

# XYLEM INC.

## Q2 2016 EARNINGS RELEASE

**AUGUST 2, 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, 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.

# Q2'16 PERFORMANCE SUMMARY

## 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 previously closed acquisitions, and have been adjusted to exclude non-recurring transaction costs.

(Dollars, In Millions, except EPS)

	GAAP Q2 2016	Adjusted* Q2 2016	GAAP YTD - Q2 2016	Adjusted* YTD - Q2 2016
<b>Xylem Consolidated</b>				
Revenue	932	932	1,779	1,779
Overall Growth	1%	1%	1%	1%
Constant Currency Growth		3%		4%
Organic Growth		2%		3%
Operating Income	109	121	188	213
Operating Margin	11.7%	13.0%	10.6%	12.0%
Earnings per Share	0.39	0.48	0.76	0.83
<b>Segment Results</b>				
<b>Water Infrastructure</b>				
Revenue	566	566	1,080	1,080
Overall Growth	3%	3%	3%	3%
Constant Currency Growth		5%		6%
Organic Growth		3%		4%
Operating Income	70	79	124	141
Operating Margin	12.4%	14.0%	11.5%	13.1%
<b>Applied Water</b>				
Revenue	366	366	699	699
Overall Growth	-1%	-1%	-1%	-1%
Constant Currency Growth		Flat		Flat
Organic Growth		Flat		Flat
Operating Income	51	54	90	96
Operating Margin	13.9%	14.8%	12.9%	13.7%

# KEY MESSAGES

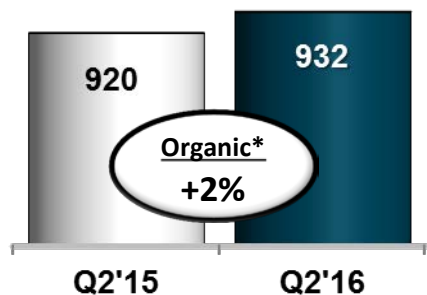
- **Solid 2<sup>nd</sup> Quarter Results driven by strong execution and continued stable/favorable market conditions**
- **Broad-based Public Utility growth, with 2<sup>nd</sup> consecutive quarter of 22% growth in the U.S., more than offsetting Industrial market headwinds**
- **Continued focus on Productivity and Business Simplification drives 100 bps Adj. Op Margin expansion and 12% Adj. Earnings growth**
- **Narrowing our full year Adj. Earnings guidance to \$2.00 to \$2.06, mid-point unchanged**

**SOLID 2Q RESULTS ...  
ON TRACK TO DELIVER ON OUR FINANCIAL COMMITMENTS**

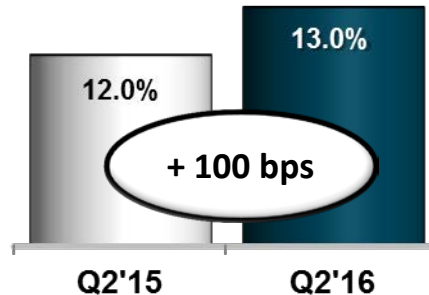
# Q2'16 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

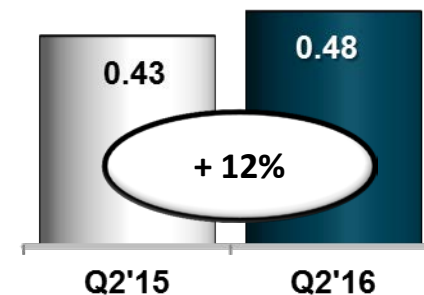
## REVENUE



## ADJ. OP MARGIN\*



## ADJ. EPS\*



### Key Organic Growth Drivers

+ Public Utility	+15%
+ Commercial	+2%
- Industrial	-6%
- Residential	-4%
- Agriculture	-7%

### Organic Growth by Region

+ W. Europe	+7%
+ Emerging	+1%
= U.S.	Flat
- Canada	-9%

### Key Performance Drivers

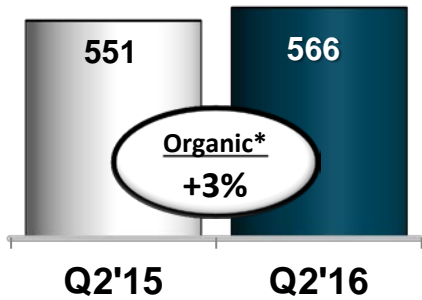
- Organic growth in-line with expectations
- Strong execution drives 100 bps Adj. Op Margin expansion
  - Vol/price/mix/other: Op Margin: +60 bps EPS: +0.03
  - Cost reductions: Op Margin: +320 bps EPS: +\$0.13
  - Cost inflation: Op Margin: -170 bps EPS: -\$0.07
  - Investments: Op Margin: -90 bps EPS: -\$0.04
  - Acquisitions: Op Margin: -20 bps EPS: \$0.00
- Other: Tax Rate 20.9% Share Count 179.9M

