UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 1-35229

Xylem Inc.

(Exact name of registrant as specified in its charter)

Indiana	**45-2080495**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1 International Drive, Rye Brook, NY 10573
(Address of principal executive offices) (Zip code)

(914) 323-5700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange of which registered
Common Stock, par value $0.01 per share	XYL	New York Stock Exchange
2.250% Senior Notes due 2023	XYL23	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	◻
Non-accelerated filer	◻	Smaller reporting company	◻
		Emerging growth company	◻

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of July 30, 2021, there were 180,162,994 outstanding shares of the registrant’s common stock, par value $0.01 per share.

Xylem Inc.

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PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)
(in millions, except per share data)

	Three Months		Six Months	
For the period ended June 30,	**2021**	2020	**2021**	2020
Revenue	**$ 1,351**	$ 1,160	**$ 2,607**	$ 2,283
Cost of revenue	**831**	726	**1,597**	1,440
Gross profit	**520**	434	**1,010**	843
Selling, general and administrative expenses	**304**	288	**605**	585
Research and development expenses	**53**	44	**103**	93
Restructuring and asset impairment charges	**3**	48	**9**	50
Operating income	**160**	54	**293**	115
Interest expense	**21**	18	**42**	34
Other non-operating expense, net	**(3)**	(1)	**(1)**	(4)
Gain from sale of business	**2**	—	**2**	—
Income before taxes	**138**	35	**252**	77
Income tax expense	**25**	4	**52**	8
Net income	**$ 113**	$ 31	**$ 200**	$ 69
Earnings per share:				
Basic	**$ 0.63**	$ 0.17	**$ 1.11**	$ 0.38
Diluted	**$ 0.62**	$ 0.17	**$ 1.10**	$ 0.38
Weighted average number of shares:				
Basic	**180.1**	180.0	**180.2**	180.1
Diluted	**181.3**	180.6	**181.4**	181.0

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in millions)

For the period ended June 30,	Three Months 2021	Three Months 2020	Six Months 2021	Six Months 2020
Net income	**$ 113**	$ 31	**$ 200**	$ 69
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustment	**19**	35	**29**	(43)
Net change in derivative hedge agreements:				
Unrealized gain (loss)	**4**	6	**(7)**	4
Amount of loss (gain) reclassified into net income	**1**	—	**(2)**	3
Net change in post-retirement benefit plans:				
Amortization of prior service credit	**—**	(1)	**(1)**	(2)
Amortization of net actuarial loss into net income	**5**	5	**11**	10
Other comprehensive income (loss), before tax	**29**	45	**30**	(28)
Income tax expense (benefit) related to items of other comprehensive income (loss)	**1**	(7)	**15**	7
Other comprehensive income (loss), net of tax	**28**	52	**15**	(35)
Comprehensive income	**$ 141**	$ 83	**$ 215**	$ 34
Less: comprehensive loss attributable to noncontrolling interests	**—**	—	**—**	(1)
Comprehensive income attributable to Xylem	**$ 141**	$ 83	**$ 215**	$ 35

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in millions, except per share amounts)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,840**	$ 1,875
Receivables, less allowances for discounts, returns and credit losses of $41 and $46 in 2021 and 2020, respectively	**975**	923
Inventories	**642**	558
Prepaid and other current assets	**166**	167
Total current assets	**3,623**	3,523
Property, plant and equipment, net	**626**	657
Goodwill	**2,841**	2,854
Other intangible assets, net	**1,058**	1,093
Other non-current assets	**637**	623
Total assets	**$ 8,785**	$ 8,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 599**	$ 569
Accrued and other current liabilities	**760**	787
Short-term borrowings and current maturities of long-term debt	**600**	600
Total current liabilities	**1,959**	1,956
Long-term debt	**2,466**	2,484
Accrued post-retirement benefits	**501**	519
Deferred income tax liabilities	**264**	242
Other non-current accrued liabilities	**546**	573
Total liabilities	**5,736**	5,774
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common Stock – par value $0.01 per share:		
Authorized 750.0 shares, issued 195.3 shares and 194.9 shares in 2021 and 2020, respectively	**2**	2
Capital in excess of par value	**2,063**	2,037
Retained earnings	**2,029**	1,930
Treasury stock – at cost 15.2 shares and 14.5 shares in 2021 and 2020, respectively	**(656)**	(588)
Accumulated other comprehensive loss	**(398)**	(413)
Total stockholders' equity	**3,040**	2,968
Non-controlling interests	**9**	8
Total equity	**3,049**	2,976
Total liabilities and stockholders' equity	**$ 8,785**	$ 8,750

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in millions)

For the six months ended June 30,	**2021**	2020
Operating Activities		
Net income	**$ 200**	$ 69
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**59**	58
Amortization	**65**	68
Share-based compensation	**17**	16
Restructuring and asset impairment charges	**9**	50
Gain from sale of business	**(2)**	—
Other, net	**6**	18
Payments for restructuring	**(18)**	(12)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	**(66)**	48
Changes in inventories	**(89)**	(63)
Changes in accounts payable	**36**	(86)
Other, net	**(11)**	13
Net Cash – Operating activities	**206**	179
Investing Activities		
Capital expenditures	**(80)**	(95)
Proceeds from sale of business	**2**	—
Other, net	**9**	7
Net Cash – Investing activities	**(69)**	(88)
Financing Activities		
Short-term debt issued, net	**—**	359
Short-term debt repaid	**—**	(422)
Long-term debt issued, net	**—**	987
Repurchase of common stock	**(68)**	(60)
Proceeds from exercise of employee stock options	**9**	5
Dividends paid	**(102)**	(95)
Other, net	**(1)**	—
Net Cash – Financing activities	**(162)**	774
Effect of exchange rate changes on cash	**(10)**	(12)
Net change in cash and cash equivalents	**(35)**	853
Cash and cash equivalents at beginning of year	**1,875**	724
Cash and cash equivalents at end of period	**$ 1,840**	$ 1,577
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ 58**	$ 45
Income taxes (net of refunds received)	**$ 60**	$ 11

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Background and Basis of Presentation

Background

Xylem Inc. (“Xylem” or the “Company”) is a leading equipment and service provider for water and wastewater applications with a broad portfolio of products and services addressing the full cycle of water, from collection, distribution and use to the return of water to the environment.

Xylem operates in three segments, Water Infrastructure, Applied Water and Measurement & Control Solutions. See Note 17, "Segment Information", to the condensed consolidated financial statements for further segment background information.

Except as otherwise indicated or unless the context otherwise requires, "Xylem," "we," "us," "our" and the "Company" refer to Xylem Inc. and its subsidiaries.

Basis of Presentation

The interim condensed consolidated financial statements reflect our financial position and results of operations in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany transactions between our businesses have been eliminated.

The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) considered necessary for a fair statement of the financial position and results of operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Annual Report") in preparing these unaudited condensed consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes included in our 2020 Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are revised as additional information becomes available. Estimates and assumptions are used for, but not limited to, post-retirement obligations and assets, revenue recognition, income taxes, valuation of intangible assets, goodwill and indefinite-lived intangible impairment testing and contingent liabilities. Actual results could differ from these estimates. The global outbreak of the novel coronavirus ("COVID-19") disease in March 2020, declared a pandemic by the World Health Organization, has created significant global volatility, uncertainty and economic disruption. The COVID-19 pandemic also has caused increased uncertainty in estimates and assumptions affecting the condensed consolidated financial statements. Actual results could differ from these estimates.

Our quarterly financial periods end on the Saturday closest to the last day of the calendar quarter, except for the fourth quarter which ends on December 31. For ease of presentation, the condensed consolidated financial statements included herein are described as ending on the last day of the calendar quarter.

Note 2. Revenue

Disaggregation of Revenue

The following table illustrates the sources of revenue:

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Revenue from contracts with customers	**$ 1,302**	$ 1,114	**$ 2,513**	$ 2,188
Lease Revenue	**49**	46	**94**	95
Total	**$ 1,351**	$ 1,160	**$ 2,607**	$ 2,283

The following table reflects revenue from contracts with customers by application. The table below also reflects updates to the aggregation of applications to simplify and focus presentation.

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Water Infrastructure				
Transport	**$ 414**	$ 350	**$ 784**	$ 668
Treatment	**106**	105	**200**	176
Applied Water				
Commercial Building Services	**155**	133	**302**	270
Residential Building Services	**73**	54	**140**	104
Industrial Water	**186**	150	**365**	301
Measurement & Control Solutions				
Water	**288**	240	**571**	505
Energy	**80**	82	**151**	164
Total	**$ 1,302**	$ 1,114	**$ 2,513**	$ 2,188

The following table reflects revenue from contracts with customers by geographical region. The presentation of geographic regions below has been updated to better align to how management currently focuses on revenue and growth platforms by geographic region. There has been no change to the Company's reportable segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Water Infrastructure				
United States	**$ 142**	$ 144	**$ 265**	$ 265
Western Europe	**190**	157	**363**	299
Emerging Markets (a)	**133**	109	**255**	195
Other	**55**	45	**101**	85
Applied Water				
United States	**202**	183	**396**	374
Western Europe	**99**	70	**191**	144
Emerging Markets (a)	**81**	61	**159**	111
Other	**32**	23	**61**	46
Measurement & Control Solutions				
United States	**224**	212	**437**	433
Western Europe	**69**	51	**143**	114
Emerging Markets (a)	**49**	39	**95**	80
Other	**26**	20	**47**	42
Total	**$ 1,302**	$ 1,114	**$ 2,513**	$ 2,188

(a) Emerging Markets revenue includes results from the following regions: Eastern Europe, the Middle East and Africa, Latin America and Asia Pacific (excluding Japan, Australia and New Zealand, which are presented in "Other")

Contract Balances

We receive payments from customers based on a billing schedule as established in our contracts. Contract assets relate to costs incurred to perform in advance of scheduled billings. Contract liabilities relate to payments received in advance of performance under the contracts. Changes in contract assets and liabilities are due to our performance under the contract.

The table below provides contract assets, contract liabilities, and significant changes in contract assets and liabilities:

(in millions)	Contract Assets (a)	Contract Liabilities
Balance at January 1, 2020	$ 106	$ 135
Additions, net	63	85
Revenue recognized from opening balance	—	(70)
Billings transferred to accounts receivable	(60)	—
Other	(2)	(4)
Balance at June 30, 2020	$ 107	$ 146
Balance at January 1, 2021	**$ 117**	**$ 166**
Additions, net	**78**	**99**
Revenue recognized from opening balance	**—**	**(93)**
Billings transferred to accounts receivable	**(74)**	**—**
Other	**—**	**(1)**
Balance at June 30, 2021	**$ 121**	**$ 171**

(a) Excludes receivable balances which are disclosed on the balance sheet

Performance obligations

Delivery schedules vary from customer to customer based upon their requirements. Typically, large projects require longer lead production cycles and delays can occur from time to time. As of June 30, 2021, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied for contracts with performance obligations, amount to $438 million. We expect to recognize the majority of revenue upon the completion of satisfying these performance obligations in the following 60 months. The Company elects to apply the practical expedient to exclude from this disclosure revenue related to performance obligations that are part of a contract whose original expected duration is less than one year.

Note 3. Restructuring and Asset Impairment Charges

Restructuring

From time to time, the Company will incur costs related to restructuring actions in order to optimize our cost base and more strategically position ourselves. During the three and six months ended June 30, 2021, we recognized restructuring charges of $3 million and $8 million, respectively, of which $2 million and $6 million relate to actions previously announced in 2020. These charges included reduction of headcount across all segments and asset impairments within our Measurement & Control Solutions segment.

In response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic, in June 2020 management committed to a restructuring plan that includes actions across our businesses and functions globally. The plan is designed to support our long-term financial resilience, simplify our operations, strengthen our competitive positioning and better serve our customers. During the three and six months ended June 30, 2020, we recognized restructuring charges of $38 million and $40 million, respectively. These charges included reduction of headcount across all segments and asset impairments within our Measurement & Control Solutions segment.

The following table presents the components of restructuring expense and asset impairment charges:

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
By component:				
Severance and other charges	**$ 4**	$ 21	**$ 8**	$ 23
Asset impairment	**—**	17	**1**	17
Reversal of restructuring accruals	**(1)**	—	**(1)**	—
Total restructuring charges	**$ 3**	$ 38	**$ 8**	$ 40
Asset impairment charges	**—**	10	**1**	10
Total restructuring and asset impairment charges	**$ 3**	$ 48	**$ 9**	$ 50
By segment:				
Water Infrastructure	**$ 3**	$ 6	**$ 7**	$ 8
Applied Water	**—**	2	**1**	2
Measurement & Control Solutions	**—**	40	**1**	40

The following table displays a roll-forward of the restructuring accruals, presented on our Condensed Consolidated Balance Sheets within "Accrued and other current liabilities" and "Other non-current accrued liabilities", for the six months ended June 30, 2021 and 2020:

(in millions)	2021	2020
Restructuring accruals - January 1	**$ 29**	$ 27
Restructuring charges	**8**	40
Cash payments	**(18)**	(12)
Asset impairment	**(1)**	(17)
Foreign currency and other	**—**	(1)
Restructuring accruals - June 30	**$ 18**	$ 37
By segment:		
Water Infrastructure	**$ 3**	$ 4
Applied Water	**1**	1
Measurement & Control Solutions	**11**	27
Regional selling locations (a)	**3**	4
Corporate and other	**—**	1

(a) Regional selling locations consist primarily of selling and marketing organizations and related support services that incurred restructuring expense which was allocated to the segments. The liabilities associated with restructuring expense were not allocated to the segments.

The following table presents expected restructuring spend in 2021 and thereafter:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2021:					
Total expected costs	$ 5	$ —	$ —	$ —	$ 5
Costs incurred during Q1 2021	1	—	—	—	1
Costs incurred during Q2 2021	1	—	—	—	1
Total expected costs remaining	**$ 3**	**$ —**	**$ —**	**$ —**	**$ 3**
Actions Commenced in 2020:					
Total expected costs	$ 25	$ 8	$ 33	$ 2	$ 68
Costs incurred during 2020	19	4	30	—	53
Costs incurred during Q1 2021	2	1	1	—	4
Costs incurred during Q2 2021	2	—	—	—	2
Total expected costs remaining	**$ 2**	**$ 3**	**$ 2**	**$ 2**	**$ 9**

The Water Infrastructure actions commenced in 2021 consist primarily of severance charges. These actions are expected to continue through the second quarter of 2022.

The Water Infrastructure, Applied Water, and Measurement & Control Solutions actions commenced in 2020 consist primarily of severance charges across segments and asset impairment charges in our Measurement & Control Solutions segment. These actions are expected to continue through the second quarter of 2022.

During the second quarter of 2020 the discontinuance of a product line resulted in $17 million of asset impairments, primarily related to customer relationships, trademarks and fixed assets within our Measurement & Control Solutions segment.

Asset Impairment

During the second quarter of 2020 we determined that internally developed in-process software within our Measurement & Control Solutions segment was impaired as a result of actions taken to prioritize strategic investments. Accordingly, we recognized an impairment charge of $10 million. Refer to Note 7, "Goodwill and Other Intangible Assets," for additional information.

Note 4. Income Taxes

Our quarterly provision for income taxes is measured using an estimated annual effective tax rate, adjusted for discrete items within periods presented. The comparison of our effective tax rate between periods is significantly impacted by the level and mix of earnings and losses by tax jurisdiction and discrete items.

The income tax provision for the three months ended June 30, 2021 was $25 million resulting in an effective tax rate of 18.5%, compared to a $4 million expense resulting in an effective tax rate of 10.9% for the same period in 2020. The income tax provision for the six months ended June 30, 2021 was $52 million resulting in an effective tax rate of 20.7%, compared to an $8 million expense resulting in an effective tax rate of 10.4% for the same period in 2020. The effective tax rate for the three and six month periods ended June 30, 2021 was lower than the U.S. federal statutory rate primarily due to favorable earnings mix, partially offset by the Global Intangible Low Taxed Income ("GILTI") inclusion. Additionally, the effective tax rate for the three and six month periods ended June 30, 2021 differ from the same periods in 2020 due to unfavorable earnings mix as compared to the prior year and favorable equity compensation deductions in the prior year. The effective tax rate for the six month period ended June 30, 2021 differs from the same period in 2020 due to the impact of tax settlements in the current period.

