

XYLEM INC.

Q4 2016 EARNINGS RELEASE

FEBRUARY 2, 2017



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

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

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions, including the integration of Sensus; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, 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.

Q4'16 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q4 2016	Adjusted* Q4 2016	GAAP FY 2016	Adjusted* FY 2016
Xylem Consolidated				
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
Segment Results				
Water Infrastructure				
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%
Applied Water				
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%
Sensus				
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

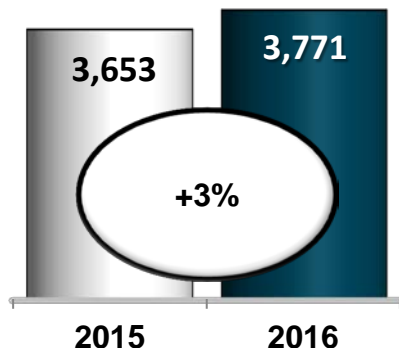
- **Delivered strong FY financial results in the face of mixed market conditions**
 - ✗ *Organic Revenue Growth 1%*
 - ✓ *Strong Op. Margin performance up 70 bps to 13.6%; up 130 bps ex. acquisitions*
 - ✓ *EPS of \$2.03, up 10%*
 - ✓ *FCF Conversion of 120%*
- **Significant progress on our top strategic 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 4th 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%

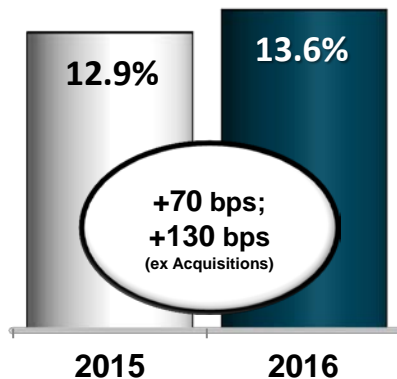
Key Organic Growth Drivers

+ 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*

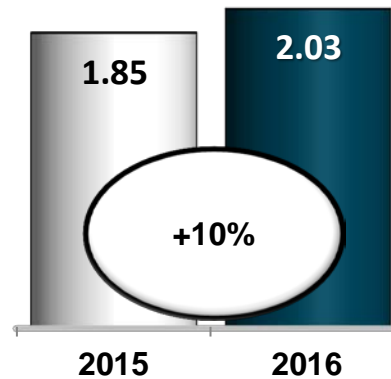


Adj. EBITDA*	2015	2016
	17.0%	17.9%

Key Performance Drivers

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

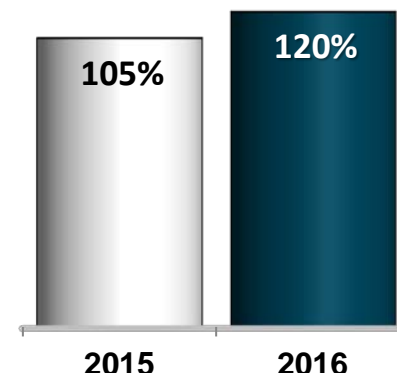
ADJ. EPS*



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

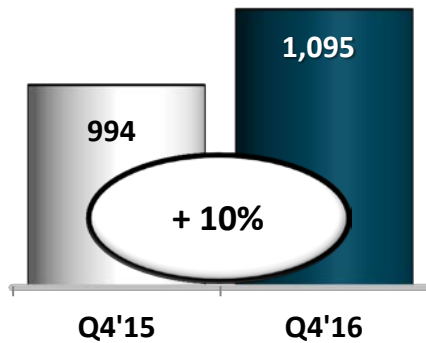
+ FCF of \$386, up 11%
+ Working Capital % improves 70 bps ex. FX Translation and Acquisitions

