

XYLEM INC.

Q3 2016 EARNINGS RELEASE

NOVEMBER 1, 2016



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.

Q3'16 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q3 2016	Adjusted* Q3 2016	GAAP YTD – Q3 2016	Adjusted* YTD – Q3 2016
Xylem Consolidated				
Revenue	897	897	2,676	2,676
Overall Growth	-1%	-1%	1%	1%
Constant Currency Growth		1%		3%
Organic Growth		0%		2%
Operating Income	109	131	297	344
Operating Margin	12.2%	14.6%	11.1%	12.9%
Earnings per Share	0.41	0.54	1.17	1.37
Segment Results				
Water Infrastructure				
Revenue	554	554	1,634	1,634
Overall Growth	1%	1%	2%	2%
Constant Currency Growth		2%		5%
Organic Growth		1%		3%
Operating Income	79	88	203	229
Operating Margin	14.3%	15.9%	12.4%	14.0%
Applied Water				
Revenue	343	343	1,042	1,042
Overall Growth	-2%	-2%	-1%	-1%
Constant Currency Growth		-1%		0%
Organic Growth		-1%		0%
Operating Income	50	53	140	149
Operating Margin	14.6%	15.5%	13.4%	14.3%

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.
- 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

- **Reshaping Xylem's portfolio with higher growth and higher margin systems intelligence solutions**
 - Successfully closed Sensus acquisition on Oct. 31st
 - Bolt-on acquisition of Visenti (leak-detection, pressure monitoring technology)
- **Solid 3rd Quarter execution, on track to deliver full year EPS growth of 10%**
 - Strong Public Utility growth, up 10% overall, w/ U.S. up 25%
 - Accelerating cost actions to mitigate weaker Industrial market conditions
 - Adj. Op Margin expands 90 bps to 14.6%, due to Productivity and Business Simplification cost savings
 - Delivered Adj. EPS of \$0.54, up 10% year-over-year
 - Free Cash Flow generation of \$121M, 166% conversion

**ON TRACK TO DELIVER ON OUR FULL YEAR EARNINGS COMMITMENT ...
ACCELERATED CAPITAL DEPLOYMENT TO CREATE SHAREHOLDER VALUE**

RESHAPING PORTFOLIO WITH HIGHER GROWTH & HIGHER MARGIN SYSTEMS INTELLIGENCE SOLUTIONS



2016 Adj.
Revenue*

\$837M

2016 Adj. EBITDA*

\$159M

2016 Adj.
EBITDA Margin*

19%

Sensus 2016 financial information is representative of the March 31, 2016 fiscal year-end period

- Acquisition completed on Oct. 31st for \$1.7B
- Provides leadership position in attractive markets, and a new growth platform for Xylem
 - A leading developer of advanced technology solutions enabling intelligent use and conservation of critical water and energy resources
 - Differentiated communication systems, metering technologies, and data analytics
- **Squarely focused on executing our integration plan to realize the full value of combination**
 - Expected to add ~\$0.01 to EPS in 2016, net of interest
 - Expected to add \$0.10 to \$0.12 EPS in 2017
 - Expected synergies by 2020: cost savings of \$50M / Revenue >\$100M



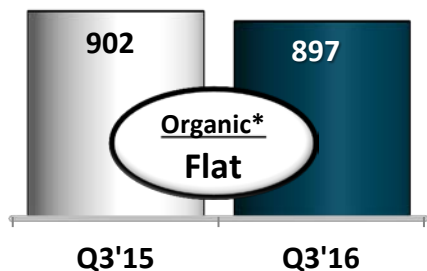
- **Further accelerates Xylem's development of systems intelligence**
 - Provides solution and data analytics capability for real time leak detection and water pressure monitoring
 - Complementary to Xylem's and Sensus' portfolio
- **Attractive deal representative of "M&A as proxy for R&D"**
 - Purchase price: \$8M, plus performance earn-out
 - 2015 Revenue: \$3M; Expected high single digit CAGR
 - Neutral to 2016 and 2017 Adj. EPS

ACCELERATED CAPITAL DEPLOYMENT TO CREATE SHAREHOLDER VALUE

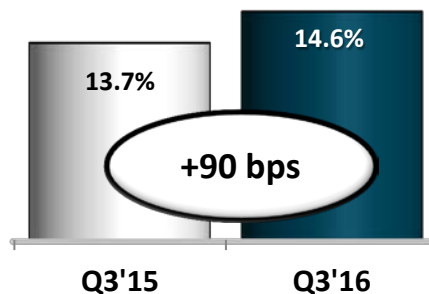
Q3'16 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

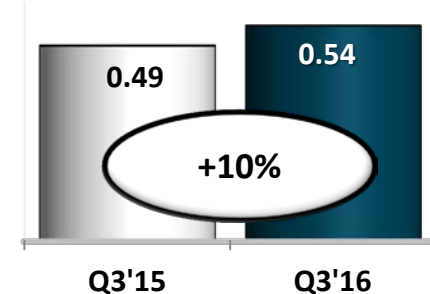
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Key Organic Growth Drivers