Unrecognized Tax Benefits

During 2019, Xylem's Swedish subsidiary received a tax assessment for the 2013 tax year related to the tax treatment of an intercompany transfer of certain intellectual property that was made in connection with a reorganization of our European businesses. The assessment asserts an aggregate amount of approximately $80 million for tax, penalties and interest. Xylem filed an appeal with the Administrative Court of Stockholm. Management, in consultation with external legal advisors, believes it is more likely than not that Xylem will prevail on the proposed assessment and is vigorously defending our position through litigation. As of June 30, 2021, we have not recorded any unrecognized tax benefits related to this uncertain tax position.

Note 5. Earnings Per Share

The following is a reconciliation of the shares used in calculating basic and diluted net earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	**2021**	2020
Net income (in millions)	**$ 113**	$ 31	**$ 200**	$ 69
Shares (in thousands):				
Weighted average common shares outstanding	**180,072**	179,933	**180,162**	180,043
Add: Participating securities (a)	**34**	32	**24**	29
Weighted average common shares outstanding — Basic	**180,106**	179,965	**180,186**	180,072
Plus incremental shares from assumed conversions: (b)				
Dilutive effect of stock options	**897**	563	**845**	644
Dilutive effect of restricted stock units and performance share units	**346**	79	**380**	234
Weighted average common shares outstanding — Diluted	**181,349**	180,607	**181,411**	180,950
Basic earnings per share	**$ 0.63**	$ 0.17	**$ 1.11**	$ 0.38
Diluted earnings per share	**$ 0.62**	$ 0.17	**$ 1.10**	$ 0.38

(a) Restricted stock unit awards containing rights to non-forfeitable dividends that participate in undistributed earnings with common shareholders are considered participating securities for purposes of computing earnings per share.

(b) Incremental shares from stock options, restricted stock units and performance share units are computed by the treasury stock method. The weighted average shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented or were otherwise excluded under the treasury stock method. The treasury stock method calculates dilution assuming the exercise of all in-the-money options and vesting of restricted stock units and performance share units, reduced by the repurchase of shares with the proceeds from the assumed exercises and unrecognized compensation expense for outstanding awards. Performance share units will be included in the treasury stock calculation of diluted earnings per share upon achievement of underlying performance or market conditions at the end of the reporting period. See Note 13, "Share-Based Compensation Plans", to the condensed consolidated financial statements for further detail on the performance share units.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2021**	2020	**2021**	2020
Stock options	**1,227**	1,766	**1,238**	1,567
Restricted stock units	**318**	441	**302**	377
Performance share units	**345**	313	**349**	299

Note 6. Inventories

The components of total inventories are summarized as follows:

(in millions)	June 30, 2021	December 31, 2020
Finished goods	**$ 244**	$ 221
Work in process	**62**	49
Raw materials	**336**	288
Total inventories	**$ 642**	$ 558

Note 7. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2021 are as follows:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Balance as of January 1, 2021	$ 668	$ 529	$ 1,657	$ 2,854
Activity in 2021				
Foreign currency and other	—	(5)	(8)	(13)
Balance as of June 30, 2021	**$ 668**	**$ 524**	**$ 1,649**	**$ 2,841**

As of June 30, 2021, goodwill included an accumulated impairment loss of $206 million within the Measurement & Control Solutions segment.

Other Intangible Assets

Information regarding our other intangible assets is as follows:

	June 30, 2021			December 31, 2020		
(in millions)	Carrying Amount	Accumulated Amortization	Net Intangibles	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	**$ 941**	**$ (436)**	**$ 505**	$ 941	$ (410)	$ 531
Proprietary technology and patents	**206**	**(138)**	**68**	206	(131)	75
Trademarks	**143**	**(68)**	**75**	143	(63)	80
Software	**523**	**(284)**	**239**	500	(265)	235
Other	**21**	**(19)**	**2**	21	(18)	3
Indefinite-lived intangibles	**169**	**—**	**169**	169	—	169
Other Intangibles	**$ 2,003**	**$ (945)**	**$ 1,058**	$ 1,980	$ (887)	$ 1,093

Amortization expense related to finite-lived intangible assets was $33 million and $65 million for the three and six month periods ended June 30, 2021, respectively, and $33 million and $68 million for the three and six month periods ended June 30, 2020, respectively.

During the second quarter of 2020, we recognized impairment charges of $16 million primarily related to customer relationships and trademarks due to discontinuance of a product line within our Measurement & Control Solutions segment. We also determined that internally developed in-process software within our Measurement & Control Solutions segment was impaired as a result of actions taken to prioritize strategic investments and recognized an impairment charge of $10 million.

Note 8. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions, and we principally manage our exposures to these risks through management of our core business activities. Certain of our foreign operations expose us to fluctuations of foreign interest rates and exchange rates that may impact revenue, expenses, cash receipts, cash payments, and the value of our stockholders' equity. We enter into derivative financial instruments to protect the value or fix the amount of certain cash flows in terms of the functional currency of the business unit with that exposure and also reduce the volatility in stockholders' equity.

Cash Flow Hedges of Foreign Exchange Risk

We are exposed to fluctuations in various foreign currencies against our functional currencies. We use foreign currency derivatives, including currency forward agreements, to manage our exposure to fluctuations in the various exchange rates. Currency forward agreements involve fixing the foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date.

Certain business units with exposure to foreign currency exchange risks have designated certain currency forward agreements as cash flow hedges of forecasted intercompany inventory purchases and sales. Our principal currency exposures relate to the Euro, Swedish Krona, British Pound, Canadian Dollar, Polish Zloty and Australian Dollar. We had foreign exchange contracts with purchased notional amounts totaling $270 million and $0 million as of June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021, our most significant foreign currency derivatives included contracts to sell U.S. Dollar and purchase Euro, purchase Swedish Krona and sell Euro, sell British Pound and purchase Euro, purchase Polish Zloty and sell Euro, purchase U.S. Dollar and sell Canadian Dollar, and to sell Canadian Dollar and purchase Euro. The purchased notional amounts associated with these currency derivatives are $97 million, $88 million, $36 million, $14 million, $13 million and $12 million, respectively.

Hedges of Net Investments in Foreign Operations

We are exposed to changes in foreign currencies impacting our net investments held in foreign subsidiaries.

Cross-Currency Swaps

Beginning in 2015, we entered into cross-currency swaps to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate. During the second quarter of 2019 and third quarter of 2020 we entered into additional cross-currency swaps. The total notional amount of derivative instruments designated as net investment hedges was $1,208 million and $1,249 million as of June 30, 2021 and December 31, 2020, respectively.

Foreign Currency Denominated Debt

On March 11, 2016, we issued 2.250% Senior Notes of €500 million aggregate principal amount due March 2023. We designated the entirety of the outstanding balance, or $591 million and $610 million as of June 30, 2021 and December 31, 2020, respectively, net of unamortized discount, as a hedge of a net investment in certain foreign subsidiaries.

The table below presents the effect of our derivative financial instruments on the Condensed Consolidated Income Statements and Statements of Comprehensive Income:

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash Flow Hedges				
Foreign Exchange Contracts				
Amount of (loss) gain recognized in OCI	**$ 4**	$ 6	**$ (7)**	$ 4
Amount of (gain) loss reclassified from OCI into revenue	**1**	(1)	**(1)**	1
Amount of (gain) loss reclassified from OCI into cost of revenue	**—**	1	**(1)**	2
Net Investment Hedges				
Cross-Currency Swaps				
Amount of gain (loss) recognized in OCI	**$ 2**	$ (22)	**$ 32**	$ 23
Amount of income recognized in Interest Expense	**5**	5	**$ 10**	$ 9
Foreign Currency Denominated Debt				
Amount of gain (loss) recognized in OCI	**$ (6)**	$ (15)	**$ 20**	$ (5)

As of June 30, 2021, $6 million of net losses on cash flow hedges are expected to be reclassified into earnings in the next 12 months.

As of June 30, 2021, no gains or losses on the net investment hedges are expected to be reclassified into earnings over their duration.

The fair values of our derivative assets and liabilities are measured on a recurring basis using Level 2 inputs and are determined through the use of models that consider various assumptions including yield curves, time value and other measurements.

The fair values of our derivative contracts currently included in our hedging program were as follows:

(in millions)	June 30, 2021	December 31, 2020
Derivatives designated as hedging instruments		
Liabilities		
Cash Flow Hedges		
Other current liabilities	**$ (5)**	$ —
Net Investment Hedges		
Other non-current accrued liabilities	**$ (82)**	$ (117)

The fair value of our long-term debt, due in 2023, designated as a net investment hedge was $614 million and $640 million as of June 30, 2021 and December 31, 2020, respectively.

Note 9. Accrued and Other Current Liabilities

The components of total accrued and other current liabilities are as follows:

(in millions)	June 30, 2021	December 31, 2020
Compensation and other employee-benefits	**$ 253**	$ 258
Customer-related liabilities	**196**	186
Accrued taxes	**78**	103
Lease liabilities	**70**	63
Accrued warranty costs	**52**	54
Other accrued liabilities	**111**	123
Total accrued and other current liabilities	**$ 760**	$ 787

Note 10. Credit Facilities and Debt

Total debt outstanding is summarized as follows:

(in millions)	June 30, 2021	December 31, 2020
4.875% Senior Notes due 2021 (a)	**$ 600**	$ 600
2.250% Senior Notes due 2023 (a)	**592**	612
3.250% Senior Notes due 2026 (a)	**500**	500
1.950% Senior Notes due 2028 (b)	**500**	500
2.250% Senior Notes due 2031 (b)	**500**	500
4.375% Senior Notes due 2046 (a)	**400**	400
Debt issuance costs and unamortized discount (c)	**(26)**	(28)
Total debt	**3,066**	3,084
Less: short-term borrowings and current maturities of long-term debt	**600**	600
Total long-term debt	**$ 2,466**	$ 2,484

(a) The fair value of our Senior Notes was determined using quoted prices in active markets for identical securities, which are considered Level 1 inputs. The fair value of our Senior Notes due 2021 was $606 million and $620 million as of June 30, 2021 and December 31, 2020, respectively. The fair value of our Senior Notes due 2023 was $614 million and $640 million as of June 30, 2021 and December 31, 2020, respectively. The fair value of our Senior Notes due 2026 was $548 million and $563 million as of June 30, 2021 and December 31, 2020 respectively. The fair value of our Senior Notes due 2046 was $483 million and $496 million as of June 30, 2021 and December 31, 2020, respectively.

(b) The fair value of our Senior Notes was determined using quoted prices in active markets for identical securities, which are considered Level 1 inputs. The fair value of our Senior Notes due 2028 was $508 million and $529 million as of June 30, 2021 and December 31, 2020, respectively. The fair value of our Senior Notes due 2031 was $507 million and $527 million as of June 30, 2021 and December 31, 2020, respectively.

(c) The debt issuance costs and unamortized discount are recognized as a reduction in the carrying value of the Senior Notes in the Condensed Consolidated Balance Sheets and are being amortized to interest expense in our Condensed Consolidated Income Statements over the expected remaining terms of the Senior Notes.

Senior Notes

On June 26, 2020, we issued 1.950% Senior Notes of $500 million aggregate principal amount due January 2028 (the “Senior Notes due 2028”) and 2.250% Senior Notes of $500 million aggregate principal amount due January 2031 (the “Senior Notes due 2031" and, together with the Senior Notes due 2028, the “Green Bond”).

The Green Bond includes covenants that restrict our ability, and the ability of our restricted subsidiaries, to incur debt secured by liens on certain property above a threshold, to engage in certain sale and leaseback transactions involving certain property above a threshold, and to consolidate or merge, or convey or transfer all or substantially all of our assets. We may redeem the Green Bond at any time, at our option, subject to certain conditions, at specified redemption prices, plus accrued and unpaid interest to the redemption date.

If a change of control triggering event (as defined in the applicable Green Bond indenture) occurs, we will be required to make an offer to purchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase.

Interest on the Green Bond is payable on January 30 and July 30 of each year. As of June 30, 2021, we are in compliance with all covenants for the Green Bond.

On September 20, 2011, we issued 4.875% Senior Notes of $600 million aggregate principal amount due October 2021 (the "Senior Notes due 2021"). On March 11, 2016, we issued 2.250% Senior Notes of €500 million aggregate principal amount due March 2023 (the "Senior Notes due 2023"). On October 11, 2016, we issued 3.250% Senior Notes of $500 million aggregate principal amount due October 2026 (the "Senior Notes due 2026") and 4.375% Senior Notes of $400 million aggregate principal amount due October 2046 (the "Senior Notes due 2046" and, together with the Senior Notes due 2021, the Senior Notes due 2023 and the Senior Notes due 2026, the "Senior Notes").

The Senior Notes include covenants that restrict our ability, and the ability of our restricted subsidiaries, to incur debt secured by liens on certain property above a threshold, to engage in certain sale and leaseback transactions involving certain property above a threshold, and to consolidate or merge, or convey or transfer all or substantially all of our assets. We may redeem the Senior Notes, as applicable, in whole or in part, at any time at a redemption price equal to the principal amount of the Senior Notes to be redeemed, plus a make-whole premium. We may also redeem the Senior Notes in certain other circumstances, as set forth in the applicable Senior Notes indenture.

If a change of control triggering event (as defined in the applicable Senior Notes indenture) occurs, we will be required to make an offer to purchase the Senior Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to the date of repurchase.

Interest on the Senior Notes due 2021 is payable on April 1 and October 1 of each year. Interest on the Senior Notes due 2023 is payable on March 11 of each year. Interest on the Senior Notes due 2026 and the Senior Notes due 2046 is payable on May 1 and November 1 of each year. As of June 30, 2021, we are in compliance with all covenants for the Senior Notes.

Credit Facilities

2019 Five-Year Revolving Credit Facility

On March 5, 2019, Xylem entered into a Five-Year Revolving Credit Facility (the "2019 Credit Facility") with Citibank, N.A., as Administrative Agent, and a syndicate of lenders. The 2019 Credit Facility provides for an aggregate principal amount of up to $800 million (available in U.S. Dollars and in Euros), with increases of up to $200 million for a maximum aggregate principal amount of $1 billion at the request of Xylem and with the consent of the institutions providing such increased commitments.

Interest on all loans under the 2019 Credit Facility is payable either quarterly or at the expiration of any LIBOR or EURIBOR interest period applicable thereto. Borrowings accrue interest at a rate equal to, at Xylem's election, a base rate or an adjusted LIBOR or EURIBOR rate plus an applicable margin. The 2019 Credit Facility includes customary provisions for implementation of replacement rates for LIBOR-based and EURIBOR-based loans. The 2019 Credit Facility also includes a pricing grid that determines the applicable margin based on Xylem's credit rating, with a further adjustment depending on Xylem's annual Sustainalytics Environmental, Social and Governance ("ESG") score, determined based on the methodology in effect as of March 5, 2019. Xylem will also pay quarterly fees to each lender for such lender's commitment to lend accruing on such commitment at a rate based on our credit rating, whether such commitment is used or unused, as well as a quarterly letter of credit fee accruing on the letter of credit exposure of such lender during the preceding quarter at a rate based on the credit rating of Xylem (as adjusted for the ESG score).

The 2019 Credit Facility requires that Xylem maintain a consolidated total debt to consolidated EBITDA ratio (or maximum leverage ratio), which will be based on the last four fiscal quarters; and in addition contains a number of customary covenants, including limitations on the incurrence of secured debt and debt of subsidiaries, liens, sale and lease-back transactions, mergers, consolidations, liquidations, dissolutions and sales of assets. The 2019 Credit Facility also contains customary events of default. Finally, Xylem has the ability to designate subsidiaries that can borrow under the 2019 Credit Facility, subject to certain requirements and conditions set forth in the 2019 Credit Facility.