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%

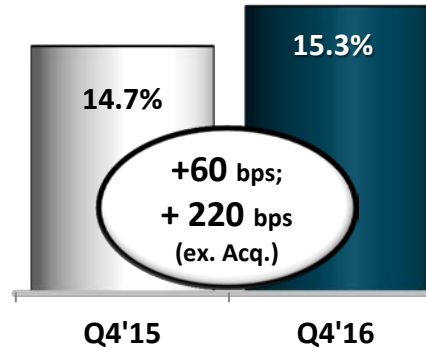
Key Organic Growth Drivers

+ 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*

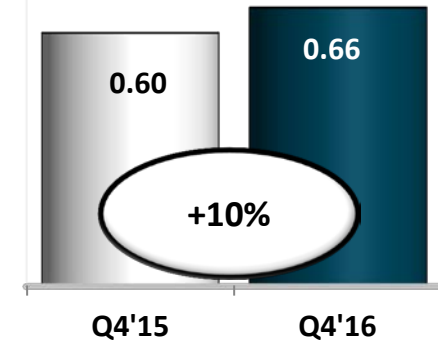


Adj. EBITDA* 18.2% 19.8%

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*

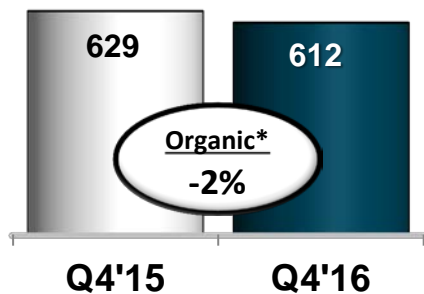


PRODUCTIVITY DRIVES STRONG EARNINGS GROWTH

2016 WATER INFRASTRUCTURE PERFORMANCE

4Q REVENUE

(Dollars, In Millions)



Organic Growth

By Application:

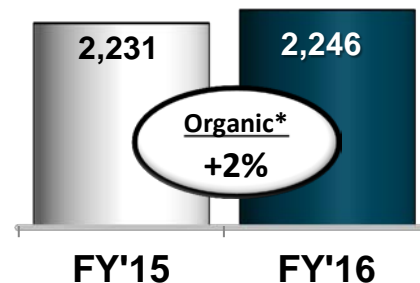
+ Treatment	+ 6%
+ Test	+ 3%
- Transport	- 4%

By Region:

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

FY REVENUE

(Dollars, In Millions)



Organic Growth

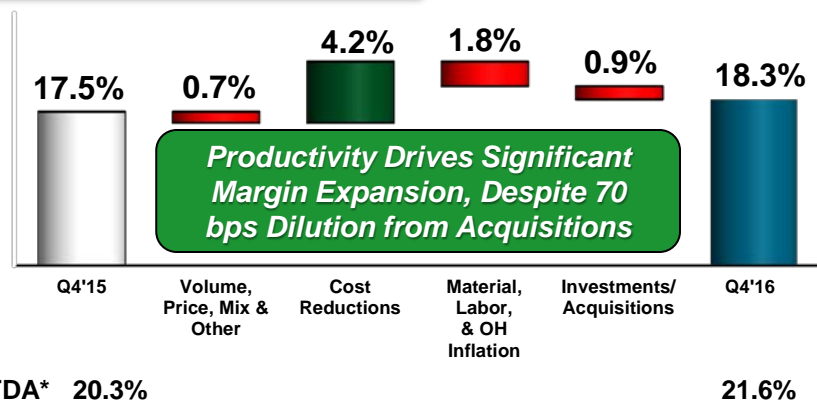
By Application:

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

By Region:

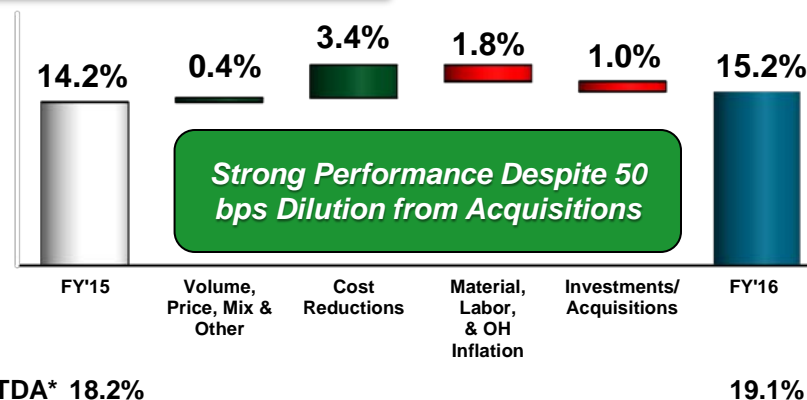
+ U.S.	+ 3%
+ W. Europe	+ 2%
+ Emerging	+ 1%