+ Public Utility	+10%
+ Commercial	+2%
+ Residential	+2%
= Agriculture	Flat
- Industrial	-7%

Organic Growth by Region

+ W. Europe	+3%
+ U.S.	+1%
- Emerging	-4%

Key Performance Drivers

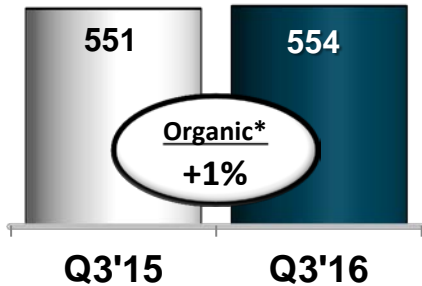
- Mixed end market performance; Public Utility strength continues, Industrial weaker than expected
- Strong execution drives 90 bps Adj. Op Margin expansion and 10% earnings growth
 - Vol/price/mix/other: Op Margin: -10 bps EPS: +\$0.01
 - Cost reductions: Op Margin: +390 bps EPS: +\$0.15
 - Cost inflation: Op Margin: -180 bps EPS: -\$0.07
 - Investments: Op Margin: -90 bps EPS: -\$0.04
 - Acquisitions: Op Margin: -20 bps EPS: \$0.00
- Other: Tax Rate 19.8% Share Count 180.3M

STRONG MARGIN PERFORMANCE DRIVES 10% EARNINGS GROWTH

Q3'16 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application:

- + Transport +2%
- + Treatment +4%
- Test -8%

By Region:

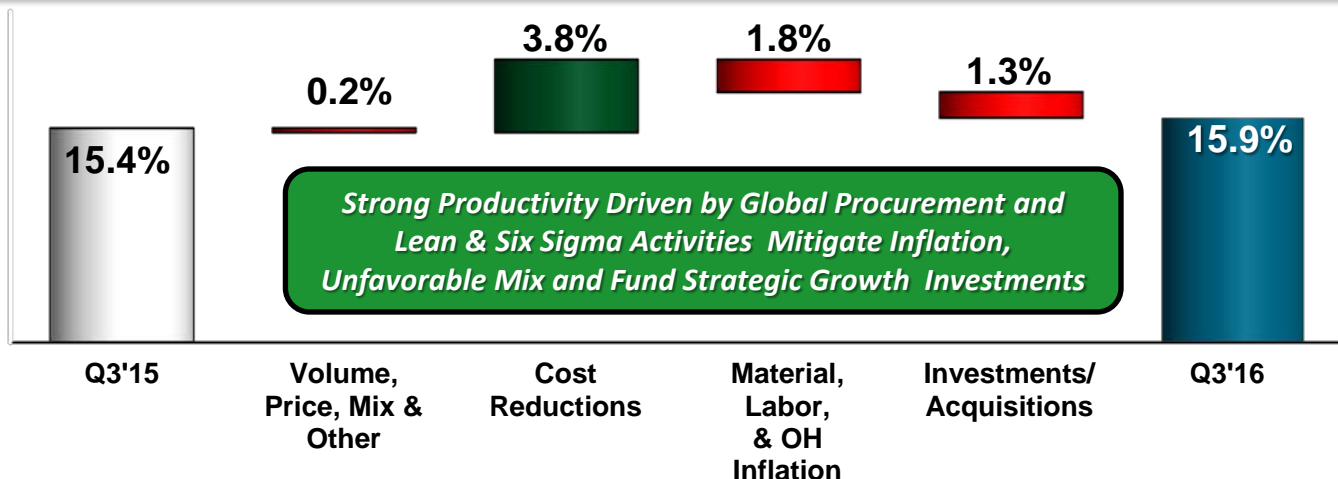
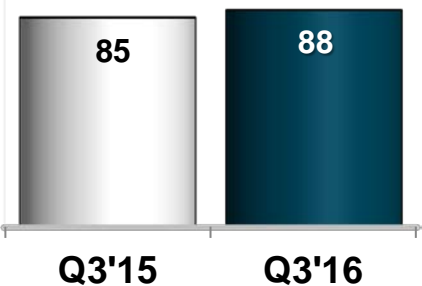
- + U.S. +6%
- + W. Europe +2%
- Emerging -6%

Highlights

- + Strength in U.S. Public Utility market continues, +25% despite tougher prior year comparison (+7%)
- + AMP 6 Cycle continues to fuel growth in UK (+14%)
- + Infrastructure investment drives growth in India (+ 81%); China returns to growth (+3%)
- Continue to see soft Industrial market conditions; negatively impacting our businesses and those regions most closely tied to commodity based applications/economies

ADJ. OP INCOME*

(Dollars, In Millions)