On June 22, 2020, Xylem entered into Amendment No. 1 to the 2019 Credit Facility (the "Amendment") which modified the financial covenant from a test based on the maximum leverage ratio (defined as consolidated total debt to consolidated EBITDA) to a test based on the net leverage ratio (defined as consolidated total debt less unrestricted cash and cash equivalents to consolidated EBITDA). This modification is effective through the quarter ending September 30, 2021, after which the covenant will revert back to the prior maximum leverage ratio test. The Amendment also restricted stock repurchases until March 31, 2021, except for shares of common stock in an amount not to exceed the number of shares issued after the date of the Amendment, subject to customary exceptions. As of June 30, 2021, the 2019 Credit Facility was undrawn and we are in compliance with all revolver covenants.

Commercial Paper

U.S. Dollar Commercial Paper Program

Our U.S. Dollar commercial paper program generally serves as a means of short-term funding with a $600 million maximum issuing balance and a combined limit of $800 million inclusive of the 2019 Credit Facility. As of June 30, 2021 and December 31, 2020, none of the Company's $600 million U.S. Dollar commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Euro Commercial Paper Program

On June 3, 2019, Xylem entered into a Euro commercial paper program with ING Bank N.V., as administrative agent, and a syndicate of dealers. The Euro commercial paper program provides for a maximum issuing balance of up to €500 million (approximately $592 million) which may be denominated in a variety of currencies. The maximum issuing balance may be increased in accordance with the Dealer Agreement. As of June 30, 2021 and December 31, 2020, none of the Company's Euro commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Note 11. Post-retirement Benefit Plans

The components of net periodic benefit cost for our defined benefit pension plans are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2021**	2020	**2021**	2020
Domestic defined benefit pension plans:				
Service cost	**$ —**	$ 1	**$ 1**	$ 2
Interest cost	**1**	1	**2**	2
Expected return on plan assets	**(1)**	(2)	**(3)**	(4)
Amortization of net actuarial loss	**1**	1	**2**	2
Net periodic benefit cost	**$ 1**	$ 1	**$ 2**	$ 2
International defined benefit pension plans:				
Service cost	**$ 3**	$ 3	**$ 7**	$ 6
Interest cost	**3**	3	**6**	6
Expected return on plan assets	**(3)**	(3)	**(7)**	(6)
Amortization of net actuarial loss	**4**	3	**8**	6
Net periodic benefit cost	**$ 7**	$ 6	**$ 14**	$ 12
Total net periodic benefit cost	**$ 8**	$ 7	**$ 16**	$ 14

The components of net periodic benefit cost, other than the service cost component, are included in the line item "Other non-operating expense, net" in the Condensed Consolidated Income Statements.

The total net periodic benefit cost for other post-retirement employee benefit plans was less than $1 million, including net credits recognized into other comprehensive income of less than $1 million, for both the three and six months ended June 30, 2021 and 2020, respectively.

We contributed $12 million and $16 million to our defined benefit plans during the six months ended June 30, 2021 and 2020, respectively. Additional contributions ranging between approximately $7 million and $15 million are expected to be made during the remainder of 2021.

During the first quarter of 2020, the Company purchased a bulk annuity policy with an insurance company for its largest defined benefit plan in the U.K., as a plan asset, to facilitate the termination and buy-out of the plan. The bulk annuity fully insures the benefits payable to the participants of the plan until a full buy-out of the plan can be executed, which is expected to occur in 2022. Included in the Company's six months ended June 30, 2020 contributions is $5 million paid to meet the shortfall between the cost of the bulk annuity policy and the plan assets.

Note 12. Equity

The following table shows the changes in stockholders' equity for the six months ended June 30, 2021:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2021	$ 2	$ 2,037	$ 1,930	$ (413)	$ (588)	$ 8	$ 2,976
Other	—	—	—	—	—	1	1
Net income	—	—	87	—	—	—	87
Other comprehensive loss, net	—	—	—	(13)	—	—	(13)
Dividends declared ($0.28 per share)	—	—	(50)	—	—	—	(50)
Stock incentive plan activity	—	12	—	—	(7)	—	5
Repurchase of common stock	—	—	—	—	(60)	—	(60)
Balance at March 31, 2021	$ 2	$ 2,049	$ 1,967	$ (426)	$ (655)	$ 9	$ 2,946
Net income	—	—	113	—	—	—	113
Other comprehensive income, net	—	—	—	28	—	—	28
Dividends declared ($0.28 per share)	—	—	(51)	—	—	—	(51)
Stock incentive plan activity	—	14	—	—	(1)	—	13
Balance at June 30, 2021	$ 2	$ 2,063	$ 2,029	$ (398)	$ (656)	$ 9	$ 3,049

The following table shows the changes in stockholders' equity for the six months ended June 30, 2020:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2020	$ 2	$ 1,991	$ 1,866	$ (375)	$ (527)	$ 10	$ 2,967
Cumulative effect of change in accounting principle	—	—	(2)	—	—	—	(2)
Net income	—	—	38	—	—	—	38
Other comprehensive loss, net	—	—	—	(86)	—	(1)	(87)
Dividends declared ($0.26 per share)	—	—	(48)	—	—	—	(48)
Stock incentive plan activity	—	13	—	—	(10)	—	3
Repurchase of common stock	—	—	—	—	(50)	—	(50)
Balance at March 31, 2020	$ 2	$ 2,004	$ 1,854	$ (461)	$ (587)	$ 9	$ 2,821
Net income	—	—	31	—	—	—	31
Other comprehensive income, net	—	—	—	52	—	—	52
Dividends declared ($0.26 per share)	—	—	(47)	—	—	—	(47)
Stock incentive plan activity	—	8	—	—	—	—	8
Balance at June 30, 2020	$ 2	$ 2,012	$ 1,838	$ (409)	$ (587)	$ 9	$ 2,865

Note 13. Share-Based Compensation Plans

Share-based compensation expense was $8 million and $17 million during the three and six months ended June 30, 2021, respectively, and $8 million and $16 million during the three and six months ended June 30, 2020, respectively. The unrecognized compensation expense related to our stock options, restricted stock units and performance share units was $9 million, $30 million and $16 million, respectively, at June 30, 2021 and is expected to be recognized over a weighted average period of 2.1, 2.0 and 2.8 years, respectively. The amount of cash received from the exercise of stock options was $9 million and $5 million for the six months ended June 30, 2021 and 2020, respectively.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2021:

	Share units (in thousands)	Weighted Average Exercise Price / Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2021	1,961	$ 56.66	6.4	
Granted	259	102.31		
Exercised	(135)	58.39		
Forfeited and expired	(22)	83.88		
Outstanding at June 30, 2021	**2,063**	**$ 61.93**	**6.3**	**$ 122**
Options exercisable at June 30, 2021	**1,409**	**$ 51.45**	**5.0**	**$ 98**
Vested and expected to vest as of June 30, 2021	**1,987**	**$ 60.98**	**6.2**	**$ 119**

The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) during the six months ended June 30, 2021 was $7.1 million.

Stock Option Fair Value

The fair value of each option grant was estimated on the date of grant using the binomial lattice pricing model which incorporates multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The following are weighted-average assumptions for 2021 grants:

Volatility	**26.30 %**
Risk-free interest rate	**0.86 %**
Dividend yield	**1.10 %**
Expected term (in years)	**5.7**
Weighted-average fair value / share	**$ 23.20**

Expected volatility is calculated based on an analysis of historic volatility measures for Xylem. We use historical data to estimate option exercise and employee termination behavior within the valuation model. Employee groups and option characteristics are considered separately for valuation purposes. The expected term represents an estimate of the period of time options are expected to remain outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of option grant.

Restricted Stock Unit Grants

The following is a summary of restricted stock unit activity for the six months ended June 30, 2021. The fair value of the restricted share unit awards is determined using the closing price of our common stock on date of grant:

	Share units (in thousands)	Weighted Average Grant Date Fair Value /Share
Outstanding at January 1, 2021	537	$ 74.62
Granted	213	103.36
Vested	(233)	74.47
Forfeited	(15)	85.91
Outstanding at June 30, 2021	**502**	**$ 86.47**

ROIC Performance Share Unit Grants

The following is a summary of Return on Invested Capital ("ROIC") performance share unit grants for the six months ended June 30, 2021. The fair value of the ROIC performance share units is equal to the closing share price on the date of the grant:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value /Share**
Outstanding at January 1, 2021	182	$ 76.12
Granted	60	102.30
Forfeited (a)	(65)	76.04
Outstanding at June 30, 2021	**177**	**$ 84.66**

(a) Includes ROIC performance share unit awards forfeited during the period as a result of the final performance condition not being achieved on vest date.

TSR Performance Share Unit Grants

The following is a summary of our Total Shareholder Return ("TSR") performance share unit grants for the six months ended June 30, 2021:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value /Share**
Outstanding at January 1, 2021	182	$ 96.98
Granted	60	117.56
Adjustment for Market Condition Achieved (a)	35	98.79
Vested	(93)	98.79
Forfeited	(7)	102.66
Outstanding at June 30, 2021	**177**	**$ 102.86**

(a) Represents an increase in the number of original TSR performance share units awarded based on the final market condition achievement at the end of the performance period of such awards.

The fair value of TSR performance share units was calculated on the date of grant using a Monte Carlo simulation model utilizing several key assumptions, including expected Company and peer company share price volatility, correlation coefficients between peers, the risk-free rate of return, the expected dividend yield and other award design features. The following are weighted-average assumptions for 2021 grants:

Volatility	**33.5 %**
Risk-free interest rate	**0.24 %**

ESG Performance Share Unit Grants

During the first quarter of 2021, we issued a special grant of less than 0.1 million ESG performance share units. The shares will vest after five years based on our performance against certain of the Company's 2025 sustainability goals.

Note 14. Capital Stock

For the three and six months ended June 30, 2021, the Company repurchased less than 0.1 million shares of common stock for $1 million and approximately 0.7 million shares of common stock for $68 million, respectively. For the three and six months ended June 30, 2020, the Company repurchased less than 0.1 million shares of common stock for less than $1 million and approximately 0.8 million shares of common stock for $60 million, respectively. Repurchases include both share repurchase programs approved by the Board of Directors and repurchases in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. The details of repurchases by each program are as follows:

On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our shareholders and maintains our focus on growth. There were no shares repurchased under the program for the three months ended June 30, 2021. For the six months ended June 30, 2021, we repurchased approximately 0.6 million shares for $60 million. There were no shares repurchased under the program for the three months ended June 30, 2020. For the six months ended June 30, 2020, we repurchased approximately 0.7 million shares for $50 million. There are up to $228 million in shares that may still be purchased under this plan as of June 30, 2021.

Aside from the aforementioned repurchase program, we repurchased less than 0.1 million shares and approximately 0.1 million shares for $1 million and $8 million for the three and six months ended June 30, 2021, respectively, in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. Likewise, we repurchased less than 0.1 million shares and approximately 0.1 million shares for less than $1 million and $10 million for the three and six months ended June 30, 2020, respectively.

Note 15. Accumulated Other Comprehensive Loss

The following table provides the components of accumulated other comprehensive loss for the six months ended June 30, 2021:

(in millions)	Foreign Currency Translation	Post-retirement Benefit Plans	Derivative Instruments	Total
Balance at January 1, 2021	$ (86)	$ (330)	$ 3	$ (413)
Foreign currency translation adjustment	10	—	—	10
Tax on foreign currency translation adjustment	(14)	—	—	(14)
Amortization of prior service cost and net actuarial loss on post-retirement benefit plans into other non-operating income (expense), net	—	5	—	5
Income tax impact on amortization of post-retirement benefit plan items	—	(1)	—	(1)
Unrealized loss on derivative hedge agreements	—	—	(11)	(11)
Income tax benefit on unrealized loss on derivative hedge agreements	—	—	1	1
Reclassification of unrealized gain on foreign exchange agreements into revenue	—	—	(2)	(2)
Reclassification of unrealized gain on foreign exchange agreements into cost of revenue	—	—	(1)	(1)
Balance at March 31, 2021	$ (90)	$ (326)	$ (10)	$ (426)
Foreign currency translation adjustment	19	—	—	19
Tax on foreign currency translation adjustment	1	—	—	1
Amortization of prior service cost and net actuarial loss on post-retirement benefit plans into other non-operating income (expense), net	—	5	—	5
Income tax impact on amortization of post-retirement benefit plan items	—	(2)	—	(2)
Unrealized gain on derivative hedge agreements	—	—	4	4
Reclassification of unrealized loss on foreign exchange agreements into revenue	—	—	1	1
Balance at June 30, 2021	$ (70)	$ (323)	$ (5)	$ (398)

The following table provides the components of accumulated other comprehensive loss for the six months ended June 30, 2020:

(in millions)	Foreign Currency Translation	Post-retirement Benefit Plans	Derivative Instruments	Total
Balance at January 1, 2020	$ (103)	$ (269)	$ (3)	$ (375)
Foreign currency translation adjustment	(77)	—	—	(77)
Tax on foreign currency translation adjustment	(13)	—	—	(13)
Amortization of prior service cost and net actuarial loss on post-retirement benefit plans into other non-operating income (expense), net	—	4	—	4
Income tax impact on amortization of post-retirement benefit plan items	—	(1)	—	(1)
Unrealized loss on derivative hedge agreements	—	—	(2)	(2)
Reclassification of unrealized loss on foreign exchange agreements into revenue	—	—	2	2
Reclassification of unrealized loss on foreign exchange agreements into cost of revenue	—	—	1	1
Balance at March 31, 2020	$ (193)	$ (266)	$ (2)	$ (461)
Foreign currency translation adjustment	35	—	—	35
Tax on foreign currency translation adjustment	9	—	—	9
Amortization of prior service cost and net actuarial loss on post-retirement benefit plans into other non-operating income (expense), net	—	4	—	4
Income tax impact on amortization of post-retirement benefit plan items	—	(1)	—	(1)
Unrealized gain on derivative hedge agreements	—	—	6	6
Income tax benefit on unrealized gain on derivative hedge agreements	—	—	(1)	(1)
Reclassification of unrealized gain on foreign exchange agreements into revenue	—	—	(1)	(1)
Reclassification of unrealized loss on foreign exchange agreements into cost of revenue	—	—	1	1
Balance at June 30, 2020	$ (149)	$ (263)	$ 3	$ (409)

Note 16. Commitments and Contingencies

Legal Proceedings

From time to time, we are involved in legal and regulatory proceedings that are incidental to the operation of our businesses (or the business operations of previously-owned entities). These proceedings may seek remedies relating to matters including environmental, tax, intellectual property, acquisitions or divestitures, product liability, property damage, personal injury, privacy, employment, labor and pension, government contract issues and commercial or contractual disputes.

From time to time, claims may be asserted against Xylem alleging injury caused by any of our products resulting from asbestos exposure. We believe there are numerous legal defenses available for such claims and would defend ourselves vigorously. Pursuant to the Distribution Agreement among ITT Corporation (now ITT LLC; acquired by Delticus HoldCo, L.P., a portfolio company of Warburg Pincus LLC, on July 1, 2021), Exelis (acquired by Harris Corporation, now L3Harris Technologies, Inc.) and Xylem, ITT LLC has an obligation to indemnify, defend and hold Xylem harmless for asbestos product liability matters, including settlements, judgments, and legal defense costs associated with all pending and future claims that may arise from past sales of ITT's legacy products. We believe ITT LLC remains a substantial entity with sufficient financial resources to honor its obligations to us.

See Note 4, "Income Taxes", of our condensed consolidated financial statements for a description of a pending tax litigation matter.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claims, we do not believe it is reasonably possible that any asserted or unasserted legal claims or proceedings, individually or in aggregate, will have a material adverse effect on our results of operations, or financial condition. We have estimated and accrued $5 million and $6 million as of June 30, 2021 and December 31, 2020, respectively, for these general legal matters.