4Q ADJ. OP MARGIN*



Adj. EBITDA* 20.3%

FY ADJ. OP MARGIN*



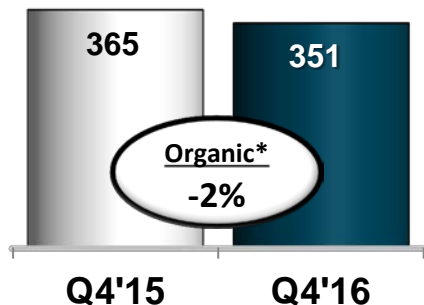
Adj. EBITDA* 18.2%

STRONG OPERATIONAL PERFORMANCE DESPITE MIXED MARKET CONDITIONS

2016 APPLIED WATER PERFORMANCE

4Q REVENUE

(Dollars, In Millions)



Organic Growth

By Application:

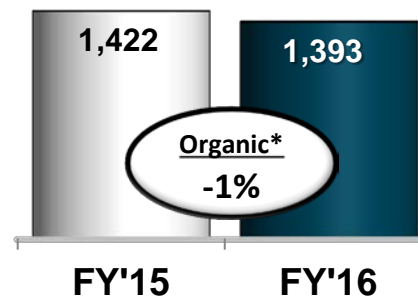
+ Commercial	+1%
- Ind'l Water	-3%
- Residential	-3%
- Irrigation	-6%

By Region:

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

FY REVENUE

(Dollars, In Millions)



Organic Growth

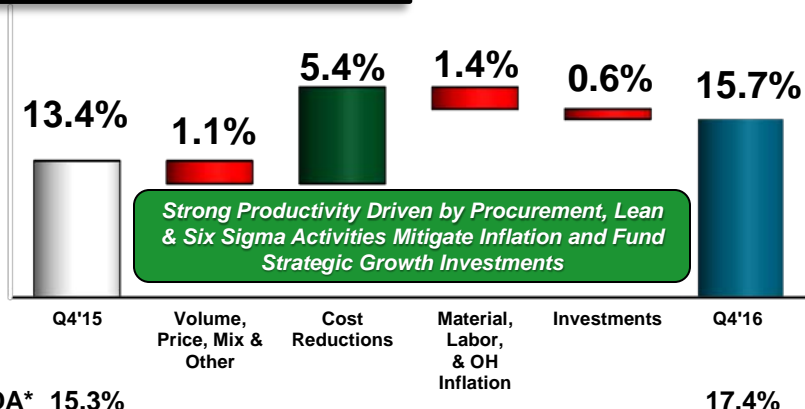
By Application:

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

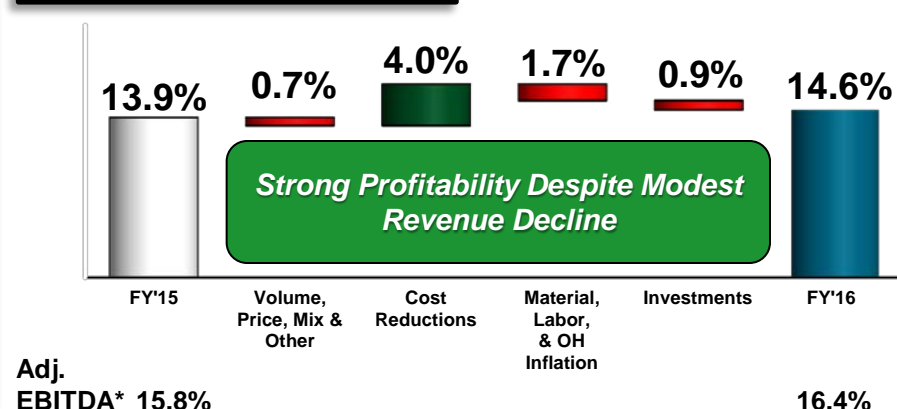
By Region:

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

4Q ADJ. OP MARGIN*



FY ADJ. OP MARGIN*

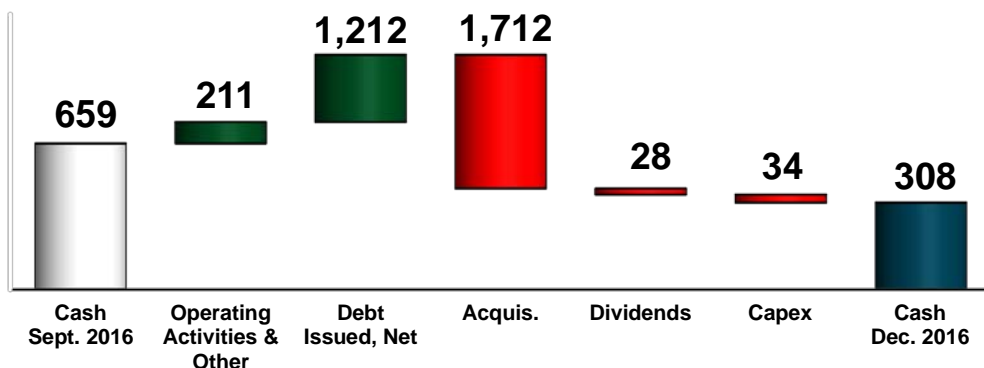


STRONG EXECUTION & PRODUCTIVITY GAINS DRIVE SIGNIFICANT MARGIN EXPANSION

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

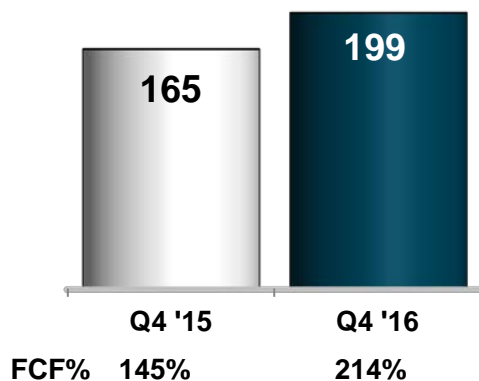


CAPITAL SUMMARY

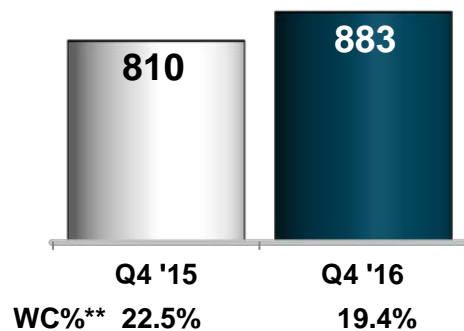