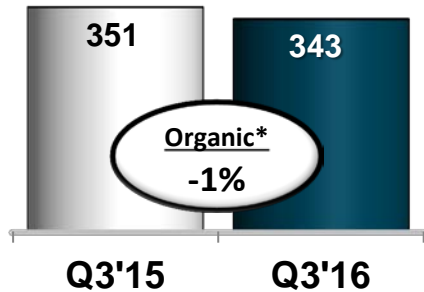


STRONG PUBLIC UTILITY GROWTH & PRODUCTIVITY FOCUS CONTINUES TO MORE THAN OFFSET INDUSTRIAL MARKET HEADWINDS

Q3'16 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application:

- + Bldg Svcs +2%
- = Agriculture Flat
- Ind'l Water -5%

By Region:

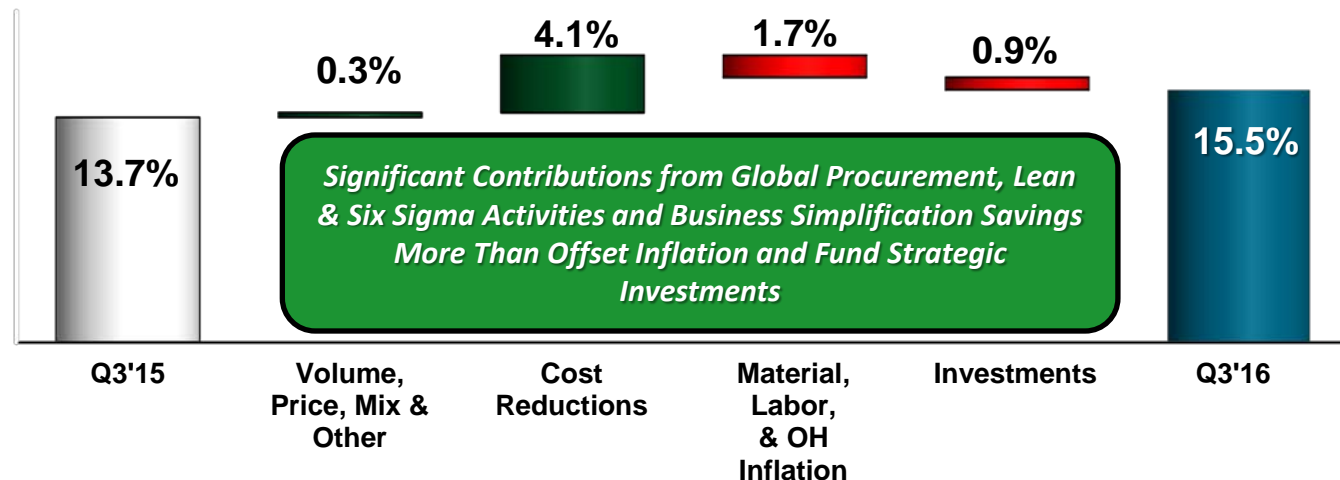
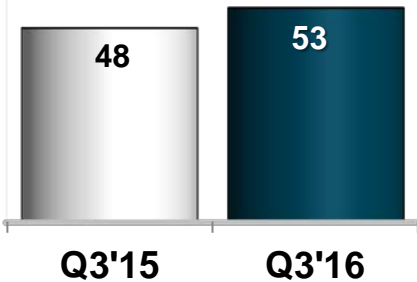
- + W. Europe +4%
- + Emerging +1%
- U.S. -4%

Highlights

- + New products and sales channel investments continue to drive European growth across Commercial, Residential and Industrial markets
- + Strength in Latin America more than offset headwinds in the Middle East & Africa
- Continued softness in U.S. Industrial and Commercial Bldg. demand more than offsets modest growth in Residential

ADJ. OP INCOME*

(Dollars, In Millions)

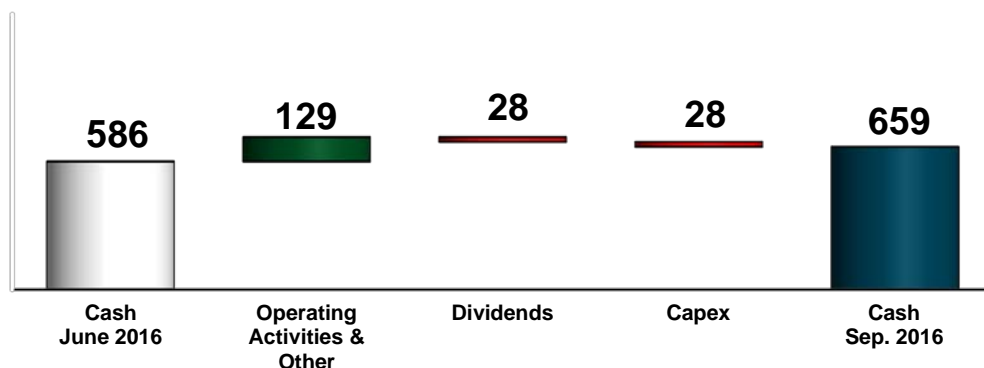


**PRODUCTIVITY DRIVES STRONG MARGIN PERFORMANCE ...
OPERATING MARGIN UP 180 BPS DESPITE INDUSTRIAL MARKET HEADWINDS**

XYLEM FINANCIAL POSITION

(Dollars, In Millions)