Indemnifications

As part of our 2011 spin-off from our former parent, ITT Corporation (now ITT LLC; acquired by Delticus HoldCo, L.P., a portfolio company of Warburg Pincus LLC, on July 1, 2021), Exelis Inc. (acquired by Harris Corporation, now L3Harris Technologies, Inc.) and Xylem will indemnify, defend and hold harmless each of the other parties with respect to such parties' assumed or retained liabilities under the Distribution Agreement and breaches of the Distribution Agreement or related spin agreements. ITT LLC's indemnification obligations include asserted and unasserted asbestos and silica liability claims that relate to the presence or alleged presence of asbestos or silica in products manufactured, repaired or sold prior to October 31, 2011, the Distribution Date, subject to limited exceptions with respect to certain employee claims, or in the structure or material of any building or facility, subject to exceptions with respect to employee claims relating to Xylem buildings or facilities. The indemnification associated with pending and future asbestos claims does not expire. Xylem has not recorded a liability for material matters for which we expect to be indemnified by the former parent or Exelis Inc. through the Distribution Agreement and we are not aware of any claims or other circumstances that would give rise to material payments from us under such indemnifications.

Guarantees

We obtain certain stand-by letters of credit, bank guarantees, surety bonds and insurance letters of credit from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. As of June 30, 2021 and December 31, 2020, the amount of surety bonds, bank guarantees, insurance letters of credit and stand-by letters of credit was $410 million and $378 million, respectively.

Environmental

In the ordinary course of business, we are subject to federal, state, local, and foreign environmental laws and regulations. We are responsible, or are alleged to be responsible, for ongoing environmental investigation and remediation of sites in various countries. These sites are in various stages of investigation and/or remediation and in many of these proceedings our liability is considered de minimis. We have received notification from the U.S. Environmental Protection Agency, and from similar state and foreign environmental agencies, that a number of sites formerly or currently owned and/or operated by Xylem or for which we are responsible under the Distribution Agreement, and other properties or water supplies that may be or have been impacted from those operations, contain disposed or recycled materials or wastes and require environmental investigation and/or remediation. These sites include instances where we have been identified as a potentially responsible party under federal and state environmental laws and regulations.

Accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. Our accrued liabilities for these environmental matters represent our best estimates related to the investigation and remediation of environmental media such as water, soil, soil vapor, air and structures, as well as related legal fees. These estimates, and related accruals, are reviewed quarterly and updated for progress of investigation and remediation efforts and changes in facts and legal circumstances. Liabilities for these environmental expenditures are recorded on an undiscounted basis. We have estimated and accrued $3 million as of both June 30, 2021 and December 31, 2020 for environmental matters.

It is difficult to estimate the final costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of investigation or remediation and our share, if any, of liability for such conditions, the selection of alternative remedial approaches, and changes in environmental standards and regulatory requirements. We believe the total amount accrued is reasonable based on existing facts and circumstances.

Warranties

We warrant numerous products, the terms of which vary widely. In general, we warrant products against defect and specific non-performance. The table below provides changes in the combined current and non-current product warranty accruals over each period:

(in millions)	2021	2020
Warranty accrual – January 1	**$ 65**	$ 41
Net charges for product warranties in the period	**17**	34
Settlement of warranty claims	**(18)**	(15)
Foreign currency and other	**(1)**	—
Warranty accrual - June 30	**$ 63**	$ 60

Note 17. Segment Information

Our business has three reportable segments: Water Infrastructure, Applied Water and Measurement & Control Solutions. The Water Infrastructure segment focuses on the transportation and treatment of water, offering a range of products including water, wastewater and storm water pumps, treatment equipment, and controls and systems. The Applied Water segment serves many of the primary uses of water and focuses on the residential, commercial and industrial markets. The Applied Water segment's major products include pumps, valves, heat exchangers, controls and dispensing equipment. The Measurement & Control Solutions segment focuses on developing advanced technology solutions that enable intelligent use and conservation of critical water and energy resources as well as analytical instrumentation used in the testing of water. The Measurement & Control Solutions segment's major products include smart metering, networked communications, measurement and control technologies, critical infrastructure technologies, software and services including cloud-based analytics, remote monitoring and data management, leak detection and pressure monitoring solutions and testing equipment.

Additionally, we have Regional selling locations, which consist primarily of selling and marketing organizations and related support services, that offer products and services across our reportable segments. Corporate and other consists of corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs, as well as charges related to certain matters, such as environmental matters, that are managed at a corporate level and are not included in the business segments in evaluating performance or allocating resources.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1 in the 2020 Annual Report). The following table contains financial information for each reportable segment:

(in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Revenue:				
Water Infrastructure	**$ 569**	$ 501	**$ 1,078**	$ 939
Applied Water	**414**	337	**807**	675
Measurement & Control Solutions	**368**	322	**722**	669
Total	**$ 1,351**	$ 1,160	**$ 2,607**	$ 2,283
Operating Income (Loss):				
Water Infrastructure	**$ 93**	$ 73	**$ 164**	$ 112
Applied Water	**64**	41	**130**	88
Measurement & Control Solutions	**13**	(46)	**22**	(58)
Corporate and other	**(10)**	(14)	**(23)**	(27)
Total operating income	**$ 160**	$ 54	**$ 293**	$ 115
Interest expense	**$ 21**	$ 18	**$ 42**	$ 34
Other non-operating income (expense), net	**(3)**	(1)	**(1)**	(4)
Gain from sale of business	**2**	—	**2**	—
Income before taxes	**$ 138**	$ 35	**$ 252**	$ 77
Depreciation and Amortization:				
Water Infrastructure	**$ 13**	$ 16	**$ 26**	$ 31
Applied Water	**6**	5	**12**	11
Measurement & Control Solutions	**37**	34	**73**	70
Regional selling locations (a)	**4**	7	**9**	11
Corporate and other	**2**	—	**4**	3
Total	**$ 62**	$ 62	**$ 124**	$ 126
Capital Expenditures:				
Water Infrastructure	**$ 13**	$ 8	**$ 24**	$ 18
Applied Water	**3**	3	**7**	12
Measurement & Control Solutions	**20**	24	**41**	51
Regional selling locations (b)	**5**	8	**8**	12
Corporate and other	**—**	1	**—**	2
Total	**$ 41**	$ 44	**$ 80**	$ 95

(a) Depreciation and amortization expense incurred by the Regional selling locations was included in an overall allocation of Regional selling location costs to the segments; however, a certain portion of that expense was not specifically identified to a segment. That expense is captured in this Regional selling location line.

(b) Represents capital expenditures incurred by the Regional selling locations not allocated to the segments.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the notes, included elsewhere in this report on Form 10-Q (this "Report").

This Report contains “forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” "contemplate," "predict," “project,” “forecast,” “likely,” “believe,” “target,” “will,” “could,” “would,” “should,” "potential," "may" and similar expressions or their negative, may, but are not necessary to, identify forward-looking statements. By their nature, forward-looking statements address uncertain matters and include any statements that are not historical, such as statements about our strategy, financial plans, outlook, objectives, plans, intentions or goals; or address possible or future results of operations or financial performance, including statements relating to orders, revenues, operating margins and earnings per share growth.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, many of which are beyond our control. Additionally, many of these risks and uncertainties are, and may continue to be, amplified by the coronavirus (“COVID-19”) pandemic. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include, among others, the following: overall industry and economic conditions, including industrial, governmental and private sector spending and the strength of the residential and commercial real estate markets; geopolitical, regulatory, economic and other risks associated with international operations; continued uncertainty around the COVID-19 pandemic’s magnitude, duration and impacts on our business, operations, growth, and financial condition, as well as uncertainty around approved vaccines and the pace of recovery when the pandemic subsides; actual or potential other epidemics, pandemics or global health crises; manufacturing and operating cost increases due to inflation, prevailing price changes, tariffs and other factors; fluctuations in foreign currency exchange rates; disruption, competition and pricing pressures in the markets we serve; cybersecurity incidents or other disruptions of information technology systems on which we rely, or involving our products; disruptions in operations at our facilities or that of third parties upon which we rely; availability of products, parts, electronic components and raw materials from our supply chain; availability, regulation and interference with radio spectrum used by some of our products; our ability to retain and attract senior management and other key talent; uncertainty related to restructuring and realignment actions and related charges and savings; our ability to continue strategic investments for growth; our ability to successfully identify, execute and integrate acquisitions; risks relating to products, including defects, security, warranty and liability claims, and recalls; difficulty predicting our financial results, including uncertainties due to the nature of our short- and long-cycle businesses; volatility in our results due to weather conditions; our ability to borrow or refinance our existing indebtedness and the availability of liquidity sufficient to meet our needs; risk of future impairments to goodwill and other intangible assets; failure to comply with, or changes in, laws or regulations, including those pertaining to anti-corruption, data privacy and security, export and import, competition, and the environment and climate change; changes in our effective tax rates or tax expenses; legal, governmental or regulatory claims, investigations or proceedings and associated contingent liabilities; and other factors set forth under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Annual Report") and in subsequent filings we make with the Securities and Exchange Commission (“SEC”).

All forward-looking statements made herein are based on information currently available to us as of the date of this Report. We undertake 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.

Overview

Xylem is a leading global water technology company. We design, manufacture and service highly engineered products and solutions ranging across a wide variety of critical applications in utility, industrial, residential and commercial building services settings. Our broad portfolio of solutions addresses customer needs across the water cycle, from the delivery, measurement and use of drinking water to the collection, test, treatment and analysis of wastewater to the return of water to the environment. Our product and service offerings are organized into three reportable segments that are aligned around the critical market applications they provide: Water Infrastructure, Applied Water and Measurement & Control Solutions.

- *Water Infrastructure* serves the water infrastructure sector with pump systems that transport water from aquifers, lakes, rivers and seas; with filtration, ultraviolet and ozone systems that provide treatment, making the water fit to use; and pumping solutions that move the wastewater and storm water to treatment facilities where our mixers, biological treatment, monitoring and control systems provide the primary functions in the treatment process. We also provide sales and rental of specialty dewatering pumps and related equipment and services. Additionally, our offerings use monitoring and control, smart and connected technologies to allow for remote monitoring of performance and enable products to self-optimize pump operations maximizing energy efficiency and minimizing unplanned downtime and maintenance for our customers. In the Water Infrastructure segment, we provide the majority of our sales directly to customers along with strong applications expertise, while the remaining amount is through distribution partners.
- *Applied Water* serves the water usage applications sector with water pressure boosting systems for heating, ventilation and air conditioning, and for fire protection systems to the residential and commercial building services markets. In addition, our pumps, heat exchangers and controls provide cooling to power plants and manufacturing facilities, circulation for food and beverage processing, as well as boosting systems for agricultural irrigation. In the Applied Water segment, we provide the majority of our sales through long-standing relationships with many of the leading independent distributors in the markets we serve, with the remainder going directly to customers.
- *Measurement & Control Solutions* primarily serves the utility infrastructure solutions and services sector by delivering communications, smart metering, measurement and control technologies and critical infrastructure technologies that allow customers to more effectively use their distribution networks for the delivery, monitoring and control of critical resources such as water, electricity and natural gas. We also provide analytical instrumentation used to measure and analyze water quality, flow and level in clean water, wastewater, surface water and coastal environments. Additionally, we offer software and services including cloud-based analytics, remote monitoring and data management, leak detection, condition assessment, asset management and pressure monitoring solutions. In the Measurement & Control Solutions segment, we generate our sales through a combination of long-standing relationships with leading distributors and dedicated channel partners as well as direct sales depending on the regional availability of distribution channels and the type of product.

COVID-19 Pandemic Update

Depending on the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences, we anticipate that it will become more difficult to distinguish specific aspects of our operational and financial performance that are most directly related to the pandemic from those more broadly influenced by ongoing macroeconomic, market and industry dynamics that may be, to varying degrees, related to the pandemic and its consequences.

The COVID-19 pandemic as well as broader market dynamics have adversely affected, and are expected to continue to adversely affect, our supply chains. We have experienced, and expect to continue experiencing, shortages in the supply of components, parts and raw materials, and, in some cases, unpredictable interruptions with our external suppliers in 2021. We have also experienced increased logistics costs related to the current global capacity shortages. We continue to enhance our supplier pulsing and redundancy to help mitigate these challenges. Additionally, we have in the past and may continue to take measures with respect to buffer stock or use of alternative suppliers to mitigate the impacts of freight and logistics delays and bolster our access to raw materials and components. If these shortages and interruptions are sustained, or if additional interruptions occur, they could have a negative impact on our results of operations. Our current overall operating capacity approximates normal levels globally.

Xylem Watermark, our corporate social responsibility program, continues to support our communities in addressing the challenges posed by this global pandemic through its partnership with Americares and UNICEF, as well as the Partner Community Grants program and matching donations program for employees and partners, and other philanthropic commitments.

Xylem continues to focus on the health and safety of our employees, working with our customers to help them minimize potential disruptions and positively impact our communities. Our support pay program for employees impacted by COVID-19 will remain in place into the fourth quarter of 2021 and is evaluated for continuation, as necessary.

Many of our offices globally remain in a substantially remote work from home status and our COVID-19 Response Team applies a set of Xylem "Return to Workplace" health and safety guidelines for remote workers to return to our facilities.

We continue to assess the evolving nature of the pandemic and its possible implications to our business, employees, supply chain, customers and communities, and to take actions in an effort to mitigate adverse consequences.

Risk related to the impact of COVID-19 as well as our supply chain are described in further detail under "Item 1A. Risk Factors" in the Company's 2020 Annual Report.

Executive Summary

Xylem reported revenue for the second quarter of 2021 of $1,351 million, an increase of 16.5% compared to $1,160 million reported in the second quarter of 2020. On a constant currency basis, revenue increased by $125 million, or 10.8%, driven by organic revenue growth across all segments and in all end markets.

We generated operating income of $160 million (margin of 11.8%) during the second quarter of 2021, as compared to $54 million (margin of 4.7%) in 2020. Operating income in the second quarter of 2021 benefited from a decrease in restructuring and realignment costs of $37 million as compared to the second quarter of 2020 and special charges of $11 million incurred during 2020 that did not recur. Excluding the impact of these items, adjusted operating income was $166 million (adjusted margin of 12.3%) during the second quarter of 2021 as compared to $108 million (adjusted margin of 9.3%) in 2020. The increase in adjusted operating margin was primarily due to cost reductions from our productivity, restructuring and other cost saving initiatives and favorable volume, impacted by COVID-19 recovery. These impacts were partially offset by cost inflation and increased spending on strategic investments.

Additional financial highlights for the quarter ended June 30, 2021 include the following:

- Orders of $1,660 million, up 34.7% from $1,232 million in the prior year, and up 28.8% on an organic basis.
- Earnings per share of $0.62, up 264.7% when compared to the prior year ($0.66, up 65.0% on an adjusted basis).
- Net income as a percent of revenue of 8.4%, up 570 basis points compared to 2.7% in the prior year. EBITDA margin of 16.2%, up 650 basis points when compared to 9.7% in the prior year (17.3%, up 200 basis points on an adjusted basis)
- Net cash flow provided by operating activities of $206 million for the six months ended June 30, 2021, an increase of $27 million from cash provided in the same period of the prior year. Free cash flow was $126 million, up $42 million from the prior year.

Key Performance Indicators and Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and operating income 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 items to represent the non-GAAP measures we consider to be key performance indicators, as well as the related reconciling items to the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP measures may not be comparable to similarly-titled measures reported by other companies.

- "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 or discontinuance 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.
- "adjusted net income" and "adjusted earnings per share" defined as net income and earnings per share, respectively, adjusted to exclude restructuring and realignment costs, special charges, gain or loss from sale of businesses and tax-related special items, as applicable. A reconciliation of adjusted net income and adjusted earnings per share is provided below.