**STRONG MARGIN PERFORMANCE DRIVES 12% EARNINGS GROWTH**

# Q2'16 WATER INFRASTRUCTURE PERFORMANCE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Transport +3%
- + Treatment +6%
- Test -1%

#### By Regions

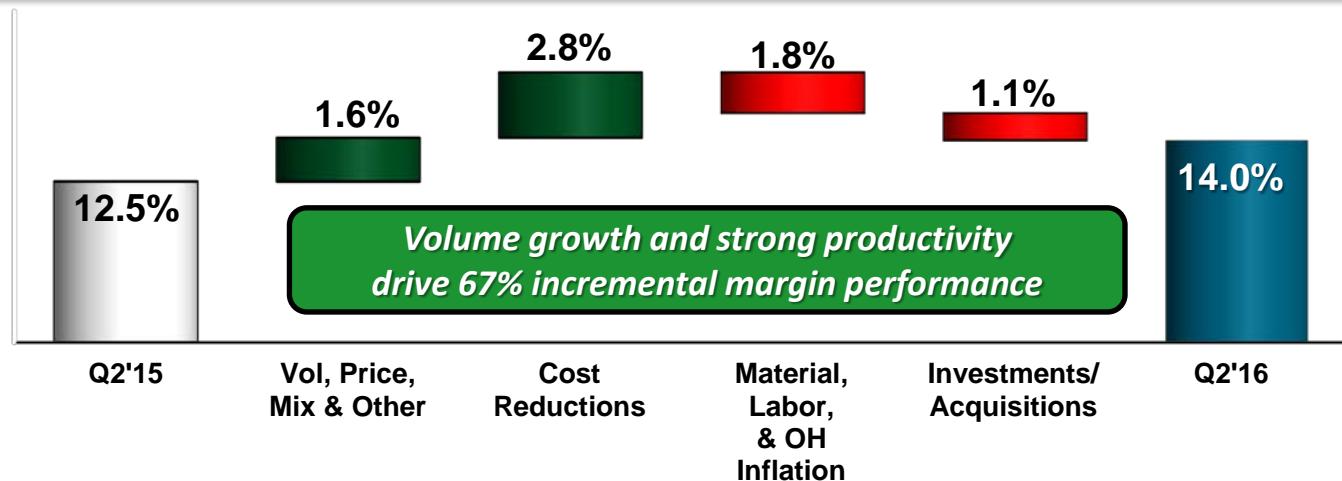
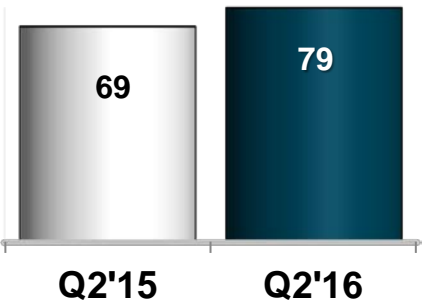
- + U.S. +5%
- + W. Europe +4%
- + Emerging +4%
- Canada -22%

### Highlights

- + Organic growth in-line with expectations, reflecting 1Q project deliveries and accelerated maintenance activity
- + Strong Public Utility growth (+15%); U.S. up 22% (2<sup>nd</sup> consecutive qtr); strength across all key regions
- + Emerging Market growth driven by infrastructure investment growth in Middle East, India and Laos
- Industrial down due to expected O&G and Mining weakness; soft capex spend / project environment

## ADJ. OP INCOME\*

(Dollars, In Millions)

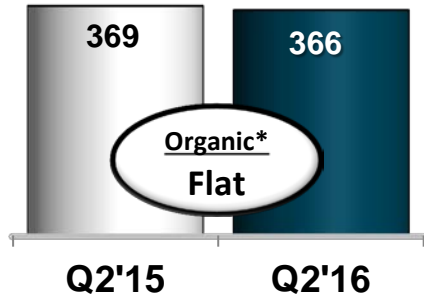


**PUBLIC UTILITY STRENGTH MORE THAN OFFSETS INDUSTRIAL SOFTNESS, EXECUTION AND PRODUCTIVITY DRIVE 150 BPS MARGIN EXPANSION**