CASH DRIVERS

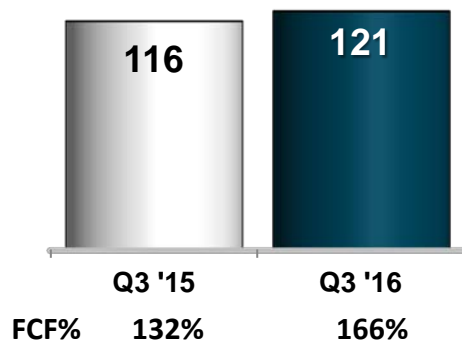


CAPITAL SUMMARY

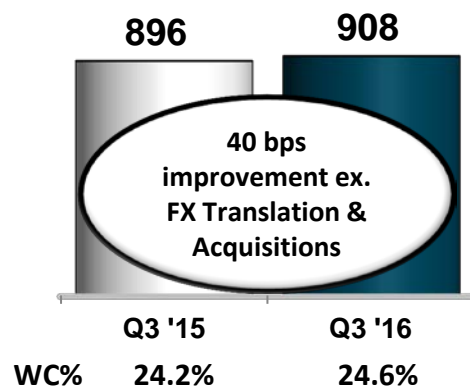
September 30, 2016

Cash	659
Debt	1,210
Net Debt	551
Shareholders' Equity	2,227
Net Capital	2,778
Net Debt to Net Capital	20%

FREE CASH FLOW *



WORKING CAPITAL



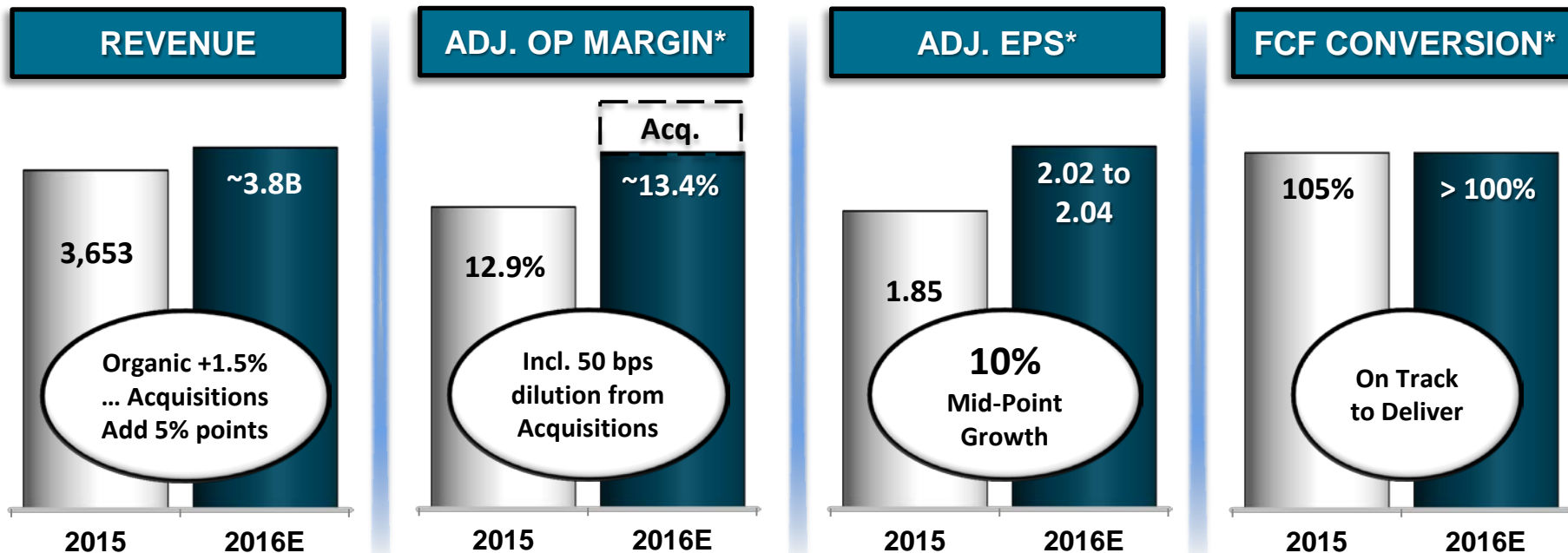
Financial Position Highlights

Subsequent to the Sensus Acq (Oct. 31st)

- Issued ~\$1.3B in short & long-term debt
 - ~\$400M short-term (US and Europe)
 - \$900M long-term notes issued
 - \$500M 10-Year @ 3.25%
 - \$400M 30-Year @ 4.375%
 - Leverage ratio up to 3.6x from 2.5x (rating agency basis)
- ~\$400 foreign cash utilized at closing
- Investment grade credit (BBB/Baa2) maintained

2016 OUTLOOK

(Dollars, In Millions, except EPS)