DECEMBER 31, 2016

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

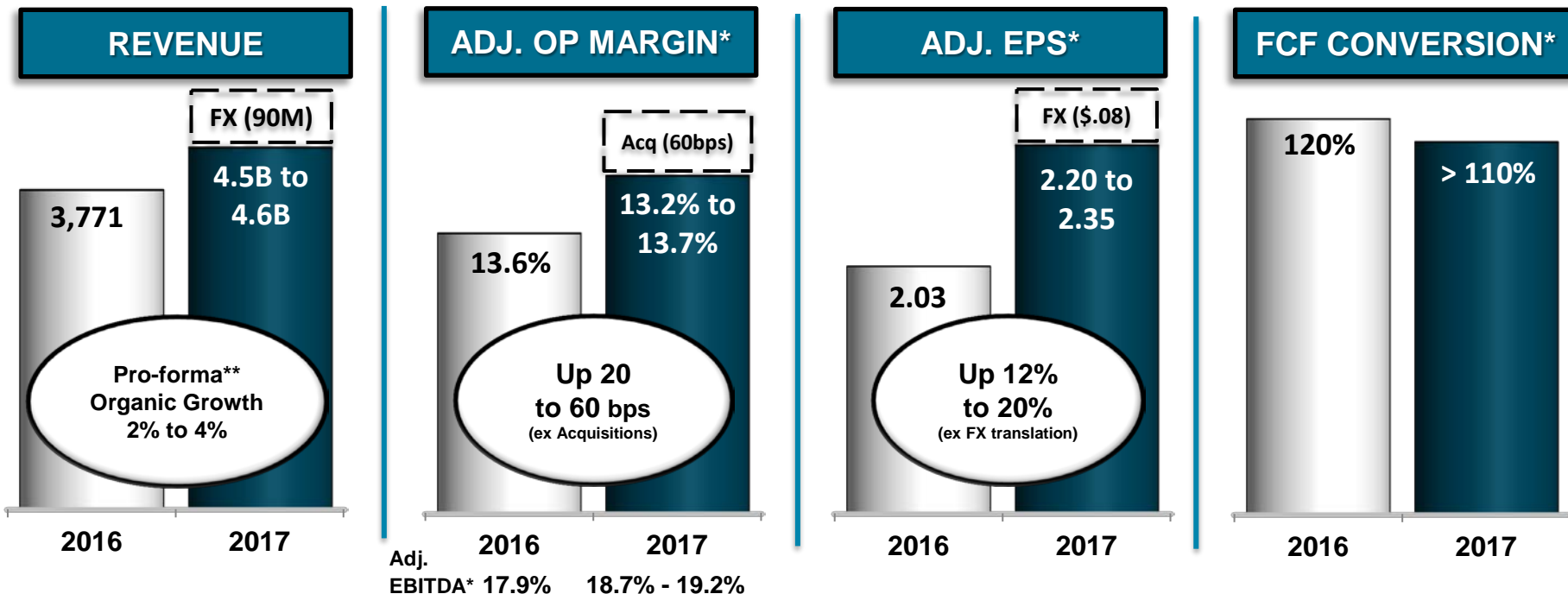


Financial Highlights

- 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 (3rd 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

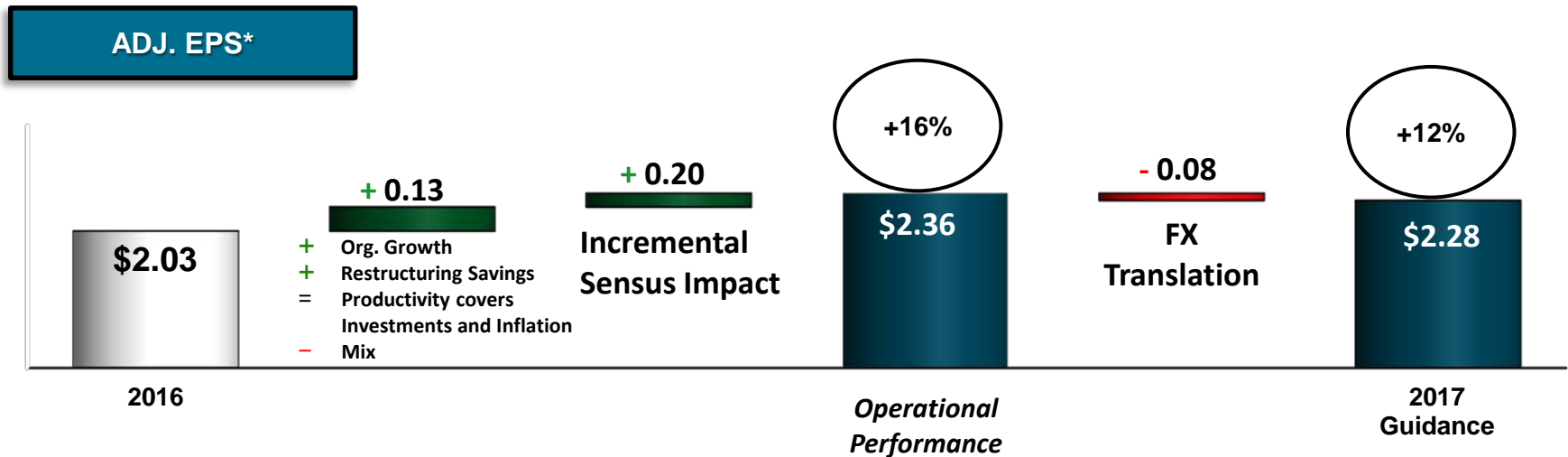
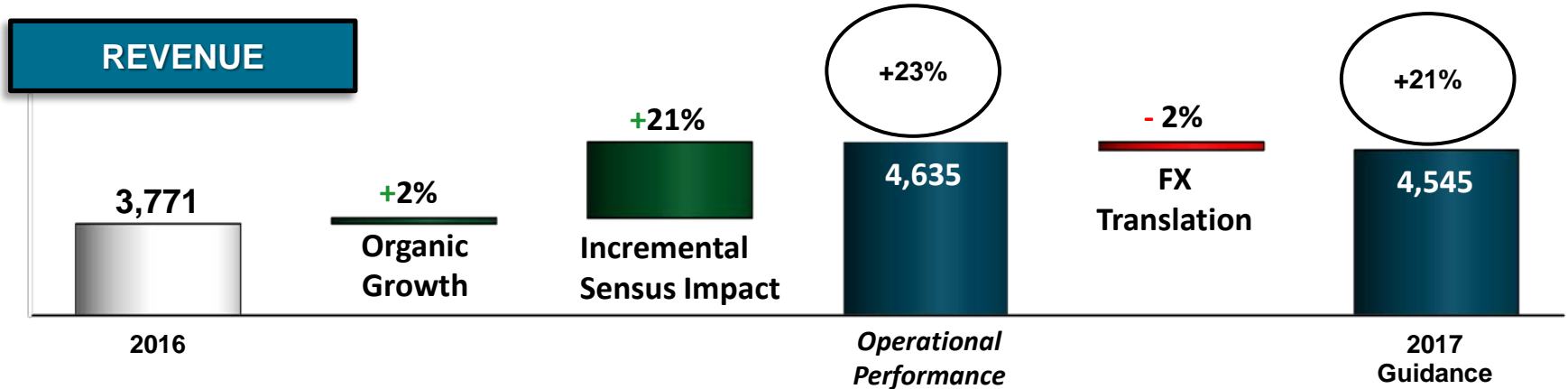