# Q2'16 APPLIED WATER PERFORMANCE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Ind'l Water +1%
- = Bldg Svcs Flat
- Irrigation -7%

#### By Regions

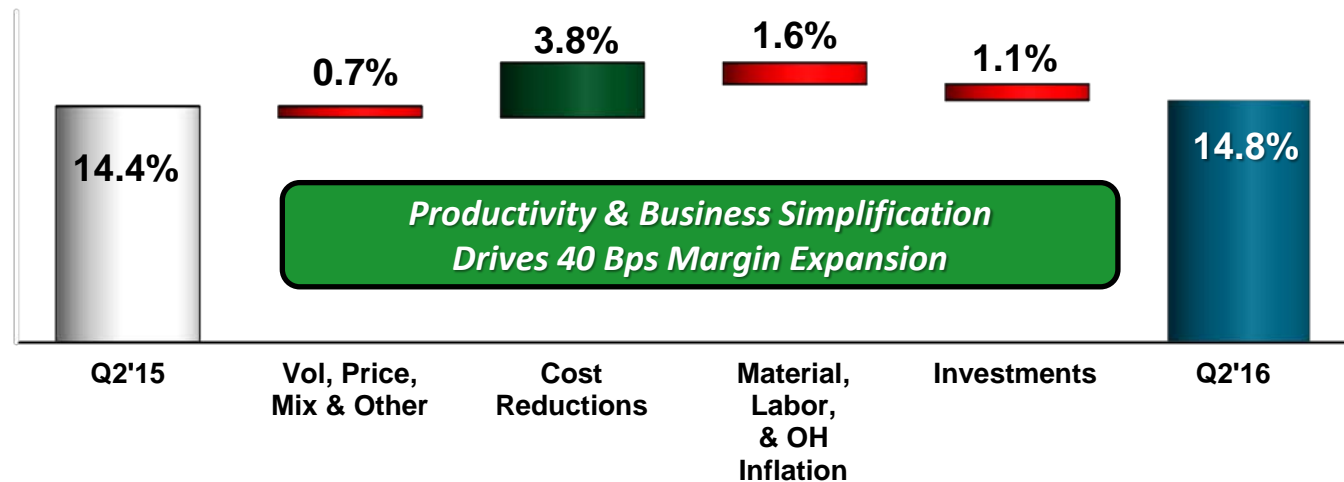
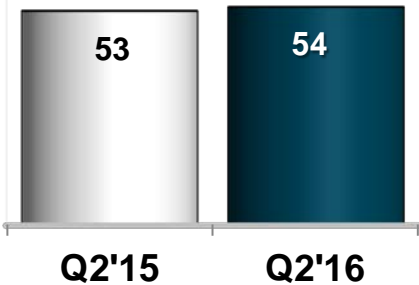
- + W. Europe +14%
- U.S. -5%
- Emerging -5%

### Highlights

- + New products and investment in sales channel capability continue to drive share gains in Industrial & Commercial markets across Western Europe
- U.S. down, primarily reflecting continued softness in Industrial markets, and weakness in Comm'l/Resi Bldg services
- Emerging Markets decline primarily due to expected continued weakness in Comm'l and Ind'l markets in China

## ADJ. OP INCOME\*

(Dollars, In Millions)

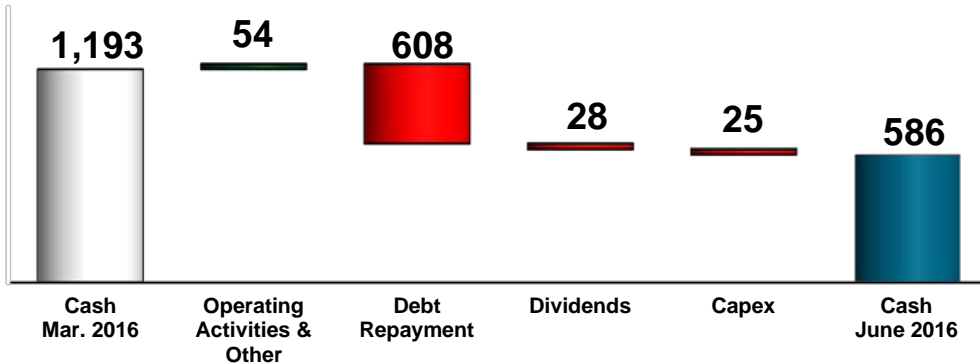


**SOLID OPERATING PERFORMANCE DESPITE MIXED MARKET CONDITIONS**

# XYLEM FINANCIAL POSITION

(Dollars, In Millions)