Update Summary

- Anticipating Organic Growth of ~1.5%; Acquisitions add ~5% ... partially offset by FX headwind of ~2.5%
- Expecting Adj. Op Margin of ~13.4% ; includes 50 bps dilution from acquisitions (incl. non-cash amortization)
- Narrowing Adj. EPS range to \$2.02 to \$2.04, while maintaining 10% mid-point growth of \$2.03
- On track to deliver >100% FCF conversion, no change in cash generation outlook

MAINTAINING \$2.03 MID-POINT, UP 10% YEAR-OVER-YEAR

2016 OUTLOOK

Key End Markets		3Q'16 YTD	FY'16 Outlook	Key Assumptions
	Industrial (44% of '15 Revenue)	-5%	Down Mid Single Digits	<ul style="list-style-type: none"> • 4Q: Down Mid Single Digits • Continued Oil & Gas headwinds
	Public Utility (33% of '15 Revenue)	+12%	Up High Single to Low Double-Digit	<ul style="list-style-type: none"> • 4Q: Up Mid-to High Single Digits • Continued strength in U.S. and Western Europe markets • Tough PY comp (+8%)
	Commercial (14% of '15 Revenue)	+3%	Up Low Single Digits	<ul style="list-style-type: none"> • 4Q: Flat to Low Single Digits • Stable U.S. and Euro markets • Mixed Emerging Market conditions
	Residential (7% of '15 Revenue)	-2%	Down Low Single Digits	<ul style="list-style-type: none"> • 4Q: Up Low Single Digits • Tough PY Comp (+10%)
	Agriculture (2% of '15 Revenue)	-3%	Down Mid Single Digits	<ul style="list-style-type: none"> • 4Q: Down Mid Single Digits • Developed Market weakness

**STRONG POSITION IN GROWING PUBLIC UTILITY
MARKET CONTINUES TO DRIVE OVERALL PERFORMANCE**

2016 OUTLOOK

(Dollars, in Millions)

Continuous Improvement

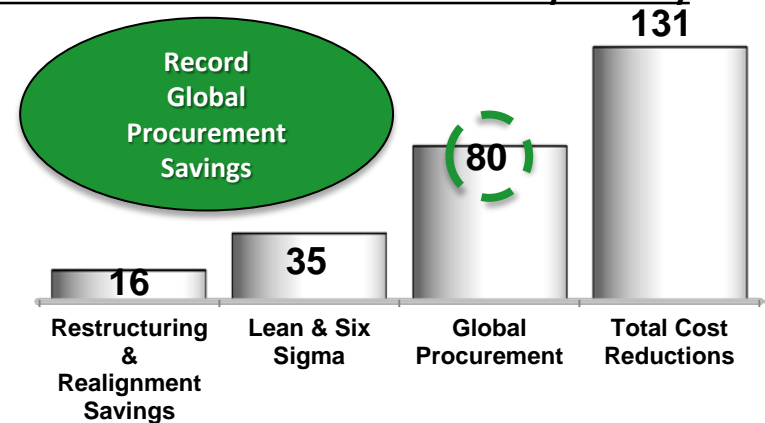
- On pace for record **Global Procurement savings**
 - YTD: \$54M, ~200 bps Op Margin expansion
 - 4Q: \$26M, ~260 bps Op Margin expansion
- **Lean & Six Sigma** gaining traction
 - YTD: \$24M, ~90 bps Op Margin expansion
 - 4Q: \$11M, ~110 bps Op Margin expansion

Business Simplification

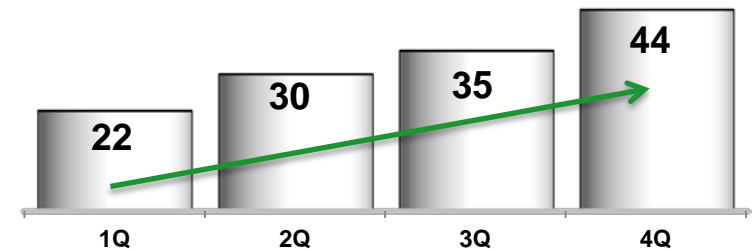
- Executing and accelerating **Restructuring & Realignment** activities
- Modest incremental benefit in 2016, with full run-rate benefits in 2017
 - YTD: \$9M, ~30 bps Op Margin expansion
 - 4Q: \$7M, ~70 bps Op Margin expansion

Continuous Improvement & Business Simplification Drives 4Q Op Margin Expansion ~440 bps

FYE 2016 Gross Cost Reductions – By Activity



FYE 2016 Gross Cost Reductions – By QTR



Step-up in 4Q Performance Driven by Additional Cost Actions & Seasonal Volume Leverage

2016 OUTLOOK

Summary 2016 Full Year Guidance Update

- | | |
|---|--|
| <ul style="list-style-type: none"> + Public Utility growth / market share gains + Productivity gains / incremental cost savings + Sensus adds ~\$0.01 EPS, net of interest | <ul style="list-style-type: none"> - Industrial / O&G market weakness - Middle East region slow-down - FX Headwinds: Euro and British Pound |
|---|--|

