%</u>

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

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

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

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

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	50				50
Interest, net	-				-
Depreciation	5				5
Amortization	-				-
EBITDA	55	-	-	-	55
Share-based Compensation	1				1
Restructuring & Realignment	3				3
Adjusted EBITDA	59	-	-	-	59
Revenue	366				366
Adjusted EBITDA Margin	16.1%				16.1%
	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	37	49	49	62	197
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	-	3
EBITDA	43	55	55	67	220
Share-based Compensation	-	1	1	-	2
Restructuring & Realignment	4	5	5	3	17
Gain on sale of business	(5)	-	1	(2)	(6)
Special Charges	5	-	-	-	5
Adjusted EBITDA	47	61	62	68	238
Revenue	333	361	354	373	1,421
Adjusted EBITDA Margin	14.1%	16.9%	17.5%	18.2%	16.7%

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

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

	2018				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	33				33
Interest Expense (Income), net	-				-
Depreciation	8				8
Amortization	<u>29</u>				<u>29</u>
EBITDA	<u>70</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70</u>
Share-based Compensation	1				1
Restructuring & Realignment	8				8
Special Charges	2				2
Adjusted EBITDA	<u>81</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81</u>
Revenue	<u>371</u>				<u>371</u>
Adjusted EBITDA Margin	<u>21.8%</u>				<u>21.8%</u>
	2017				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	24	30	26	11	91
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	8	8	7	7	30
Amortization	<u>23</u>	<u>22</u>	<u>22</u>	<u>25</u>	<u>92</u>
EBITDA	<u>55</u>	<u>60</u>	<u>55</u>	<u>42</u>	<u>212</u>
Share-based Compensation	-	1	-	1	2
Restructuring & Realignment	3	2	1	2	8
Sensus Acquisition Related Costs	3	1	2	1	7
Adjusted EBITDA	<u>61</u>	<u>64</u>	<u>58</u>	<u>64</u>	<u>247</u>
Revenue	<u>319</u>	<u>321</u>	<u>321</u>	<u>321</u>	<u>1,282</u>
Adjusted EBITDA Margin	<u>19.1%</u>	<u>19.9%</u>	<u>18.1%</u>	<u>19.9%</u>	<u>19.3%</u>

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

xylem

Let's Solve Water

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