## CASH DRIVERS

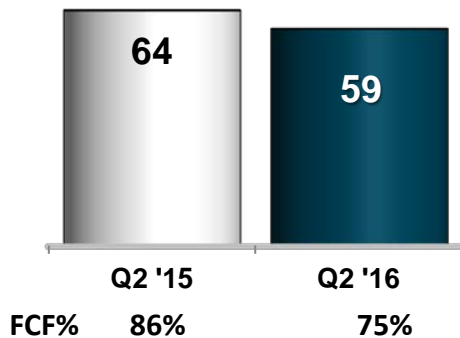


## CAPITAL SUMMARY

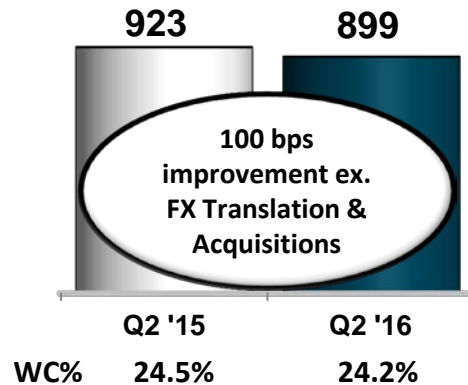
June 30, 2016

Cash	586
Debt	1,234
Net Debt	648
Shareholders' Equity	2,174
Net Capital	2,822
Net Debt to Net Capital	23%

## FREE CASH FLOW \*



## WORKING CAPITAL

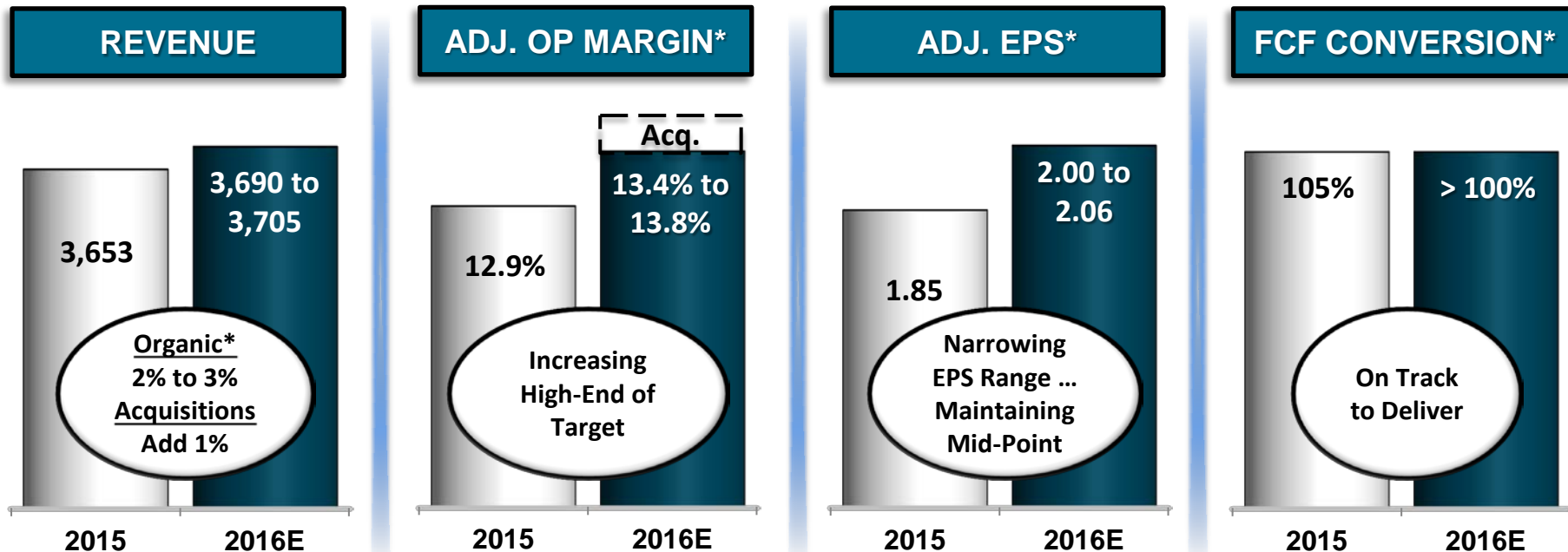


- Strong Cash position
- Investment grade credit (BBB/Baa2)
- \$600M Sr. Notes due in Sept. 2016 redeemed in April 2016
- Year-over-year increase in growth investments drives decline in FCF
- Improved Working Capital