(Mid-Point Illustration)	REVENUE	ADJ. OP MARGIN*	ADJ. EPS*
Previous Guidance	\$3,700	13.6%	\$2.03
2H Volume/Mix /FX Translation	- 40	- 30 bps	- \$0.06
Productivity gains / incremental cost savings		+ 30 bps	+\$0.05
Sensus (Nov – Dec Operations)*	+ 140	- 20 bps	+\$0.04*
Increased Interest Expense (3 months)			- \$0.03
New Mid-Point Guidance	\$3,800	13.4%	\$2.03

* Includes estimated \$0.03 of non-cash intangible amortization

MAINTAINING \$2.03 MID-POINT, UP 10% YEAR-OVER-YEAR

2016 OUTLOOK

(Dollars In Millions, Except per Share Data)	Full Year Financial Outlook		4Q'16 Financial Outlook
Revenue			
Xylem Consolidated	\$3.81 Billion	Organic Growth 1% to 2%	Organic Growth 0% to 1%
Water Infrastructure	\$2.27 Billion	Organic Growth 2% to 3%	Organic Growth 1% to 2%
Applied Water	\$1.40 Billion	Organic Growth -1%	Organic Growth -1% to 0%
Sensus	~\$140 Million	(November & December)	~\$140 Million
Operating Margin *	~13.4%		~14.6% to 14.9%
EPS *	\$2.02 to \$2.04		\$0.65 to \$0.67
FCF Conversion	> 100%		> 100%
Guidance Assumptions:			
Operating Tax Rate *	~20%		~20%
Share Count	~180M		~180M
Restructuring & Realignment Costs	~\$45		~\$13

SUMMARY

- **Delivering on our investment thesis**
- **Reshaping Xylem's portfolio with higher growth and higher margin systems intelligence solutions**
- **On track to deliver 10% EPS growth in 2016**
- **Positioning to deliver another year of strong earnings growth and margin expansion in 2017**

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, 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, 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.

"Special charges" defined as costs incurred by the Company, such as interest expense related to the early extinguishment of debt during Q2 2016, initial acquisition and integration related costs (including financing costs related to the bridge loan entered into in Q3 2016 for the Sensus acquisition), 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 Contribution	Change Adj. 2016 v. 2015	% Change Adj. 2016 v. 2015			
<u>Nine Months Ended September 30</u>											
Xylem Inc.	2,757	2,798	(41)	-1%	(24)	59	(6)	0%		1%	
Water Infrastructure	1,700	1,737	(37)	-2%	(24)	44	(17)	-1%		0%	
Applied Water	1,057	1,061	(4)	0%	-	15	11	1%		1%	
<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 Contribution	Change Adj. 2016 v. 2015	% Change Adj. 2016 v. 2015			
<u>Nine Months Ended September 30</u>											
Xylem Inc.	2,676	2,659	17	1%	(25)	54	46	2%	3%		
Water Infrastructure	1,634	1,602	32	2%	(25)	41	48	3%	5%		
Applied Water	1,042	1,057	(15)	-1%	-	13	(2)	0%	0%		
<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		YTD	
	2016	2015	2016	2015	2016	2015	2016	2015
Total Revenue								
• Total Xylem	847	837	932	920	897	902	2,676	2,659
• Water Infrastructure	514	500	566	551	554	551	1,634	1,602
• Applied Water	333	337	366	369	343	351	1,042	1,057
Operating Income								
• Total Xylem	79	83	109	104	109	120	297	307
• Water Infrastructure	54	47	70	65	79	83	203	195
• Applied Water	39	46	51	51	50	46	140	143
• Total Segments	93	93	121	116	129	129	343	338
Operating Margin								
• Total Xylem	9.3%	9.9%	11.7%	11.3%	12.2%	13.3%	11.1%	11.5%
• Water Infrastructure	10.5%	9.4%	12.4%	11.8%	14.3%	15.1%	12.4%	12.2%
• Applied Water	11.7%	13.6%	13.9%	13.8%	14.6%	13.1%	13.4%	13.5%
• Total Segments	11.0%	11.1%	13.0%	12.6%	14.4%	14.3%	12.8%	12.7%
Special Charges								
• Total Xylem	4	1	1	-	10	-	15	1
• Water Infrastructure	4	1	1	-	-	-	5	1
• Applied Water	-	-	-	-	-	-	-	-
• Total Segments	4	1	1	-	-	-	5	1
Restructuring & Realignment Costs								
• Total Xylem	9	6	11	6	12	4	32	16
• Water Infrastructure	4	5	8	4	9	2	21	11
• Applied Water	3	1	3	2	3	2	9	5
• Total Segments	7	6	11	6	12	4	30	16
Adjusted Operating Income								
• Total Xylem	92	90	121	110	131	124	344	324
• Water Infrastructure	62	53	79	69	88	85	229	207
• Applied Water	42	47	54	53	53	48	149	148
• Total Segments	104	100	133	122	141	133	378	355
Adjusted Operating Margin								
• Total Xylem	10.9%	10.8%	13.0%	12.0%	14.6%	13.7%	12.9%	12.2%
• Water Infrastructure	12.1%	10.6%	14.0%	12.5%	15.9%	15.4%	14.0%	12.9%
• Applied Water	12.6%	13.9%	14.8%	14.4%	15.5%	13.7%	14.3%	14.0%
• Total Segments	12.3%	11.9%	14.3%	13.3%	15.7%	14.7%	14.1%	13.4%