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions, except for per share data)	**2021**		2020		**2021**		2020	
Net income & Earnings per share	**$ 113**	**$ 0.62**	$ 31	$ 0.17	**$ 200**	**$ 1.10**	$ 69	$ 0.38
Restructuring and realignment, net of tax of $1 and $3 for 2021 and $10 and $12 for 2020	**5**	**0.03**	33	0.18	**11**	**0.06**	40	0.22
Special charges, net of tax of $1 and $1 for 2021 and $3 and $3 for 2020	**2**	**0.01**	10	0.06	**5**	**0.03**	11	0.06
Tax-related special items	**1**	**0.01**	(1)	(0.01)	**7**	**0.04**	(5)	(0.03)
Gain from sale of business, net of tax of $0 for 2021	**(2)**	**(0.01)**	—	—	**(2)**	**—**	—	—
Adjusted net income & Adjusted earnings per share	**$ 119**	**$ 0.66**	$ 73	$ 0.40	**$ 221**	**$ 1.23**	$ 115	$ 0.63

- "adjusted operating expenses" defined as operating expenses adjusted to exclude restructuring and realignment costs and special charges.
- "adjusted operating income" defined as operating income, adjusted to exclude restructuring and realignment costs and special charges, and "adjusted operating margin" defined as adjusted operating income divided by total revenue.

- “EBITDA” defined as earnings before interest, taxes, depreciation and amortization expense "EBITDA margin" defined as EBITDA divided by total revenue, "adjusted EBITDA" reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, special charges and gain or loss from sale of businesses, and "adjusted EBITDA margin" defined as adjusted EBITDA divided by total revenue.

		Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)		**2021**	2020	**2021**	2020
Net Income	**$**	**113**	$ 31	**$ 200**	$ 69
Income tax expense		**25**	4	**52**	8
Interest expense, net		**19**	16	**38**	30
Depreciation		**29**	29	**59**	58
Amortization		**33**	33	**65**	68
EBITDA	**$**	**219**	$ 113	**$ 414**	$ 233
EBITDA Margin		**16.2 %**	9.7 %	**15.9 %**	10.2 %
Share-based compensation	**$**	**8**	$ 8	**$ 17**	$ 16
Restructuring and realignment		**6**	43	**14**	52
Special charges		**3**	13	**6**	14
Gain from sale of business		**(2)**	—	**(2)**	—
Adjusted EBITDA	**$**	**234**	$ 177	**$ 449**	$ 315
Adjusted EBITDA Margin		**17.3 %**	15.3 %	**17.2 %**	13.8 %

- “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 acquisition and integration related costs, non-cash impairment charges and both operating and non-operating adjustments for pension costs.
- "tax-related special items" defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, excess tax benefits/losses and other discrete tax adjustments.
- "free cash flow" defined as net cash from operating activities, as reported in the Statement of Cash Flows, less capital expenditures. Our definition of "free cash flow" does not consider certain non-discretionary cash payments, such as debt. The following table provides a reconciliation of free cash flow.

		Six Months Ended June 30,	
(In millions)		**2021**	2020
Net cash provided by operating activities	**$**	**206**	$ 179
Capital expenditures		**(80)**	(95)
Free cash flow	**$**	**126**	$ 84
Net cash used by investing activities	**$**	**(69)**	$ (88)
Net cash (used) provided by financing activities	**$**	**(162)**	$ 774

2021 Outlook

We anticipate total revenue growth in the range of 8% to 10% in 2021, with organic revenue growth anticipated to be in the range of 6% to 8%. The following is a summary of our organic revenue outlook by end markets:

- Utilities revenue increased by approximately 5% organically through the first half of the year driven by strength in western Europe and the emerging markets, partially offset by weakness in North America. For 2021, we expect organic revenue growth in the mid to high-single-digit range with continued resilience on the wastewater side, as utilities remain focused on mission-critical applications and anticipate modest growth on a global basis through the year. The timing of large clean water utility project deployments has been impacted by the global shortage of electronic components, which we expect to continue throughout the remainder of 2021. We anticipate that these deployments will ramp up when supply constraints ease based on our strong backlog position and orders momentum. Additionally, we expect healthy momentum in the test and treatment markets globally and increased demand for our smart water solution and digital offerings.
- Industrial revenue increased by approximately 15% organically through the first half of the year driven by strength across all major geographic regions. For 2021, we expect organic revenue growth in the high-single-digit range as activity across all segments rebounds globally and our dewatering business continues to recover, especially in the emerging markets, as demand increases and site access restrictions continue to ease. We anticipate growth in during the second half of the year led by North America, with growth in emerging markets and western Europe as well.
- In the commercial markets, organic revenue growth was approximately 8% through the first half of the year driven by strength in western Europe, North America and the emerging markets. For 2021, we expect organic revenue growth in the mid to high-single-digit range. We expect replacement business in the U.S. to be stable during the year and anticipate continued healthy activity in Europe. We expect new construction activity in North America to be soft, however we are optimistic that conditions will begin to recover late in the year.
- In the residential markets, organic revenue growth was approximately 30% through the first half of the year driven by strength in the emerging markets, North America and western Europe. This market is primarily driven by replacement revenue serviced through our distribution network. For 2021, we expect organic revenue growth in the low-teens, driven by healthy demand activity from increased residential users in the U.S. and Europe. Additionally, we anticipate strong demand in China for secondary water supply product applications.

We will continue to strategically execute restructuring and realignment actions in an effort to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. During 2021, we expect to incur between $30 million and $40 million in restructuring and realignment costs. We expect to realize between $35 million and $40 million of net savings in 2021, consisting of between $33 million and $35 million of incremental net savings from restructuring and realignment actions initiated in 2020, and between $2 million and $5 million of net savings from the restructuring, realignment and other structural cost actions initiated during this year.

Results of Operations

(In millions)	Three Months Ended June 30, 2021	2020	Change	Six Months Ended June 30, 2021	2020	Change
Revenue	**$ 1,351**	$ 1,160	16.5 %	**$ 2,607**	$ 2,283	14.2 %
Gross profit	**520**	434	19.8 %	**1,010**	843	19.8 %
Gross margin	**38.5 %**	37.4 %	110 bp	**38.7 %**	36.9 %	180 bp
Total operating expenses	**360**	380	(5.3) %	**717**	728	(1.5) %
Expense to revenue ratio	**26.6 %**	32.8 %	(620) bp	**27.5 %**	31.9 %	(440) bp
Restructuring and realignment costs	**6**	43	(86.0) %	**14**	52	(73.1) %
Special charges	**—**	11	— %	**2**	11	(81.8) %
Adjusted operating expenses	**354**	326	8.6 %	**701**	665	5.4 %
Adjusted operating expenses to revenue ratio	**26.2 %**	28.1 %	(190) bp	**26.9 %**	29.1 %	(220) bp
Operating income	**160**	54	196.3 %	**293**	115	154.8 %
Operating margin	**11.8 %**	4.7 %	710 bp	**11.2 %**	5.0 %	620 bp
Interest and other non-operating expense, net	**24**	19	26.3 %	**43**	38	13.2 %
Gain from sale of business	**2**	—	NM	**2**	—	NM
Income tax expense	**25**	4	525.0 %	**52**	8	550.0 %
Tax rate	**18.5 %**	10.9 %	760 bp	**20.7 %**	10.4 %	1,030 bp
Net income	**$ 113**	$ 31	264.5 %	**$ 200**	$ 69	189.9 %

NM - Not meaningful change

Revenue

Revenue generated during the three and six months ended June 30, 2021 was $1,351 million and $2,607 million, reflecting increases of $191 million, or 16.5%, and $324 million, or 14.2%, respectively, compared to the same prior year periods. On a constant currency basis, revenue grew 10.8% and 9.4% for the three and six months ended June 30, 2021. The increases on a constant currency basis were driven by organic revenue growth of $128 million and $219 million, respectively, reflecting strong organic growth across all major geographic regions and segments.

The following table illustrates the impact from organic growth, recent divestitures, and foreign currency translation in relation to revenue during the three and six months ended June 30, 2021:

(In millions)	Water Infrastructure $ Change	Water Infrastructure % Change	Applied Water $ Change	Applied Water % Change	Measurement & Control Solutions $ Change	Measurement & Control Solutions % Change	Total Xylem $ Change	Total Xylem % Change
2020 Revenue	$ 501		$ 337		$ 322		$ 1,160	
Organic Growth	32	6.4 %	59	17.5 %	37	11.5 %	128	11.0 %
Divestitures	—	— %	—	— %	(3)	(0.9)%	(3)	(0.2)%
Constant Currency	32	6.4 %	59	17.5 %	34	10.6 %	125	10.8 %
Foreign currency translation (a)	36	7.2 %	18	5.3 %	12	3.7 %	66	5.7 %
Total change in revenue	68	13.6 %	77	22.8 %	46	14.3 %	191	16.5 %
2021 Revenue	**$ 569**		**$ 414**		**$ 368**		**$ 1,351**	

(a) Foreign currency translation impact for the quarter due to the strengthening in value of various currencies against the U.S. Dollar, the largest being the Euro, the Chinese Yuan, the British Pound and the Australian Dollar.

(In millions)	Water Infrastructure $ Change	Water Infrastructure % Change	Applied Water $ Change	Applied Water % Change	Measurement & Control Solutions $ Change	Measurement & Control Solutions % Change	Total Xylem $ Change	Total Xylem % Change
2020 Revenue	$ 939		$ 675		$ 669		$ 2,283	
Organic Growth	79	8.4 %	103	15.3 %	37	5.5 %	219	9.6 %
Divestitures	—	— %	—	— %	(5)	(0.7)%	(5)	(0.2)%
Constant Currency	79	8.4 %	103	15.3 %	32	4.8 %	214	9.4 %
Foreign currency translation (a)	60	6.4 %	29	4.3 %	21	3.1 %	110	4.8 %
Total change in revenue	139	14.8 %	132	19.6 %	53	7.9 %	324	14.2 %
2021 Revenue	**$ 1,078**		**$ 807**		**$ 722**		**$ 2,607**	

(a) Foreign currency translation impact for the quarter due to the strengthening in value of various currencies against the U.S. Dollar, the largest being the Euro, the Chinese Yuan, the Australian Dollar and the British Pound.

Water Infrastructure

Water Infrastructure revenue increased $68 million, or 13.6%, for the second quarter of 2021 (6.4% increase on a constant currency basis) as compared to the prior year. Revenue benefited from $36 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $32 million. Organic growth for the quarter was driven by strength in the industrial end market, particularly across the emerging markets and, to a lesser extent, in western Europe. Organic growth for the quarter was also driven by strength in the utility end market, primarily in western Europe where we saw strong demand in utilities' operational spending coupled with recovery from prior year COVID-19 impacts. Organic growth in the utility end market was marginally offset by declines in North America during the quarter.

From an application perspective, organic revenue growth for the second quarter was driven by our transport application. The transport application had strong revenue growth in the emerging markets, where the dewatering business in Latin America and Africa benefited from strong market conditions in mining during the quarter and Asia Pacific had strong revenue growth during the quarter, and in western Europe, where we had strong industrial and utility demand, positively impacted by COVID-19 recovery. Organic revenue growth from our transport application was partially offset by a modest decline in the treatment application, driven by the timing of project deliveries in the U.S. as compared to the prior year.

For the six months ended June 30, 2021, revenue increased $139 million, or 14.8% (8.4% increase on a constant currency basis) as compared to the prior year. Revenue benefited from $60 million of foreign currency translation during the six month period, with the change at constant currency coming entirely from organic growth of $79 million. Organic growth during the year was driven by strength in the both the utility and industrial end markets. Strength in the utility end market was led by western Europe, where utilities' operational spending continues to be strong, and in the emerging markets, where China benefited from healthy order intake coming into the year. Organic growth in the industrial end market was particularly strong across the emerging markets, which included growth from the COVID-19 recovery in Latin America and healthy order intake in China and Africa, and in western Europe.

From an application perspective, organic revenue growth during the six month period was primarily driven by our transport application. The transport application was driven by strong revenue growth across the emerging markets, where we benefited from healthy order intake in Asia Pacific and Africa and a favorable prior year comparison in Latin America, as well as growth from the COVID-19 recovery in western Europe. Organic revenue from our treatment application also contributed to the segment's growth during the period, driven by strength in the emerging markets, particularly in China, which was partially offset by the timing of project deliveries in the U.S. during the year.

Applied Water

Applied Water revenue increased $77 million, or 22.8%, for the second quarter of 2021 (17.5% increase on a constant currency basis) as compared to the prior year. Revenue benefited from $18 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $59 million. Organic growth for the quarter was driven by strength in every end market and across all major geographic regions, with particular strength in North America and western Europe.

From an application perspective, organic revenue growth in the second quarter was led by strength in the industrial water application which was primarily driven by market growth across the emerging markets, strong order intake in North America, with particular strength in specialty flow control applications (marine and food & beverage), and market recovery in western Europe, where the industry was more significantly impacted by the COVID-19 pandemic in the prior year. The residential building services application also had strong organic growth, primarily driven by western Europe, as market conditions recover from the COVID-19 pandemic, strength in North America, where we benefited from healthy backlog execution, and the emerging markets, specifically driven by strong second water supply business in China. The commercial building services application also contributed organic growth during the quarter, primarily driven by strength in the U.S. and western Europe, where the industry was more significantly impacted by the COVID-19 pandemic in the prior year.

For the six months ended June 30, 2021, revenue increased $132 million, or 19.6% (15.3% increase on a constant currency basis) as compared to the prior year. Revenue benefited from $29 million of foreign currency translation during the six month period, with the change at constant currency coming entirely from organic growth of $103 million. Organic growth during the period was driven by strength in every end market and across all major geographic regions.

From an application perspective, organic revenue growth during the six month period was led by strength in the industrial water application, which was primarily driven by market growth in the emerging markets, particularly in Asia Pacific where the industry was more significantly impacted by the COVID-19 pandemic in the first half of the prior year, strong order intake in North America and western Europe, reflecting recovery from the COVID-19 pandemic during the second quarter of the year. The residential building services application revenue also had strong organic growth during the first half of the year, primarily driven by the emerging markets where we experienced strong second water supply business and a favorable prior year comparison in China, as markets conditions recover from the COVID-19 pandemic. Strength in North America also contributed to the growth in the residential building services application, as we benefited from healthy backlog execution coming into the year, and market growth in western Europe during the period. The commercial building services application contributed organic growth during the first half of the year, primarily driven by strength in western Europe, North America and the emerging markets, particularly Asia Pacific.

Measurement & Control Solutions

Measurement & Control Solutions revenue increased $46 million, or 14.3%, for the second quarter of 2021 (10.6% increase on a constant currency basis) as compared to the prior year. Revenue benefited from $12 million of foreign currency translation, with the change at constant currency driven by organic growth of $37 million which was partially offset by reduced revenue related to divestiture impacts of $3 million. Organic revenue growth during the quarter was driven by strength in both the utility and industrial end markets and across all major geographic regions.

In order to simplify and focus the application discussion, beginning with the first quarter of 2021, we are aggregating the test application into the water application and the software as a service and other application into the water and energy applications, as applicable, as both of these sub-applications provide products and services to the broader, ultimate applications of water and energy. From an application perspective, organic revenue growth was driven by the timing of project deployments in the water application, coupled with COVID-19 recovery in the U.S. and western Europe during the quarter. The energy application experienced a modest decrease during the quarter, primarily driven project timing and supply chain constraints in the U.S.

For the six months ended June 30, 2021, revenue increased $53 million, or 7.9% (4.8% increase on a constant currency basis) as compared to the prior year. Revenue benefited from $21 million of foreign currency translation during the six month period, with the change at constant currency driven by organic growth of $37 million which was partially offset by reduced revenue related to divestiture impacts of $5 million. Organic revenue growth during the period was driven by strength in both end markets and across all major geographic regions, particularly in western Europe.