Residential (6% of 2016 Revenue)

- 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)

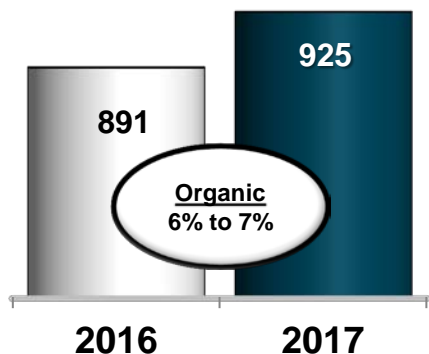


STRONG PERFORMANCE EXPECTED TO DELIVER ABOVE AVERAGE GROWTH

2017 SENSUS OUTLOOK

REVENUE

(Dollars, In Millions)



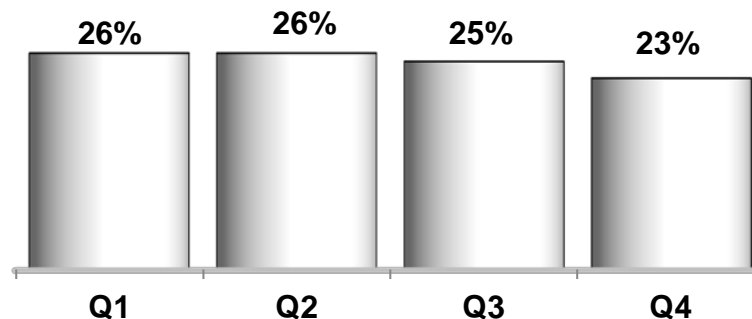
Organic Highlights

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

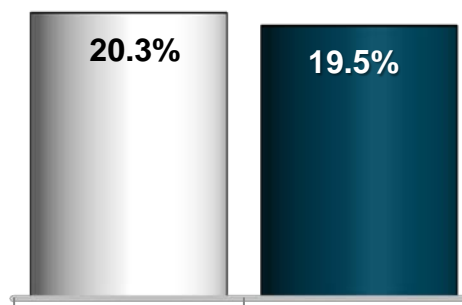
Other Financial Highlights

- 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

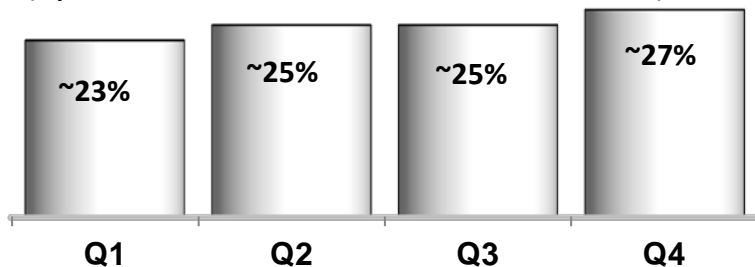
2017 OUTLOOK

(Dollars, In Millions)