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

	Q3 2016			Q3 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	897		897	902		902
Operating Income	109	22	131	120	4	124
Operating Margin	12.2%		14.6%	13.3%		13.7%
Interest Expense	(16)	4	(12)	(13)		(13)
Other Non-Operating Income (Expense)	2		2	-	2	2
Income before Taxes	95	26	121	107	6	113
Provision for Income Taxes	(22)	(2)	(24)	(19)	(4)	(23)
Net Income	73	24	97	88	2	90
Diluted Shares	180.3		180.3	181.6		181.6
Diluted EPS	\$ 0.41	\$ 0.13	\$ 0.54	\$ 0.48	\$ 0.01	\$ 0.49

	Q3 YTD 2016			Q3 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	2,676		2,676	2,659		2,659
Operating Income	297	47	344	307	17	324
Operating Margin	11.1%		12.9%	11.5%		12.2%
Interest Expense	(50)	12	(38)	(41)		(41)
Other Non-Operating Income (Expense)	3		3	-	4	4
Gain from sale of businesses	-		-	9	(9)	-
Income before Taxes	250	59	309	275	12	287
Provision for Income Taxes	(40)	(23)	(63)	(49)	(10)	(59)
Net Income	210	36	246	226	2	228
Diluted Shares	179.8		179.8	182.3		182.3
Diluted EPS	\$ 1.17	\$ 0.20	\$ 1.37	\$ 1.24	\$ 0.01	\$ 1.25

a Restructuring & realignment costs of \$12 million and \$4 million in the third quarter of 2016 and 2015, respectively, and special charges of \$10 million of initial acquisition and integration costs in the third quarter of 2016. Restructuring & realignment costs of \$32 million and \$16 million year-to-date 2016 and 2015, respectively, and special charges of \$15 million of initial acquisition and integration costs and \$1 million of other special charges year-to-date 2016 and 2015, respectively.

b Third quarter special charges of \$4 million of financing costs related to the bridge loan entered into for the Sensus acquisition in 2016 and \$2 million of other special charges in 2015. Year-to-date special charges of \$4 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 and on special charges of \$2 million and \$0 million, and tax-related special items of \$4 million of benefit and \$3 million of expense for the third quarter of 2016 and 2015, respectively. Net tax impact on restructuring & realignment costs of \$9 million and \$4 million and on special charges of \$7 million and \$0 million, and tax-related special charges of \$7 million and \$6 million 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		Nine Months Ended	
	2016	2015	2016	2015	2016	2015	2016	2015
Net Cash - Operating Activities	\$ 41	\$ 39	\$ 84	\$ 84	\$ 149	\$ 137	\$ 274	\$ 260
Capital Expenditures	(37)	(37)	(25)	(20)	(28)	(21)	(90)	(78)
Free Cash Flow	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 59</u>	<u>\$ 64</u>	<u>\$ 121</u>	<u>\$ 116</u>	<u>\$ 184</u>	<u>\$ 182</u>
Net Income	66	64	71	74	73	88	210	226
Gain from sale of businesses	-	9	-	-	-	-	-	9
Special Charges - Interest	-	-	(8)	-	-	-	(8)	-
Net Income, excluding gain on sale of businesses and Special Charges - Interest	<u>\$ 66</u>	<u>\$ 55</u>	<u>\$ 79</u>	<u>\$ 74</u>	<u>\$ 73</u>	<u>\$ 88</u>	<u>\$ 218</u>	<u>\$ 217</u>
Free Cash Flow Conversion	<u>6%</u>	<u>4%</u>	<u>75%</u>	<u>86%</u>	<u>166%</u>	<u>132%</u>	<u>84%</u>	<u>84%</u>

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

	2016				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	65	90	95		250
Interest Expense (Income), net	14	19	16		49
Depreciation	20	21	20		61
Amortization	12	12	12		36
Stock Compensation	5	5	5		15
EBITDA	<u>116</u>	<u>147</u>	<u>148</u>	<u>-</u>	<u>411</u>
Restructuring & Realignment	9	11	12		32
Special Charges	4	1	10		15
Adjusted EBITDA	<u>129</u>	<u>159</u>	<u>170</u>	<u>-</u>	<u>458</u>
Revenue	<u>847</u>	<u>932</u>	<u>897</u>		<u>2,676</u>
Adjusted EBITDA Margin	<u>15.2%</u>	<u>17.1%</u>	<u>19.0%</u>		<u>17.1%</u>
	2015				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
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	<u>129</u>	<u>142</u>	<u>156</u>	<u>177</u>	<u>604</u>
Restructuring & Realignment	6	6	4	4	20
Gain on sale of business	(9)	-	-	-	(9)
Special Charges	2	1	2	-	5
Adjusted EBITDA	<u>128</u>	<u>149</u>	<u>162</u>	<u>181</u>	<u>620</u>
Revenue	<u>837</u>	<u>920</u>	<u>902</u>	<u>994</u>	<u>3,653</u>
Adjusted EBITDA Margin	<u>15.3%</u>	<u>16.2%</u>	<u>18.0%</u>	<u>18.2%</u>	<u>17.0%</u>

