



Appendix to Non-GAAP Reconciliations

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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 Operating Margin”, “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.

“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 acquisition and integration related costs not included in "Sensus Acquisition Related Costs", non-cash impairment charges, due diligence costs 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.

**2018 Xylem Inc. Non-GAAP Reconciliation
Reported vs. Organic & Constant Currency Orders
(\$ Millions)**

| | (As Reported - GAAP) | | | | (As Adjusted - Organic) | | | | Constant Currency |
|---------------------------------|-----------------------------|--------------|--------------|------------|--------------------------------|-------------|-----------------------|-----------------------|--------------------------|
| | (A) | | (B) | % Change | (C) | (D) | (E) = B+C+D Change | (F) = E/A % Change | (G) = (E - C) / A |
| | 2018 Orders | 2017 Orders | 2018 v. 2017 | | | | | | |
| Year Ended December 31 | | | | | | | | | |
| Xylem Inc. | 5,437 | 4,868 | 569 | 12% | (88) | (27) | 454 | 9% | 11% |
| Water Infrastructure | 2,255 | 2,112 | 143 | 7% | - | (3) | 140 | 7% | 7% |
| Applied Water | 1,557 | 1,476 | 81 | 5% | 12 | (10) | 83 | 6% | 5% |
| Measurement & Control Solutions | 1,625 | 1,280 | 345 | 27% | (100) | (14) | 231 | 18% | 26% |

**2018 Xylem Inc. Non-GAAP Reconciliation
Reported vs. Organic & Constant Currency Revenue
(\$ Millions)**

| | (As Reported - GAAP) | | | | (As Adjusted - Organic) | | | | Constant Currency |
|---------------------------------|-----------------------------|--------------|--------------|------------|--------------------------------|-------------|-----------------------|-----------------------|--------------------------|
| | (A) | | (B) | % Change | (C) | (D) | (E) = B+C+D Change | (F) = E/A % Change | (G) = (E - C) / A |
| | 2018 Revenue | 2017 Revenue | 2018 v. 2017 | | | | | | |
| Year Ended December 31 | | | | | | | | | |
| Xylem Inc. | 5,207 | 4,707 | 500 | 11% | (87) | (23) | 390 | 8% | 10% |
| Water Infrastructure | 2,176 | 2,004 | 172 | 9% | - | 4 | 176 | 9% | 9% |
| Applied Water | 1,534 | 1,421 | 113 | 8% | 10 | (10) | 113 | 8% | 7% |
| Measurement & Control Solutions | 1,497 | 1,282 | 215 | 17% | (97) | (17) | 101 | 8% | 15% |

**Xylem Inc. Non-GAAP Reconciliation
Adjusted Operating Income**

| | YTD 2018 |
|--|-------------|
| Total Revenue | |
| • Total Xylem | 5,207 |
| • Water Infrastructure | 2,176 |
| • Applied Water | 1,534 |
| • Measurement & Control Solutions | 1,497 |
| Operating Income | |
| • Total Xylem | 654 |
| • Water Infrastructure | 359 |
| • Applied Water | 236 |
| • Measurement & Control Solutions | 118 |
| • Total Segments | 713 |
| Operating Margin | |
| • Total Xylem | 12.6% |
| • Water Infrastructure | 16.5% |
| • Applied Water | 15.4% |
| • Measurement & Control Solutions | 7.9% |
| • Total Segments | 13.7% |
| Special Charges | |
| • Total Xylem | 12 |
| • Water Infrastructure | 2 |
| • Applied Water | - |
| • Measurement & Control Solutions | 5 |
| • Total Segments | 7 |
| Restructuring & Realignment Costs | |
| • Total Xylem | 48 |
| • Water Infrastructure | 20 |
| • Applied Water | 10 |
| • Measurement & Control Solutions | 18 |
| • Total Segments | 48 |
| Adjusted Operating Income | |
| • Total Xylem | 714 |
| • Water Infrastructure | 381 |
| • Applied Water | 246 |
| • Measurement & Control Solutions | 141 |
| • Total Segments | 768 |
| Adjusted Operating Margin | |
| • Total Xylem | 13.7% |
| • Water Infrastructure | 17.5% |
| • Applied Water | 16.0% |
| • Measurement & Control Solutions | 9.4% |
| • Total Segments | 14.7% |

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

| | 2018 | 2017 | 2016 |
|-----------------------------------|-------|-------|-------|
| Net Income | 549 | 330 | 260 |
| Income Tax Expense | 36 | 136 | 80 |
| Interest Expense (Income), net | 78 | 79 | 68 |
| Depreciation | 117 | 109 | 87 |
| Amortization | 144 | 125 | 64 |
| EBITDA | 924 | 779 | 559 |
| Share-based Compensation | 30 | 21 | 18 |
| Restructuring & Realignment | 47 | 41 | 47 |
| Loss/(Gain) from sale of business | - | 10 | - |
| Sensus Acquisition Related Costs | - | 14 | 46 |
| Special Charges | 12 | 13 | 5 |
| Adjusted EBITDA | 1,013 | 878 | 675 |
| Revenue | 5,207 | 4,707 | 3,771 |
| Adjusted EBITDA Margin | 19.5% | 18.7% | 17.9% |



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