HISTORIC QUARTERLY PROFILE

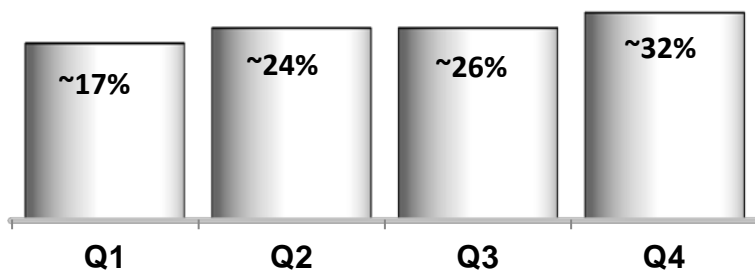
Revenue As a % of Full Year

(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)	-
Total		(\$90M)	(\$0.08)	(\$85M)	(\$0.07)

* 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 4th

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	(G) = (E - C) / A
	Orders 2016	Orders 2015	Change 2016 v. 2015	% Change 2016 v. 2015	Acquisitions / Divestitures	FX Impact	Change Adj. 2016 v. 2015	% Change Adj. 2016 v. 2015			
<u>Year Ended December 31</u>											
Xylem Inc.	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		
<u>Quarter Ended December 31</u>											
Xylem Inc.	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		
<u>Quarter Ended September 30</u>											
Xylem Inc.	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%		
<u>Quarter Ended June 30</u>											
Xylem Inc.	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%		
<u>Quarter Ended March 31</u>											
Xylem Inc.	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 2016	Revenue 2015	Change 2016 v. 2015	% Change 2016 v. 2015	Acquisitions / Divestitures	FX Impact	Change Adj. 2016 v. 2015	% Change Adj. 2016 v. 2015			
<u>Year Ended December 31</u>											
Xylem Inc.	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		
<u>Quarter Ended December 31</u>											
Xylem Inc.	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		
<u>Quarter Ended September 30</u>											
Xylem Inc.	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%		
<u>Quarter Ended June 30</u>											
Xylem Inc.	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%		
<u>Quarter Ended March 31</u>											
Xylem Inc.	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
Total Revenue										
• 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	-
Operating Income										
• 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
Operating Margin										
• 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%
Sensus Acquisition Related Costs										
• Total Xylem	-	-	-	-	10	-	43	-	53	-
• Water Infrastructure	-	-	-	-	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Sensus	-	-	-	-	-	-	25	-	25	-
• Total Segments	-	-	-	-	-	-	25	-	25	-
Special Charges										
• Total Xylem	4	1	1	-	-	-	-	-	5	1
• Water Infrastructure	4	1	1	-	-	-	-	-	5	1
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Sensus	-	-	-	-	-	-	-	-	-	-
• Total Segments	4	1	1	-	-	-	-	-	5	1
Restructuring & Realignment Costs										
• 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
Adjusted Operating Income										
• 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
Adjusted Operating Margin										
• 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
Diluted EPS	\$ 0.28	\$ 0.38	\$ 0.66	\$ 0.63	\$ (0.03)	\$ 0.60

	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
Diluted EPS	\$ 1.45	\$ 0.58	\$ 2.03	\$ 1.87	\$ (0.02)	\$ 1.85

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
Net Cash - Operating Activities	\$ 41	\$ 39	\$ 84	\$ 84	\$ 149	\$ 137	\$ 223	\$ 204	\$ 497	\$ 464
Capital Expenditures	(37)	(37)	(25)	(20)	(28)	(21)	(34)	(39)	(124)	(117)
Free Cash Flow	<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)	-
Free Cash Flow, excluding Sensus Acquisition Related Costs	<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)	-
Net Income, excluding gain on sale of businesses, Interest on debt extinguishment and Sensus Acquisition Related Costs	<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>
Free Cash Flow Conversion	<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

xylem

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