# 2016 OUTLOOK UPDATE

(Dollars, In Millions, except EPS)








## Update Summary

- Anticipating Organic Growth of 2% to 3% (previously 2% to 4%)
- Expecting Adj. Operating Margin in the range of 13.4% to 13.8% (previously 13.4% to 13.7%)
- Narrowing Adj. EPS range to \$2.00 to \$2.06, while maintaining mid-point of \$2.03 (previously \$1.98 to \$2.08)
- On track to deliver >100% FCF conversion, no change in cash generation outlook

## NARROWING EPS GUIDANCE

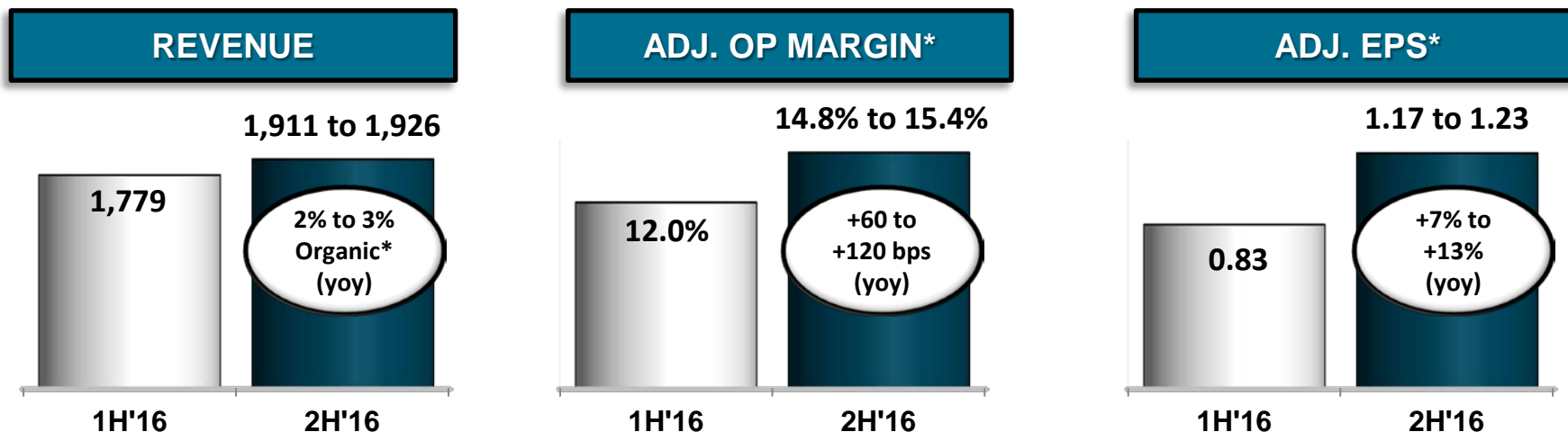
# 2016 OUTLOOK

Key End Markets		1H'16 Actual	FY'16 Outlook	Key 2H Assumptions
	<b>Industrial</b> (44% of '15 Revenue)	-3%	Flat	<ul style="list-style-type: none"> <li>• 2H: Up low-single digits</li> <li>• Positive light/general industrial growth, partially offset by O&amp;G and Mining headwinds</li> </ul>
	<b>Public Utility</b> (33% of '15 Revenue)	+13%	Up High Single Digits	<ul style="list-style-type: none"> <li>• 2H: Up mid-single digits</li> <li>• Continued strength in U.S. and Western Europe vs. tougher comps</li> </ul>
	<b>Commercial</b> (14% of '15 Revenue)	+3%	Up Mid Single Digits	<ul style="list-style-type: none"> <li>• 2H: Up mid-single digits</li> <li>• Stable U.S. market conditions</li> <li>• New products continue to drive growth in Europe</li> </ul>
	<b>Residential</b> (7% of '15 Revenue)	-5%	Down Mid Single Digits	<ul style="list-style-type: none"> <li>• 2H: Down low-to-mid single digits</li> <li>• Challenging market conditions continue across developed markets</li> </ul>
	<b>Agriculture</b> (2% of '15 Revenue)	-5%	Down Mid Single Digits	<ul style="list-style-type: none"> <li>• 2H: Flat-to-down low single digits</li> <li>• Easier 2H Comps</li> </ul>