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		204
Interest Expense (Income), net	-	-	-		-
Depreciation	12	12	12		36
Amortization	10	9	10		29
Stock Compensation	1	-	1		2
EBITDA	77	91	103	-	271
Restructuring & Realignment	4	8	9		21
Special Charges	4	1	-		5
Adjusted EBITDA	85	100	112	-	297
Revenue	514	566	554		1,634
Adjusted EBITDA Margin	16.5%	17.7%	20.2%		18.2%

	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		140
Interest, net	-	-	-		-
Depreciation	5	5	5		15
Amortization	1	1	1		3
Stock Compensation	-	1	-		1
EBITDA	44	59	56	-	159
Restructuring & Realignment	3	3	3		9
Adjusted EBITDA	47	62	59	-	168
Revenue	333	366	343		1,042
Adjusted EBITDA Margin	14.1%	16.9%	17.2%		16.1%

	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
Adjusted Operating Income
(\$ Millions)

	YTD
	2015
Total Revenue	
• Total Xylem	3,653
• Water Infrastructure	2,231
• Applied Water	1,422
Operating Income	
• Total Xylem	449
• Water Infrastructure	303
• Applied Water	190
• Total Segments	493
Operating Margin	
• Total Xylem	12.3%
• Water Infrastructure	13.6%
• Applied Water	13.4%
• Total Segments	13.5%

Special Charges	
• Total Xylem	1
• Water Infrastructure	1
• Applied Water	-
• Total Segments	1
Restructuring & Realignment Costs	
• Total Xylem	20
• Water Infrastructure	13
• Applied Water	7
• Total Segments	20

Adjusted Operating Income	
• Total Xylem	470
• Water Infrastructure	317
• Applied Water	197
• Total Segments	514
Adjusted Operating Margin	
• Total Xylem	12.9%
• Water Infrastructure	14.2%
• Applied Water	13.9%
• Total Segments	14.1%

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

	Q4 YTD 2015		
	As Reported	Adjustments	Adjusted
Total Revenue	3,653		3,653
Operating Income	449	21 a	470
Operating Margin	12.3%		12.9%
Interest Expense	(55)		(55)
Other Non-Operating Income (Expense)	-	4 b	4
Gain from sale of businesses	9	(9)	0
Income before Taxes	403	16	419
Provision for Income Taxes	(63)	(20) c	(83)
Net Income	340	(4)	336
Diluted Shares	181.7		181.7
Diluted EPS	\$ 1.87	\$ (0.02)	\$ 1.85
Year-over-year currency translation impact on current year diluted EPS	\$ (0.22)	\$ -	\$ (0.22)
Diluted EPS at Constant Currency	\$ 2.09	\$ (0.02)	\$ 2.07

a Restructuring, realignment costs and special charges in 2015

b Special charges

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

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

	Year Ended
	2015
Net Cash - Operating Activities	\$ 464
Capital Expenditures	(117)
Free Cash Flow	\$ 347
Net Income	340
Gain from sale of businesses	9
Net Income, excluding gain on sale of businesses	\$ 331
Free Cash Flow Conversion	105%

Sensus Worldwide Limited Non-GAAP Reconciliation*
 Adjusted Revenue, EBITDA and Adjusted EBITDA
 (\$ Millions)

Year-ended 3/31/2016

Reconciliation of Adjusted Revenue:

GAAP Revenue	861
Non-cash deferred revenue	(24)
Adjusted Revenue	<u>837</u>

Reconciliation EBITDA and Adjusted EBITDA:

GAAP Pre-Tax Income	99
Interest Expense (Income), net	37
Depreciation	22
Amortization	34
EBITDA	<u>192</u>
Non-cash deferred revenue	(24)
Reversal of product warranty reserve	(27)
Restructuring & realignment costs	7
Management fees	6
Other non-recurring charges	5
Adjusted EBITDA	<u>159</u>
Adjusted EBITDA Margin	<u>19.0%</u>

* GAAP revenue and income amounts from Sensus audited 3/31/2016 Financial Statement

"Adjusted revenue" defined as revenue, adjusted to exclude the impact of non-cash deferred revenue recognized.

"EBITDA" defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. "Adjusted EBITDA" reflects the adjustments to EBITDA to exclude the impact of non-cash revenue as well as the reversal of a product warranty reserve, restructuring and realignment charges, management fees and other non-recurring charges.

xylem

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