From an application perspective, organic revenue growth during the period was driven by the water application, particularly in the U.S. and western Europe, where regions benefited from a favorable prior year comparison during the period coupled with strong backlog execution. This organic revenue growth was partially offset by a decline in the energy application during the period driven by the gas business, where large project deployments in the U.S. during the prior year did not repeat and we experienced project delays driven by the COVID-19 pandemic during the year.

Orders / Backlog

An order represents a legally enforceable, written document that includes the scope of work or services to be performed or equipment to be supplied to a customer, the corresponding price and the expected delivery date for the applicable products or services to be provided. An order often takes the form of a customer purchase order or a signed quote from a Xylem business. Orders received during the second quarter of 2021 were $1,660 million, an increase of $428 million, or 34.7%, over the prior year (28.7% increase on a constant currency basis). Orders received during the six months ended June 30, 2021 were $3,198 million, an increase of $705 million, or 28.3%, over the prior year (23.3% increase on a constant currency basis). Order intake benefited from $74 million and $123 million of foreign currency translation for the three and six months ended June 30, 2021, respectively. The increase on a constant currency basis was primarily driven by organic order growth of $355 million and $590 million for the three and six months ended June 30, 2021, respectively.

The following table illustrates the impact from organic growth, recent divestitures, and foreign currency translation in relation to orders during the three and six months ended June 30, 2021:

	Water Infrastructure		**Applied Water**		**Measurement & Control Solutions**		**Total Xylem**	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2020 Orders	$ 598		$ 326		$ 308		$ 1,232	
Organic Growth	—	— %	140	42.9 %	215	69.8 %	355	28.8 %
Divestitures	—	— %	—	— %	(1)	(0.3)%	(1)	(0.1)%
Constant Currency	—	— %	140	42.9 %	214	69.5 %	354	28.7 %
Foreign currency translation (a)	41	6.9 %	20	6.1 %	13	4.2 %	74	6.0 %
Total change in orders	41	6.9 %	160	49.1 %	227	73.7 %	428	34.7 %
2021 Orders	**$ 639**		**$ 486**		**$ 535**		**$ 1,660**	

(a) Foreign currency translation impact for the quarter due to the strengthening in value of various currencies against the U.S. Dollar, the largest being the Euro, the Chinese Yuan, the British Pound and the Australian Dollar.

	Water Infrastructure		**Applied Water**		**Measurement & Control Solutions**		**Total Xylem**	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2020 Orders	$ 1,112		$ 698		$ 683		$ 2,493	
Organic Growth	70	6.3 %	232	33.2 %	288	42.2 %	590	23.7 %
Divestitures	—	— %	—	— %	(8)	(1.2)%	(8)	(0.4)%
Constant Currency	70	6.3 %	232	33.2 %	280	41.0 %	582	23.3 %
Foreign currency translation (a)	68	6.1 %	33	4.7 %	22	3.2 %	123	4.9 %
Total change in orders	138	12.4 %	265	38.0 %	302	44.2 %	705	28.3 %
2021 Orders	**$ 1,250**		**$ 963**		**$ 985**		**$ 3,198**	

(a) Foreign currency translation impact for the quarter due to the strengthening in value of various currencies against the U.S. Dollar, the largest being the Euro, the Chinese Yuan, the Australian Dollar and the British Pound.

Water Infrastructure

Water Infrastructure segment orders increased $41 million, or 6.9%, to $639 million (flat on a constant currency basis) for the second quarter of 2021 as compared to the prior year. Order growth for the quarter benefited from $41 million of foreign currency translation. Organic orders remained essentially flat during the quarter as strength in the treatment application, which was driven by strong order intake across all major geographies, was offset by decline in the transport application, which included a significant project order of greater than $100 million in India during the second quarter of 2020 that did not recur. Excluding the impact of the significant India order in 2020, the transport application had organic order growth driven by healthy market conditions in western Europe and North America during the quarter, including order growth in the dewatering business.

For the six months ended June 30, 2021, orders increased $138 million, or 12.4%, to $1,250 million (6.3% increase on a constant currency basis) as compared to the same prior year period. Order growth during the period benefited from $68 million of foreign currency translation. The order increase on a constant currency basis consisted primarily of organic order growth in the treatment application. Organic growth in the treatment application was driven by strength in North America, the emerging markets, particularly in China, and western Europe. Organic orders for the transport application also increased during the period, primarily driven by healthy market conditions in western Europe and North America which were partially offset by weakness in the emerging markets, where we had a significant project order of greater than $100 million in India during the second quarter of 2020 which more than offset strength in Latin America and Africa during period.

Applied Water

Applied Water segment orders increased $160 million, or 49.1%, to $486 million (42.9% increase on a constant currency basis) for the second quarter of 2021 as compared to the prior year. Order growth for the quarter benefited from $20 million of foreign currency translation. The order increase on a constant currency basis was driven by organic order growth across all end markets, primarily in the U.S., where we benefited from strong demand recovery, amplified by longer lead times for delivering product, and to a lesser extent, in western Europe and the emerging markets.

For the six months ended June 30, 2021, orders increased $265 million, or 38.0%, to $963 million (33.2% increase on a constant currency basis) as compared to the same prior year period. Order growth during the period benefited from $33 million of foreign currency translation. The order increase on a constant currency basis was driven by organic order growth across all end markets during the first half of the year, primarily in the U.S., where we benefited from strong demand, amplified by early ordering to mitigate longer lead times, and to a lesser extent, in western Europe and the emerging markets, particularly in China where order intake was weakened by COVID-19 impacts in the prior year.

Measurement & Control Solutions

Measurement & Control Solutions segment orders increased $227 million, or 73.7%, to $535 million (69.5% increase on a constant currency basis) for the second quarter of 2021 as compared to the prior year. Order growth for the quarter benefited from $13 million of foreign currency translation. The order increase on a constant currency basis consisted almost entirely of organic order growth of $215 million, or 69.8%. Organic order growth was led by the water application, which experienced strong order intake in the U.S., amplified by increased ordering due to component shortages, and benefited from a favorable comparison, driven by COVID-19 recovery, as well as strength in western Europe. Order intake in the energy application also grew organically during the quarter, primarily in North America where the gas business benefited from a favorable comparison, driven by COVID-19 recovery, coupled with project related ordering in the electric business during the quarter.

For the six months ended June 30, 2021, orders increased $302 million, or 44.2%, to $985 million (41.0% increase on a constant currency basis) as compared to the same prior year period. Order growth during the period benefited from $22 million of foreign currency translation. The order increase on a constant currency basis included organic order growth of $288 million, or 42.2%, which was partially offset by a $8 million reduction in orders related to divestiture impacts during the period. Organic order growth was led by the water application, which was driven by strong order intake in the U.S., amplified by increased ordering due to component shortages, and in western Europe, coupled with a favorable comparison, driven by COVID-19 recovery. Order intake in the energy application also grew organically during the first half of the year, primarily driven by large projects in North America.

Backlog

Backlog includes orders on hand as well as contractual customer agreements at the end of the period. Delivery schedules vary from customer to customer based on their requirements. Annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. As such, beginning total backlog, plus orders, minus revenues, will not equal ending total backlog due to contract adjustments, foreign currency fluctuations, and other factors. Typically, large projects require longer lead production cycles and deployment schedules and delays occur from time to time. Total backlog was $2,779 million at June 30, 2021, an increase of $766 million or 38.1%, as compared to June 30, 2020 backlog of $2,013 million, and an increase of $655 million or 30.8%, as compared to December 31, 2020 backlog of $2,124 million driven by the significant increase in orders in the year. We anticipate that approximately 50% of the backlog at June 30, 2021 will be recognized as revenue in the remainder of 2021. There were no significant order cancellations during the quarter.

Gross Margin

Gross margin as a percentage of revenue increased 110 and 180 basis points to 38.5% and 38.7% for the three and six months ended June 30, 2021, as compared to 37.4% and 36.9% for the comparative 2020 periods. The gross margin increase for both periods was primarily driven by cost reductions from our global procurement and productivity improvement initiatives and favorable volume, impacted by COVID-19 recovery, which were partially offset by cost inflation.

Operating Expenses

The following table presents operating expenses for the three and six months ended June 30, 2021 and 2020:

(In millions)	**Three Months Ended June 30, 2021**	2020	Change	**Six Months Ended June 30, 2021**	2020	Change
Selling, general and administrative expenses ("SG&A")	**$ 304**	$ 288	5.6 %	**$ 605**	$ 585	3.4 %
SG&A as a % of revenue	**22.5 %**	24.8 %	(230) bp	**23.2 %**	25.6 %	(240) bp
Research and development expenses ("R&D")	**53**	44	20.5 %	**103**	93	10.8 %
R&D as a % of revenue	**3.9 %**	3.8 %	10 bp	**4.0 %**	4.1 %	(10) bp
Restructuring and asset impairment charges	**3**	48	(93.8) %	**9**	50	(82.0) %
Operating expenses	**$ 360**	$ 380	(5.3) %	**$ 717**	$ 728	(1.5) %
Expense to revenue ratio	**26.6 %**	32.8 %	(620) bp	**27.5 %**	31.9 %	(440) bp

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses increased by $16 million to $304 million, or 22.5% of revenue, in the second quarter of 2021, as compared to $288 million, or 24.8% of revenue, in the comparable 2020 period; and increased by $20 million to $605 million, or 23.2% of revenue, in the six months ended June 30, 2021, as compared to $585 million, or 25.6% of revenue, in the comparable 2020 period. The improvement in SG&A as a percent of revenue for both periods was primarily driven by cost reductions from our productivity, restructuring and other cost saving initiatives and decreased quality management costs, which were partially offset by cost inflation, additional investments in strategic growth initiatives and other costs.

Research and Development ("R&D") Expenses

R&D expense was $53 million, or 3.9% of revenue, in the second quarter of 2021, as compared to $44 million, or 3.8% of revenue, in the comparable 2020 period; and was $103 million, or 4.0% of revenue, in the six months ended June 30, 2021, as compared to $93 million, or 4.1% of revenue, in the comparable 2020 period.

Restructuring and Asset Impairment Charges

Restructuring

During the three and six months ended June 30, 2021, we recognized restructuring charges of $3 million and $8 million, respectively, of which $2 million and $6 million relate to actions previously announced in 2020. These charges included reduction of headcount across all segments and asset impairments within our Measurement & Control Solutions segment.

In response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic, in June 2020 management committed to a restructuring plan that includes actions across our businesses and functions globally. The plan is designed to support our long-term financial resilience, simplify our operations, strengthen our competitive positioning and better serve our customers. During the three and six months ended June 30, 2020, we recognized restructuring charges of $38 million and $40 million, respectively. These charges included reduction of headcount across all segments and asset impairments within our Measurement & Control Solutions segment.

The following is a roll-forward for the six months ended June 30, 2021 and 2020 of employee position eliminations associated with restructuring activities:

	2021	2020
Planned reductions - January 1	**319**	196
Additional planned reductions	**72**	579
Actual reductions and reversals	**(202)**	(115)
Planned reductions - June 30	**189**	660

The following table presents expected restructuring spend in 2021 and thereafter:

(in millions)	**Water Infrastructure**	**Applied Water**	**Measurement & Control Solutions**	**Corporate**	**Total**
Actions Commenced in 2021:					
Total expected costs	$ 5	$ —	$ —	$ —	$ 5
Costs incurred during Q1 2021	1	—	—	—	1
Costs incurred during Q2 2021	1	—	—	—	1
Total expected costs remaining	**$ 3**	**$ —**	**$ —**	**$ —**	**$ 3**
Actions Commenced in 2020:					
Total expected costs	$ 25	$ 8	$ 33	$ 2	$ 68
Costs incurred during 2020	19	4	30	—	53
Costs incurred during Q1 2021	2	1	1	—	4
Costs incurred during Q2 2021	2	—	—	—	2
Total expected costs remaining	**$ 2**	**$ 3**	**$ 2**	**$ 2**	**$ 9**

The Water Infrastructure actions commenced in 2021 consist primarily of severance charges. These actions are expected to continue through the second quarter of 2022.

The Water Infrastructure, Applied Water, and Measurement & Control Solutions actions commenced in 2020 consist primarily of severance charges across segments and asset impairment charges in our Measurement & Control Solutions segment. These actions are expected to continue through the second quarter of 2022.

During the second quarter of 2020 the discontinuance of a product line resulted in $17 million of asset impairments, primarily related to customer relationships, trademarks and fixed assets within our Measurement & Control Solutions segment.

We currently expect to incur between $15 million and $25 million in restructuring costs for the full year. These restructuring charges are primarily related to actions taken in response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic as well as other efforts to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. We expect to realize between $33 million and $35 million of incremental net savings in 2021 from restructuring actions initiated in 2020. As a result of all of the actions taken and expected to be taken in 2021, we anticipate between $1 million and $3 million of total net savings to be realized during 2021.

Asset Impairment

During the second quarter of 2020 we determined that internally developed in-process software within our Measurement & Control Solutions segment was impaired as a result of actions taken to prioritize strategic investments. Accordingly, we recognized an impairment charge of $10 million. Refer to Note 7, "Goodwill and Other Intangible Assets," for additional information.

Operating Income

Operating income during the second quarter of 2021 was $160 million, reflecting an increase of 196.3% compared to $54 million in the second quarter of 2020. Operating margin was 11.8% for the second quarter of 2021 versus 4.7% for the comparable period in 2020, an increase of 710 basis points. Operating margin benefited from a decrease in restructuring and realignment costs of $37 million as compared to the second quarter of 2020 and special charges of $11 million incurred during 2020 that did not recur. Excluding the impact of these items, adjusted operating income was $166 million with an adjusted operating margin of 12.3% in the second quarter of 2021 as compared to adjusted operating income of $108 million with an adjusted operating margin of 9.3% in the second quarter of 2020. The increase in adjusted operating margin was primarily due to cost reductions from our productivity, restructuring and other cost saving initiatives and favorable volume, impacted by COVID-19 recovery. These impacts were partially offset by cost inflation and increased spending on strategic investments.

Operating income for the six months ended June 30, 2021 was $293 million, reflecting an increase of 154.8% compared to $115 million in 2020. Operating margin was 11.2% for the six months ended June 30, 2021 versus 5.0% for the comparable period in 2020, an increase of 620 basis points. Operating margin benefited from a decrease in restructuring and realignment costs of $38 million and a decrease in special charges of $9 million as compared to 2020. Excluding the impact of these items, adjusted operating income was $309 million with an adjusted operating margin of 11.9% for the six months ended June 30, 2021 as compared to adjusted operating income of $178 million with an adjusted operating margin of 7.8% in 2020. The increase in adjusted operating margin was primarily due to cost reductions from our productivity, restructuring and other cost saving initiatives and favorable volume, impacted by COVID-19 recovery. These impacts were partially offset by cost inflation and increased spending on strategic investments.