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

# 2H'16 OUTLOOK

(Dollars In Millions, except EPS)



## Key Planning Assumptions

- **2H Revenue in-line with historical seasonal profile**
  - 2H Revenue: Organic 2% to 3%; Acquisitions add ~1%
  - 3Q Overall Revenue down sequentially (~3%) vs. 2Q
  - FX: Euro Rate: \$1.11; GBP: \$1.30
- **2H Op Income profile in-line with historic seasonal profile**
  - Volume, improved mix and ramp in productivity drives 60 to 120 bps of 2H margin expansion
  - 3Q'16 Op Margin (yoy) increase of 50 to 100 bps

<b>Other Assumptions:</b>	<b>1H'16</b>	<b>2H'16</b>
Tax Rate:	21%	~20%
Share Count:	179.6	~180.0
Corporate Expense:	24	~25
Rest. & Realignment Costs:	20	~5
Dividends	56	~65
Capex	62	~60 to 70

**SOLID 1H PERFORMANCE ... FOCUSED ON 2H EXECUTION**

# SUMMARY

- **Strong 2Q performance**
  - *3% growth in Constant Currency\*, including 1% contribution from Acquisitions*
  - *2% Organic\* Revenue growth, in-line with our previous guidance*
  - *Strong execution & business simplification drives Adj. Op Margin\* up 100 bps*
  - *Adj. EPS\* up 12% ... reflecting better than expected margin performance*
- **Narrowing our full year earnings guidance**
  - *Anticipating Organic\* Revenue growth in the range of 2% to 3%*
  - *Expecting Adj. Operating Margin in the range of 13.4% to 13.8%*
  - *Maintaining Adj. EPS\* mid-point of \$2.03, narrowing range to \$2.00 to \$2.06*
  - *On track to deliver >100% free cash flow conversion*
  - *Focused on driving disciplined capital deployment strategy and working capital improvement*

# APPENDIX

# 2016 OUTLOOK

## Foreign Exchange Transaction

- Hedge up to 75% of net cash flows on a rolling twelve-month basis for 7 largest currency exposures
- Hedge balance sheet mark-to-market on a monthly basis with currency forward instruments
- Include foreign currency transaction impacts as part of “Operational Performance”

## Foreign Exchange Translation

- Table below illustrates the impact of FX fluctuations on Xylem’s reported results

\* Reflects impact on 2H results. Increase in rate would have inverse impact on results.

Currency Exchange	2015 Average Rate	Prior Guidance Rate	1H'16 Average Rate	2H'16 Guidance Update	FY'16 Revenue Impact (YOY)	FY'16 Op Income Impact (YOY)	Revenue Impact of 5% Decrease*	EPS Impact of 5% Decrease*
Euro	1.11	1.10	1.12	1.11	-	~ \$(4)	~ \$(18)	~ \$(0.04)
SEK	0.119	0.117	0.120	0.120	~ \$2		~ \$(3)	~ \$0.01
GBP	1.53	1.45	1.43	1.30	~ \$(27)		~ \$(6)	N.M.
AUD	0.755	0.704	0.734	0.719	~ \$(4)		~ \$(3)	
CAD	0.787	0.704	0.751	0.762	~ \$(4)		~ \$(3)	
All Others	N/A	N/A	N/A	N/A	~ \$(37)		~ \$(13)	
<b>Total</b>					~ \$(70)	~ \$(4)		

**FX TRANSLATION IMPACT UPDATE REFLECTS STRONGER EURO**

## 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 related costs, 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	
<b><u>Six Months Ended June 30</u></b>									
Xylem Inc.	1,811	1,859	(48)	-3%	(14)	44	(18)	-1%	0%
Water Infrastructure	1,096	1,147	(51)	-4%	(14)	35	(30)	-3%	-1%
Applied Water	715	712	3	0%	-	9	12	2%	2%
<b><u>Quarter Ended June 30</u></b>									
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%
<b><u>Quarter Ended March 31</u></b>									
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	Revenue	Change	% Change	Acquisitions /	FX Contribution	Change	% Change			
2016	2015	2016 v. 2015	2016 v. 2015	Divestitures		Adj. 2016 v. 2015	Adj. 2016 v. 2015				
<b><u>Six Months Ended June 30</u></b>											
Xylem Inc.	1,779	1,757	22	1%	(17)	40	45	3%		4%	
Water Infrastructure	1,080	1,051	29	3%	(17)	32	44	4%		6%	
Applied Water	699	706	(7)	-1%	-	8	1	0%		0%	
<b><u>Quarter Ended June 30</u></b>											
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%	
<b><u>Quarter Ended March 31</u></b>											
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)

	<b>Q1</b>		<b>Q2</b>		<b>YTD</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Total Revenue						
• Total Xylem	847	837	932	920	1,779	1,757
• Water Infrastructure	514	500	566	551	1,080	1,051
• Applied Water	333	337	366	369	699	706
Operating Income						
• Total Xylem	79	83	109	104	188	187
• Water Infrastructure	54	47	70	65	124	112
• Applied Water	39	46	51	51	90	97
• Total Segments	93	93	121	116	214	209
Operating Margin						
• Total Xylem	9.3%	9.9%	11.7%	11.3%	10.6%	10.6%
• Water Infrastructure	10.5%	9.4%	12.4%	11.8%	11.5%	10.7%
• Applied Water	11.7%	13.6%	13.9%	13.8%	12.9%	13.7%
• Total Segments	11.0%	11.1%	13.0%	12.6%	12.0%	11.9%
Special Charges						
• Total Xylem	4	1	1	-	5	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	20	12
• Water Infrastructure	4	5	8	4	12	9
• Applied Water	3	1	3	2	6	3
• Total Segments	7	6	11	6	18	12
Adjusted Operating Income*						
• Total Xylem	92	90	121	110	213	200
• Water Infrastructure	62	53	79	69	141	122
• Applied Water	42	47	54	53	96	100
• Total Segments	104	100	133	122	237	222
Adjusted Operating Margin*						
• Total Xylem	10.9%	10.8%	13.0%	12.0%	12.0%	11.4%
• Water Infrastructure	12.1%	10.6%	14.0%	12.5%	13.1%	11.6%
• Applied Water	12.6%	13.9%	14.8%	14.4%	13.7%	14.2%
• Total Segments	12.3%	11.9%	14.3%	13.3%	13.3%	12.6%

\*Adjusted Operating Income excludes restructuring & realignment costs and special charges, which consisted of initial acquisition costs and other acquisition related charges in 2016 and other special non-operating items in 2015.

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

	Q2 2016			Q2 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	932		932	920		920
Operating Income	109	12 a	121	104	6 a	110
Operating Margin	11.7%		13.0%	11.3%		12.0%
Interest Expense	(20)	8 b	(12)	(14)		(14)
Other Non-Operating Income (Expense)	1		1	1	1 b	2
Income before Taxes	90	20	110	91	7	98
Provision for Income Taxes	(19)	(4) c	(23)	(17)	(3) c	(20)
Net Income	71	16	87	74	4	78
Diluted Shares	179.9		179.9	182.3		182.3
<b>Diluted EPS</b>	<b>\$ 0.39</b>	<b>\$ 0.09</b>	<b>\$ 0.48</b>	<b>\$ 0.41</b>	<b>\$ 0.02</b>	<b>\$ 0.43</b>

	Q2 YTD 2016			Q2 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,779		1,779	1,757		1,757
Operating Income	188	25 a	213	187	13 a	200
Operating Margin	10.6%		12.0%	10.6%		11.4%
Interest Expense	(34)	8 b	(26)	(28)		(28)
Other Non-Operating Income (Expense)	1		1	-	2 b	2
Gain from sale of businesses	-		-	9	(9)	-
Income before Taxes	155	33	188	168	6	174
Provision for Income Taxes	(18)	(21) c	(39)	(30)	(6) c	(36)
Net Income	137	12	149	138	-	138
Diluted Shares	179.6		179.6	182.7		182.7
<b>Diluted EPS</b>	<b>\$ 0.76</b>	<b>\$ 0.07</b>	<b>\$ 0.83</b>	<b>\$ 0.76</b>	<b>\$ -</b>	<b>\$ 0.76</b>