The table below provides a reconciliation of the total and each segment's operating income to adjusted operating income, and a calculation of the corresponding adjusted operating margin:

(In millions)	Three Months Ended June 30, 2021	2020	Change	Six Months Ended June 30, 2021	2020	Change
Water Infrastructure						
Operating income	**$ 93**	$ 73	27.4 %	**$ 164**	$ 112	46.4 %
Operating margin	***16.3 %***	*14.6 %*	*170 bp*	***15.2 %***	*11.9 %*	*330 bp*
Restructuring and realignment costs	**4**	8	(50.0) %	**9**	13	(30.8) %
Adjusted operating income	**$ 97**	$ 81	19.8 %	**$ 173**	$ 125	38.4 %
Adjusted operating margin	***17.0 %***	*16.2 %*	*80 bp*	***16.0 %***	*13.3 %*	*270 bp*
Applied Water						
Operating income	**$ 64**	$ 41	56.1 %	**$ 130**	$ 88	47.7 %
Operating margin	***15.5 %***	*12.2 %*	*330 bp*	***16.1 %***	*13.0 %*	*310 bp*
Restructuring and realignment costs	**2**	4	(50.0) %	**3**	6	(50.0) %
Special charges	**—**	—	— %	**1**	—	NM
Adjusted operating income	**$ 66**	$ 45	46.7 %	**$ 134**	$ 94	42.6 %
Adjusted operating margin	***15.9 %***	*13.4 %*	*250 bp*	***16.6 %***	*13.9 %*	*270 bp*
Measurement & Control Solutions						
Operating income (loss)	**$ 13**	$ (46)	128.3 %	**$ 22**	$ (58)	137.9 %
Operating margin	***3.5 %***	*(14.3)%*	*1,780 bp*	***3.0 %***	*(8.7)%*	*1,170 bp*
Restructuring and realignment costs	**—**	31	NM	***2***	33	(93.9) %
Special charges	**—**	10	NM	**—**	10	NM
Adjusted operating income (loss)	***$ 13***	$ (5)	360.0 %	***$ 24***	$ (15)	260.0 %
Adjusted operating margin	***3.5 %***	*(1.6)%*	*510 bp*	***3.3 %***	*(2.2)%*	*550 bp*
Corporate and other						
Operating loss	**$ (10)**	$ (14)	(28.6) %	**$ (23)**	$ (27)	(14.8) %
Special charges	**—**	1	NM	**1**	1	— %
Adjusted operating loss	**$ (10)**	$ (13)	(23.1) %	**$ (22)**	$ (26)	(15.4) %
Total Xylem						
Operating income	**$ 160**	$ 54	196.3 %	**$ 293**	$ 115	154.8 %
Operating margin	***11.8 %***	*4.7 %*	*710 bp*	***11.2 %***	*5.0 %*	*620 bp*
Restructuring and realignment costs	**6**	43	(86.0) %	**14**	52	(73.1) %
Special charges	**—**	11	NM	**2**	11	(81.8) %
Adjusted operating income	**$ 166**	$ 108	53.7 %	**$ 309**	$ 178	73.6 %
Adjusted operating margin	***12.3 %***	*9.3 %*	*300 bp*	***11.9 %***	*7.8 %*	*410 bp*

NM - Not meaningful percentage change

Water Infrastructure

Operating income for our Water Infrastructure segment increased $20 million, or 27.4%, for the second quarter of 2021 compared to the prior year, with operating margin also increasing from 14.6% to 16.3%. Operating margin benefited from a decrease in restructuring and realignment costs of $4 million during the quarter. Excluding these restructuring and realignment costs, adjusted operating income increased $16 million, or 19.8%, with adjusted operating margin increasing from 16.2% to 17.0%. The increase in adjusted operating margin for the quarter was primarily due to cost reductions from our productivity, restructuring and other cost saving initiatives, favorable volume and decreased inventory management costs. These impacts were partially offset by cost inflation, increased spending on strategic investments, increased employee-related costs and negative foreign currency impacts.

For the six months ended June 30, 2021, operating income for our Water Infrastructure segment increased $52 million, or 46.4%, as compared to the prior year, with operating margin also increasing from 11.9% to 15.2%. Operating margin benefited from a decrease in restructuring and realignment costs of $4 million in 2021. Excluding these restructuring and realignment costs, adjusted operating income increased $48 million, or 38.4%, with adjusted operating margin increasing from 13.3% to 16.0%. The increase in adjusted operating margin during the period was primarily due to cost reductions from our productivity, restructuring and other cost saving initiatives and favorable volume. These impacts were partially offset by cost inflation, increased spending on strategic investments, increased employee-related costs and other lesser impacts.

Applied Water

Operating income for our Applied Water segment increased $23 million, or 56.1%, for the second quarter of 2021 compared to the prior year, with operating margin also increasing from 12.2% to 15.5%. Operating margin benefited from a decrease in restructuring and realignment costs of $2 million during the quarter. Excluding these restructuring and realignment costs, adjusted operating income increased $21 million, or 46.7%, with adjusted operating margin increasing from 13.4% to 15.9%. The increase in adjusted operating margin for the quarter was primarily due to favorable volume, impacted by COVID-19 recovery, and cost reductions from our productivity, restructuring and other cost saving initiatives. These impacts were partially offset by cost inflation, increased logistics costs, increased employee-related costs and increased spending on strategic investments.

For the six months ended June 30, 2021, operating income for our Applied Water segment increased $42 million, or 47.7%, as compared to the prior year, with operating margin also increasing from 13.0% to 16.1%. Operating margin benefited from a decrease in restructuring and realignment costs of $3 million during the year which was partially offset by $1 million of special charges incurred in 2021. Excluding these items, adjusted operating income increased $40 million, or 42.6%, with adjusted operating margin increasing from 13.9% to 16.6%. The increase in adjusted operating margin during the period was primarily due to cost reductions from our productivity, restructuring and other cost saving initiatives and favorable volume, impacted by COVID-19 recovery. These impacts were partially offset by cost inflation, increased logistics costs, increased spending on strategic investments and increased employee-related costs.

Measurement & Control Solutions

Operating income for our Measurement & Control Solutions segment increased $59 million, or 128.3%, for the second quarter of 2021 compared to the prior year, with operating margin increasing from (14.3)% to 3.5%. Operating margin benefited from $31 million of restructuring and realignment costs and $10 million of special charges that were incurred during 2020 that did not recur during the quarter. Excluding these items, adjusted operating income increased $18 million, or 360.0%, with adjusted operating margin increasing from (1.6)% to 3.5%. The increase in adjusted operating margin for the quarter was primarily due to cost reductions from our restructuring, productivity and other cost saving initiatives, favorable volume, impacted by COVID-19 recovery, and favorable mix. These impacts were partially offset by cost inflation, increased spending on strategic investments and increased employee-related costs.

For the six months ended June 30, 2021, operating income for our Measurement & Control Solutions segment increased $80 million, or 137.9%, as compared to the prior year, with operating margin increasing from (8.7)% to 3.0%. Operating margin benefited from a decrease in restructuring and realignment costs of $31 million during the year and $10 million of special charges incurred in 2020 that did not recur. Excluding these items, adjusted operating income increased $39 million, or 260.0%, with adjusted operating margin increasing from (2.2)% to 3.3%. The increase in adjusted operating margin during the period was primarily due to cost reductions from our restructuring, productivity and other cost saving initiatives, decreased quality management costs, primarily due to a specific warranty charge recorded during the prior year that did not recur related to a firmware issue that was identified and addressed timely, favorable volume, driven by COVID-19 recovery and favorable mix. These impacts were partially offset by cost inflation, increased spending on strategic investments, increased employee-related costs and other lesser impacts.

Corporate and other

Operating loss for corporate and other decreased $4 million, or 28.6%, during the second quarter of 2021 compared to the prior year period. For the six months ended June 30, 2021, operating loss for corporate and other decreased $4 million, or 14.8%, compared to the same prior year period. The decreases in cost are driven by reduced costs related to COVID-19 initiatives.

Interest Expense

Interest expense was $21 million and $42 million for the three and six months ended June 30, 2021 and $18 million and $34 million for the three and six months ended June 30, 2020. The increase in interest expense for both periods is primarily driven by the issuance of our Green Bond during the second quarter of 2020. See Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt and related interest.

Income Tax Expense

The income tax provision for the three months ended June 30, 2021 was $25 million resulting in an effective tax rate of 18.5%, compared to a $4 million expense resulting in an effective tax rate of 10.9% for the same period in 2020. The income tax provision for the six months ended June 30, 2021 was $52 million resulting in an effective tax rate of 20.7%, compared to a $8 million expense resulting in an effective tax rate of 10.4% for the same period in 2020. The effective tax rate for the three and six month periods ended June 30, 2021 was lower than the U.S. federal statutory rate primarily due to favorable earnings mix, partially offset by the Global Intangible Low Taxed Income ("GILTI") inclusion. Additionally, the effective tax rate for the three and six month periods ended June 30, 2021 differ from the same periods in 2020 due to unfavorable earnings mix as compared to the prior year and favorable equity compensation deductions in the prior year. The effective tax rate for the six month period ended June 30, 2021 differs from the same period in 2020 due to the impact of tax settlements in the current period.

Liquidity and Capital Resources

The following table summarizes our sources and (uses) of cash:

	Six Months Ended June 30,		
(In millions)	**2021**	2020	Change
Operating activities	**$ 206**	$ 179	$ 27
Investing activities	**(69)**	(88)	19
Financing activities	**(162)**	774	(936)
Foreign exchange (a)	**(10)**	(12)	2
Total	**$ (35)**	$ 853	$ (888)

(a) The impact is primarily due to the strengthening of the Canadian Dollar, the Chinese Yuan, the Russian Ruble and various other currencies against the U.S. Dollar.

Sources and Uses of Liquidity

Operating Activities

Net cash provided by operating activities was $206 million for the six months ended June 30, 2021 as compared to $179 million in the comparable prior year period. This increase was primarily driven by increased net cash earnings, partially offset by higher tax payments and increased working capital levels to support year-over-year growth.

Investing Activities

Cash used in investing activities was $69 million for the six months ended June 30, 2021 as compared to $88 million in the comparable prior year period. This decrease in cash used of $19 million was mainly driven by lower spending on capital expenditures compared to the prior year.

Financing Activities

Cash used by financing activities was $162 million for the six months ended June 30, 2021 as compared to cash generated of $774 million in the comparable prior year period. This net decrease in cash generated by financing activities during the period was primarily driven by the issuance of our Green Bond and higher levels of short-term debt during the prior year period, partially offset by the repayment of short-term debt during 2020 and an increase in share repurchase activity of $8 million.

Funding and Liquidity Strategy

Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations and access to bank financing and the capital markets. As a result of uncertainties caused by the COVID-19 pandemic, we continue to evaluate aspects of our spending, including capital expenditures, strategic investments and dividends. We will continue to evaluate aspects of our spending as the year progresses and anticipate our capital expenditures will gradually begin to increase to normal levels during the year as the markets we operate in recover.

Historically, we have generated operating cash flow sufficient to fund our primary cash needs. We will continue to monitor the economic effects of the COVID-19 pandemic and its impact on the Company's future operating cash flows going forward. If our cash flows from operations are less than we expect, we may need to incur debt or issue equity. From time to time, we may need to access the long-term and short-term capital markets to obtain financing. Our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including: (i) our credit ratings or absence of a credit rating, (ii) the liquidity of the overall capital markets, and (iii) the current state of the economy. There can be no assurance that such financing will be available to us on acceptable terms or that such financing will be available at all. Our securities are rated investment grade. A significant change in credit rating could impact our ability to borrow at favorable rates. Refer to Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of limitations on obtaining additional funding.

We monitor our global funding requirements and seek to meet our liquidity needs on a cost-effective basis. As of June 30, 2021, the COVID-19 pandemic has not materially impacted our borrowing costs or other costs of capital, however the future impact of the COVID-19 pandemic is uncertain and may increase our borrowing costs and other costs of capital and otherwise adversely affect our business, results of operations, financial condition and liquidity.

We have considered the impacts of the COVID-19 pandemic on our liquidity and capital resources and do not currently expect it to impact our ability to meet future liquidity needs or continue to comply with debt covenants. Based on our current global cash positions, cash flows from operations and access to the capital markets, we believe there is sufficient liquidity to meet our funding requirements and service debt and other obligations in both the U.S. and outside of the U.S. during the year. In addition, we believe our existing committed credit facilities and access to the public debt markets would provide further liquidity if required. Currently, we have available liquidity of approximately $2.6 billion, consisting of $1.8 billion of cash and $800 million of available credit facilities as disclosed in Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements. Our debt repayment obligations in 2021 consist of $600 million in Senior Notes, which we expect to pay out of cash. Our next long-term debt maturity is March 2023.

Risk related to these items are described in our risk factor disclosures referenced under “Item 1A. Risk Factors" in our 2020 Annual Report.

Credit Facilities & Long-Term Contractual Commitments

See Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt.

Non-U.S. Operations

We generated approximately 56% of our revenue from non-U.S. operations for both the three and six months ended June 30, 2021 and approximately 51% and 50% for the three and six months ended June 30, 2020, respectively. As we continue to grow our operations in the emerging markets and elsewhere outside of the U.S., we expect to continue to generate significant revenue from non-U.S. operations and expect that a substantial portion of our cash will be predominately held by our foreign subsidiaries. We expect to manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the U.S. and other international subsidiaries when we believe it is cost-effective to do so. We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities, and reassess whether there is a need to repatriate funds held internationally to support our U.S. operations. As of June 30, 2021, we have provided a deferred tax liability of $6 million for net foreign withholding taxes and state income taxes on $235 million of earnings expected to be repatriated to the U.S. parent as deemed necessary in the future.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and capital resources are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain, particularly at this time and moving forward given the uncertainty around the magnitude and duration of the COVID-19 pandemic. Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 2020 Annual Report describes the critical accounting estimates used in preparation of the condensed consolidated financial statements. Actual results in these areas could differ from management’s estimates. Other than as discussed below, there have been no significant changes in the information concerning our critical accounting estimates as stated in our 2020 Annual Report.

In the third quarter of 2020, management updated forecasts of future cash flows for the Advanced Infrastructure Analytics ("AIA") businesses, which reflected significant negative volume impacts from the COVID-19 pandemic, primarily on our assessment services business. Our ongoing investment in the AIA businesses also continues to impact near-term profitability. Based on these factors, we determined that there were indicators that the AIA reporting unit’s goodwill may be impaired, and accordingly, we performed an interim goodwill impairment test as of July 1, 2020. The results of the impairment test showed that the fair value of the AIA reporting unit was lower than the carrying value, resulting in a $58 million goodwill impairment charge. As of June 30, 2021, the remaining goodwill balance in our AIA reporting unit after recording the goodwill impairment charge was $112 million.

The uncertainty of the future impact of the COVID-19 pandemic may also contribute to further deterioration of our future cash flows. If we do not achieve our forecasts, it is possible that the goodwill of the AIA reporting unit could be deemed to be impaired again in a future period. The risks and potential impacts of COVID-19 on the fair value of our assets are included in our risk factor disclosures referenced under “Item 1A. Risk Factors" in the Company's 2020 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the information concerning market risk as stated in our 2020 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective at the reasonable assurance level.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the 1934 Act) during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal and regulatory proceedings that are incidental to the operation of our businesses (or the business operations of previously-owned entities). These proceedings may seek remedies relating to matters including environmental, tax, intellectual property, acquisitions or divestitures, product liability, property damage, personal injury, privacy, employment, labor and pension, government contract issues and commercial or contractual disputes. See Note 16, "Commitments and Contingencies", to the condensed consolidated financial statements for further information and any updates.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in "Item 1A. Risk Factors" of our 2020 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information with respect to purchases of the Company's common stock by the Company during the three months ended June 30, 2021:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS) PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE (a)	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (b)	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (b)
4/1/21 - 4/30/21	—	—	—	**$228**
5/1/21 - 5/31/21	—	—	—	**$228**
6/1/21 - 6/30/21	—	—	—	**$228**

This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

(a) Average price paid per share is calculated on a settlement basis.

(b) On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our shareholders and maintains our focus on growth. There were no shares repurchased under this program during the three months ended June 30, 2021. There are up to $228 million in shares that may still be purchased under this plan as of June 30, 2021.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See the Exhibit Index for a list of exhibits filed as part of this report and incorporated herein by reference.

XYLEM INC.

EXHIBIT INDEX

Exhibit Number		Description	Location
3.1		Fourth Amended and Restated Articles of Incorporation of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
3.2		Fourth Amended and Restated By-laws of Xylem Inc.	Incorporated by reference to Exhibit 3.2 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
10.1	#	Form of Xylem 2011 Omnibus Incentive Plan Non-Qualified Stock Option Award Agreement for Certain Executives and Executive Officers as Approved by the Leadership Development & Compensation Committee	Filed herewith.
31.1		Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2		Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1		Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
32.2		Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
101.0		The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Income Statements, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
104.0		The cover page from Xylem Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2021 formatted in Inline XBRL and contained in Exhibit 101.0.	

Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XYLEM INC.
(Registrant)

/s/ Geri McShane

Geri McShane
Vice President, Controller and Chief Accounting Officer

August 3, 2021

EXHIBIT 10.1

XYLEM
2011 OMNIBUS INCENTIVE PLAN

[YEAR] NON-QUALIFIED STOCK OPTION AWARD AGREEMENT
FOR CERTAIN EXECUTIVES & EXECUTIVE OFFICERS AS APPROVED BY THE LEADERSHIP DEVELOPMENT AND COMPENSATION COMMITTEE

This Agreement (the "**Agreement**") between Xylem Inc. (the "**Company**") and **###PARTICIPANT_NAME###** (the "**Participant**") is effective as of **###GRANT_DATE###**. Terms used in this Agreement that are not defined in this Agreement are defined in the Company's 2011 Omnibus Incentive Plan (the "**Plan**"). This Agreement is only being provided in English. The Participant is an employee of the Company or an Affiliate. In recognition of the Participant's valued services, the Company, through the Leadership Development and Compensation Committee of its Board of Directors (the "**Committee**"), is providing the Participant an inducement to remain employed and an incentive for increased efforts while employed. In consideration of the terms and conditions in this Agreement, the parties agree as follows:

1. **Grant of Non-Qualified Stock Options**. The Company confirms the grant on **###GRANT_DATE###**, (the "**Grant Date**") to the Participant of the option to purchase from the Company all or any part of an aggregate of **###TOTAL_AWARDS###** shares (the "**Options**"), at the purchase price of **###GRANT_PRICE###** per share (the "**Exercise Price**").

Nature of the Grant:

(a) The grant of Options is voluntary and occasional and does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if Options have been granted in the past. All decisions with respect to future grants will be at the sole discretion of the Company;

(b) The Participant is voluntarily participating in the Plan;

(c) The Options are not part of normal or expected compensation for any purpose, including for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, pension or retirement or welfare benefits or similar payments;

(d) Future value of the underlying shares is unknown, indeterminable and cannot be predicted with certainty;

(e) No claim or entitlement to compensation or damages will arise from forfeiture of the Options resulting from the termination of the Participant's employment; and

(f) The Company will not be liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar that may affect the value of the Options or of any amounts due to the Participant on exercise of the Options or on the subsequent sale of any shares acquired on exercise.

2. **Terms and Conditions**. The Options are subject to the following additional terms and conditions:

(a) **Expiration Date**. The Options will expire on **###EXPIRY_DATE###**, or, if the Participant's employment terminates before that date, on the date specified in subsection 2(e) below.

(b) **Exercise of Options**. The Options cannot be exercised until vested.

(c) **Vesting**. Options will vest if the Participant has been actively employed by the Company or an Affiliate from the Grant Date through the vesting date. Active employment does not include any potential severance period.

Subject to subsections 2(a), 2(d), and 2(e), the Options will vest in 3 installments as follows:

###VEST_SCHEDULE_TABLE###

March 1, 2021, **March 1, 2022**, **March 1, 2023** are the respective "**Vest Period Start Dates**" for each of the 3 installments.

(d) **Effect of Change in Control**. In the event of a Change in Control prior to the vesting date, if the acquiring or surviving company in the transaction assumes or continues any then outstanding Options, then the unvested Options will continue to vest based on the Options' service-based vesting criteria until the vesting date. If the Participant's active employment with the Company or an Affiliate is terminated by the Company or an Affiliate without Cause or by the Participant (for applicable Participants only) for Good Reason within 2 years of a Change in Control, any unvested and any converted Options will become 100% vested on the termination date. Any vested Options will expire on the earlier of **###EXPIRY_DATE###**, or the date **3 months** after the Participant's termination of active employment.

"**Cause**" means (i) the Participant's willful and continued failure to substantially perform his, her or their duties with the Company or an Affiliate (other than any such failure resulting from the Participant's incapacity due to physical or mental illness) or (ii) the Participant willfully engaging in conduct that demonstrably and materially injures the Company or its Affiliates, monetarily or otherwise. "**Willful**" means the action is done or omitted in bad faith or without reasonable belief that the action or omission was in the best interests of the Company.

"**Good Reason**" means (i) a reduction in annual target total cash compensation (base salary and target bonus), (ii) the assignment of any duties inconsistent in any material adverse respect with the Participant's position, authority, duties or responsibilities, (iii) any other action by the Company or an Affiliate which results in a material diminution in such position, authority, duties or responsibilities; or (iv) the Company or an Affiliate requiring the Participant to relocate to a work location 50 miles or more from the location where the Participant was principally working immediately prior to the Change in Control. The Participant must give notice within 90 days of any Good Reason event.

Good Reason only applies to Company or Affiliate employees who are, at the time of termination of employment, covered by the Xylem Special Senior Executive Severance Pay Plan or the Xylem Enhanced Severance Pay Plan and will exclude an isolated, insubstantial and inadvertent action not taken in bad faith that is resolved by the Company or an Affiliate within 30 days of receiving notice.

(e) **Effect of Termination of Employment**. Options will only vest while the Participant is actively employed by the Company or an Affiliate. If the Participant's active employment with the Company or an Affiliate is terminated for any reason prior to the vesting date, and such termination constitutes a "separation from service" within the meaning of Section 409A of the Code and any related regulations or other effective guidance promulgated thereunder ("**Section 409A**"), subject to subsection 2(d), the following would apply to any outstanding Options:

(i) <u>Termination due to Death or Disability</u>. Any unvested Options will immediately become 100% vested on the Participant's termination of employment. Any vested Options will expire on the earlier of **###EXPIRY_DATE###**, or the date **3 years** after the Participant's termination of employment.

(ii) <u>Termination due to Retirement or while Retirement Eligible</u>. A prorated portion (as described below) of the unvested Options with a vesting date within 12 months of termination will immediately vest on the Participant's termination of employment. All other unvested Options will automatically be forfeited. Any vested Options will expire on the earlier of **###EXPIRY_DATE###**, or the date **3 years** after the Participant's termination of employment.

(iii) <u>Termination other than for Death, Disability and Retirement</u>. Any unvested Options will automatically forfeit on the date of the Participant's termination of employment. Any vested portion of the Options will expire on the earlier of **###EXPIRY_DATE###**, or the date **3 years** after the Participant's termination of employment.

"**Disability**" means the complete and permanent inability of the Participant to perform all duties under the terms of his, her or their employment, as determined by the Company based on evidence, including independent medical reports and data, as deemed appropriate or necessary.

"**Retirement**" means the termination of the Participant's employment (either by the Company or an Affiliate, or the Participant), if, at the time of such termination, the Participant is at least age 55 and has completed 10 years of service with the Company or an Affiliate, or the Participant is age 65 or older.

Prorated Vesting Upon Retirement. The prorated portion of the Options that vests on the Participant's termination of employment due to the Participant's Retirement will be determined by multiplying the total number of unvested Options with a vesting date within 12 months of termination by a fraction, of which the numerator is the number of full months (not to exceed 12) the Participant has been continually employed since the Vest Period Start Date, and the denominator is 12. For this purpose, full months of employment will be based on monthly anniversaries of the Grant Date, not calendar months.

(f) **Payment of Exercise Price**. Permissible methods for payment of the Exercise Price on exercise of the Options are described in Section 6.6 of the Plan, or, if the Plan is amended, successor provisions. In addition to the methods of exercise permitted by Section 6.6 of the Plan, the Participant may exercise all or part of the Options by way of (i) broker-assisted cashless exercise in a manner consistent with the Federal Reserve Board's Regulation T, unless the Committee determines that this is prohibited by law, or (ii) net-settlement, where the Participant directs the Company to withhold shares that otherwise would be issued upon exercise of the Options having an aggregate Fair Market Value on the date of the exercise equal to the Exercise Price, or the portion being exercised by way of net-settlement (rounding up to the nearest whole share).

(g) **Tax Withholding**. The Company will have the power and the right to deduct or withhold, or require the Participant to remit to the Company, all applicable federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to the exercise of the Options. The Participant may elect to satisfy the withholding requirement, in whole or in part, by having the Company withhold shares that otherwise would be issued upon exercise of the Options, with the number of shares withheld having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction (or such other amount that will not cause an adverse accounting consequence or cost) (rounding up to the nearest whole share). Any election will be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

(h) **Automatic Exercise in Certain Circumstances**. Subject to subsection 2(i) of this Agreement, if any Options held by an active Participant are otherwise exercisable but remain unexercised at the close of business on **###EXPIRY_DATE###**, and if on that date the Fair Market Value of the shares subject to the exercisable but unexercised Options exceeds the aggregate payment that would have been required to exercise the Options, the Participant will automatically be paid an amount of Company shares having a Fair Market Value equal to such excess (rounding up to the nearest whole share), if any, and the Options will be cancelled. An automatic exercise will not occur if the Participant (and, if applicable, the Participant's authorized legal representative) waives this subsection 2(h) in writing.

The Participant acknowledges that tax and other legal requirements must be met prior to any settlement of Options under this subsection and consents to any tax or other consequences that may arise in connection with this subsection.

(i) **Compliance with Laws and Regulations**. Notwithstanding anything to the contrary in this Agreement, the Company will not be obligated to issue any shares under this Agreement issuance of the shares, or the exercise of the Options by the Participant, violates or is not in compliance with any laws, rules or regulations of the United States or any state or country. The Participant understands that, if applicable, the laws of the country where the Participant is working at the time of grant, vesting, and/or exercise of the Options (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may restrict or prevent exercise of the Options or may subject the Participant to additional procedural or regulatory requirements that the Participant is solely responsible for and that the Participant will have to independently fulfill. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, awards under the Plan, and any shares acquired under the Plan, if the Company determines the requirement is necessary or advisable to comply with applicable law or facilitate the administration of the Plan.

(j) **Participant Acknowledgements**. The Participant acknowledges and agrees that:

(i) Participant Obligations. In partial consideration for the award of these Options, if at any time during the period between the Grant Date and the 12-month period following the Participant's termination of Employment (the "Obligation Period"), the Participant: (i) directly or indirectly, hires or solicits or arranges for the hiring or solicitation of any employee or customer of the Company or its Affiliates, or encourages any employee to leave the Company or an Affiliate; (ii) uses, discloses, misappropriates or transfers confidential or proprietary information concerning the Company or its Affiliates (except as required by the Participant's work responsibilities with the Company or its Affiliates); or (iii) engages in any activity in violation of Company policies, including the Company's Code of Conduct, or engages in conduct adverse to the best interests of the Company or its Affiliates; then the Options, whether previously vested or not, will be cancelled in full, and the Participant will be required to return to the Company any shares received on exercise of vested Options or the pre-tax income derived from any disposition of any shares received upon exercise of vested Options, unless the Company, in its sole discretion, elects not to cancel the Options.

The obligations in this subsection are in addition to any other agreements related to non-solicitation and preservation of Company confidential and proprietary information entered into between the Participant and the Company, or otherwise applicable to the Participant, and nothing in this Agreement is intended to waive, modify, alter or amend the terms of any such other agreement. THE PARTICIPANT UNDERSTANDS THAT THIS SUBSECTION IS NOT INTENDED TO AND DOES NOT PROHIBIT THE CONDUCT DESCRIBED, BUT PROVIDES FOR THE CANCELLATION OF THE AWARD IN FULL AND A RETURN TO THE COMPANY OF ANY SHARES RECEIVED UPON SETTLEMENT OF EXERCISED VESTED OPTIONS OR THE GROSS TAXABLE PROCEEDS FROM THE DISPOSITION OF ANY SHARES RECEIVED UPON SETTLEMENT OF EXERCISED VESTED OPTIONS IF THE PARTICIPANT SHOULD CHOOSE TO VIOLATE THIS PARAGRAPH DURING THE

OBLIGATION PERIOD. Nothing in this Agreement prohibits the Participant from voluntarily communicating, without notice to or approval by the Company, with any federal government agency about a potential violation of a federal law or regulation.

(ii) Electronic Delivery and Acceptance. The Participant consents to electronic delivery of any Plan documents. The Participant consents to any and all procedures that the Company has established or may establish for an electronic signature system for delivery and acceptance of Plan related documents. The Participant agrees that his, her or their electronic signature is the same as, and will have the same force and effect as, his, her or their manual signature. Participant agrees that these procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

(iii) Right of Set-Off. If the Company in its reasonable judgment determines that the Participant owes the Company or an Affiliate any amount due to any loan, obligation or indebtedness, including amounts owed under the Company's tax equalization program or the Company's policies with respect to travel and business expenses, and if the Participant has not satisfied such obligation(s), then the Company may instruct the plan administrator to withhold and/or sell shares acquired by the Participant on exercise of the Options (to the extent such shares are not subject to Code Section 409A), or the Company may deduct funds equal to the amount of the obligation from other funds due to the Participant from the Company to the maximum extent permitted by Code Section 409A.

(iv) Data Privacy. Participant acknowledges and consents to the collection, use, processing and transfer of personal data. Participant is not obliged to consent to such collection, use, processing and transfer of personal data. However, failure to provide the consent may affect Participant's ability to participate in the Plan. The Company holds certain personal information about Participant, that may include his/her name, home address and telephone number, date of birth, social security number or other employee identification number, salary grade, hire data, salary, nationality, job title, or details of all options or performance stock units or any other entitlement to shares of stock awarded, canceled, purchased, vested, or unvested, for the purpose of managing and administering the Plan ("**Data**"). The Company and its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of Participant's participation in the Plan, and the Company or its Affiliates may each further transfer Data to any third parties assisting the Company with the implementation, administration and management of the Plan. These recipients may be located throughout the world, including the United States. The Participant authorizes them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing participation in the Plan, including any transfer of Data that may be required for the administration of the Plan and/or the subsequent holding of shares of stock on Participant's behalf to a broker or other third party with whom Participant may elect to deposit any shares of stock acquired pursuant to the Plan. Participant may, at any time, review Data, require any necessary amendments to it or withdraw this consent in writing by contacting Participant's designated Human Resources professional; however, withdrawing consent may affect Participant's ability to participate in the Plan. All Data will be managed in compliance with the Company's Data Privacy Guidelines and applicable employee notifications, which may contain more stringent requirements, but in any case will not be less stringent than subsection 2(j)(iv).

(k) **Governing Law**. This Agreement is issued, and the Options are granted, in Rye Brook, New York and will be governed and construed in accordance with the laws of the State of New York, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

By signing a copy of this Agreement, the Participant acknowledges that s/he has received a copy of the Plan and that s/he has read and understands the Plan and this Agreement and agrees to their terms and conditions. The Participant also acknowledges that the Options awarded under to this Agreement must be exercised prior to the expiration date, that it is the Participant's responsibility to exercise the Options, and that the Company has no further responsibility to notify the Participant of the expiration of the Options.

Agreed to:	**XYLEM INC.**
______________________________	/s/ Patrick K. Decker
Participant	Patrick K. Decker, President and CEO
(Online Acceptance Constitutes Agreement)	
Dated: ____________________	Dated: **###GRANT_DATE###**

Enclosures

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Patrick K. Decker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended June 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Patrick K. Decker

Patrick K. Decker
President and Chief Executive Officer

Date: August 3, 2021

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sandra E. Rowland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended June 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Sandra E. Rowland

Sandra E. Rowland
Senior Vice President and Chief Financial Officer

Date: August 3, 2021

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the “Company”) for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrick K. Decker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick K. Decker
Patrick K. Decker
President and Chief Executive Officer
August 3, 2021

A signed original of this written statement required by Section 906 has been provided to Xylem Inc. and will be retained by Xylem Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the “Company”) for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sandra E. Rowland, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sandra E. Rowland
Sandra E. Rowland
Senior Vice President and Chief Financial Officer
August 3, 2021

A signed original of this written statement required by Section 906 has been provided to Xylem Inc. and will be retained by Xylem Inc. and furnished to the Securities and Exchange Commission or its staff upon request.