- a Restructuring & realignment costs of \$11 million and \$6 million in the second quarter of 2016 and 2015, respectively, and special charges of \$1 million of initial acquisition costs in the second quarter of 2016. Restructuring & realignment costs of \$20 million and \$12 million in the first half of 2016 and 2015, respectively, and special charges of \$5 million of initial acquisition costs and \$1 million of other special charges in the first half of 2016 and 2015, respectively.
- b Special charges consisting of \$8 million of costs related to the early extinguishment of debt for the second quarter and first half of 2016, and \$1 million and \$2 million of other special charges for the second quarter and first half of 2015, respectively.
- c Net tax impact on restructuring & realignment costs of \$3 million and \$1 million and on special charges of \$4 million and \$0 million, and tax-related special items of \$3 million of benefit and \$2 million of expense for the second quarter of 2016 and 2015, respectively. Net tax impact on restructuring & realignment costs of \$5 million and \$3 million and on special charges of \$5 million and \$0 million, and tax-related special charges of \$11 million and \$3 million for the first half of 2016 and 2015, respectively.

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

	Q1		Q2		Six Months Ended	
	2016	2015	2016	2015	2016	2015
<b>Net Cash - Operating Activities</b>	\$ 41	\$ 39	\$ 84	\$ 84	\$ 125	\$ 123
Capital Expenditures	(37)	(37)	(25)	(20)	(62)	(57)
<b>Free Cash Flow</b>	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 59</u>	<u>\$ 64</u>	<u>\$ 63</u>	<u>\$ 66</u>
Net Income	66	64	71	74	137	138
Gain from sale of businesses	-	9	-	-	-	9
Special Charges - Interest	-	-	(8)	-	(8)	-
<b>Net Income, excluding gain on sale of businesses and Special Charges - Interest</b>	<u>\$ 66</u>	<u>\$ 55</u>	<u>\$ 79</u>	<u>\$ 74</u>	<u>\$ 145</u>	<u>\$ 129</u>
<b>Free Cash Flow Conversion</b>	<u>6%</u>	<u>4%</u>	<u>75%</u>	<u>86%</u>	<u>43%</u>	<u>51%</u>

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

	<b>2016</b>				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	65	90			155
Interest Expense (Income), net	14	19			33
Depreciation	20	21			41
Amortization	12	12			24
Stock Compensation	5	5			10
EBITDA	<u>116</u>	<u>147</u>	-	-	<u>263</u>
Restructuring & Realignment	9	11			20
Special Charges	4	9			13
Adjusted EBITDA	<u>129</u>	<u>167</u>	-	-	<u>296</u>
Revenue	<u>847</u>	<u>932</u>			<u>1,779</u>
Adjusted EBITDA Margin	<u>15.2%</u>	<u>17.9%</u>			<u>16.6%</u>
	<b>2015</b>				
	<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			124
Interest Expense (Income), net	-	-			-
Depreciation	12	12			24
Amortization	10	9			19
Stock Compensation	1	-			1
EBITDA	77	91	-	-	168
Restructuring & Realignment	4	8			12
Special Charges	4	1			5
Adjusted EBITDA	85	100	-	-	185
Revenue	514	566			1,080
Adjusted EBITDA Margin	16.5%	17.7%			17.1%
	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

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			90
Interest, net	-	-			-
Depreciation	5	5			10
Amortization	1	1			2
Stock Compensation	-	1			1
EBITDA	44	59	-	-	103
Restructuring & Realignment	3	3			6
Adjusted EBITDA	47	62	-	-	109
Revenue	333	366			699
Adjusted EBITDA Margin	14.1%	16.9%			15.6%
	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)

	<b>YTD</b>
	<b>2015</b>
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%

\*Adjusted Operating Income excludes restructuring & realignment costs and special charges.

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

	<b>Q4 YTD 2015</b>		
	<b>As Reported</b>	<b>Adjustments</b>	<b>Adjusted</b>
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
<b>Diluted EPS</b>	<b>\$ 1.87</b>	<b>\$ (0.02)</b>	<b>\$ 1.85</b>
Year-over-year currency translation impact on current year diluted EPS	\$ (0.22)	\$ -	\$ (0.22)
<b>Diluted EPS at Constant Currency</b>	<b>\$ 2.09</b>	<b>\$ (0.02)</b>	<b>\$ 2.07</b>

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)

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

# xylem

## Let's Solve Water

NYSE: XYL

**Phil De Sousa, VP, Investor Relations**  
**(914) 323-5930**

**Matt Latino, Manager, Investor Relations**  
**(914) 323-5821**

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

<http://investors.xyleminc.com>

You may scan the QR code for direct access to the Xylem IR app for iPad® mobile devices.



Apple and iPad are registered trademarks of Apple Inc. ®