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, 2020

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 and post 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 24, 2020, there were 179,959,293 outstanding shares of the registrant’s common stock, par value $0.01 per share.

Xylem Inc.

Table of Contents

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,	**2020**	2019	**2020**	2019
Revenue	**$ 1,160**	$ 1,345	**$ 2,283**	$ 2,582
Cost of revenue	**726**	819	**1,440**	1,582
Gross profit	**434**	526	**843**	1,000
Selling, general and administrative expenses	**288**	294	**585**	597
Research and development expenses	**44**	47	**93**	98
Restructuring and asset impairment charges	**48**	14	**50**	25
Operating income	**54**	171	**115**	280
Interest expense	**18**	18	**34**	36
Other non-operating (expense) income, net	**(1)**	3	**(4)**	5
Gain from sale of business	**—**	—	**—**	1
Income before taxes	**35**	156	**77**	250
Income tax expense	**4**	17	**8**	32
Net income	**$ 31**	$ 139	**$ 69**	$ 218
Earnings per share:				
Basic	**$ 0.17**	$ 0.77	**$ 0.38**	$ 1.21
Diluted	**$ 0.17**	$ 0.77	**$ 0.38**	$ 1.20
Weighted average number of shares:				
Basic	**180.0**	180.0	**180.1**	179.9
Diluted	**180.6**	181.2	**181.0**	181.1

See accompanying notes to condensed consolidated financial statements.

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

	Three Months		Six Months	
For the period ended June 30,	**2020**	2019	**2020**	2019
Net income	**$ 31**	$ 139	**$ 69**	$ 218
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustment	**35**	(18)	**(43)**	11
Net change in derivative hedge agreements:				
Unrealized gain (loss)	**6**	—	**4**	(9)
Amount of loss reclassified into net income	**—**	2	**3**	4
Net change in postretirement benefit plans:				
Amortization of prior service credit	**(1)**	(1)	**(2)**	(2)
Amortization of net actuarial loss into net income	**5**	3	**10**	6
Other comprehensive income (loss), before tax	**45**	(14)	**(28)**	10
Income tax (benefit) expense related to items of other comprehensive income (loss)	**(7)**	(3)	**7**	1
Other comprehensive income (loss), net of tax	**52**	(11)	**(35)**	9
Comprehensive income	**$ 83**	$ 128	**$ 34**	$ 227
Less: comprehensive loss attributable to noncontrolling interests	**—**	—	**(1)**	—
Comprehensive income attributable to Xylem	**$ 83**	$ 128	**$ 35**	$ 227

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, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,577**	$ 724
Receivables, less allowances for discounts, returns and doubtful accounts of $35 and $35 in 2020 and 2019, respectively	**956**	1,036
Inventories	**595**	539
Prepaid and other current assets	**173**	151
Total current assets	**3,301**	2,450
Property, plant and equipment, net	**635**	658
Goodwill	**2,820**	2,839
Other intangible assets, net	**1,108**	1,174
Other non-current assets	**580**	589
Total assets	**$ 8,444**	$ 7,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 498**	$ 597
Accrued and other current liabilities	**663**	628
Short-term borrowings and current maturities of long-term debt	**212**	276
Total current liabilities	**1,373**	1,501
Long-term debt	**3,031**	2,040
Accrued postretirement benefits	**446**	445
Deferred income tax liabilities	**304**	310
Other non-current accrued liabilities	**425**	447
Total liabilities	**5,579**	4,743
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Common Stock – par value $0.01 per share:		
Authorized 750.0 shares, issued 194.5 shares and 193.9 shares in 2020 and 2019, respectively	**2**	2
Capital in excess of par value	**2,012**	1,991
Retained earnings	**1,838**	1,866
Treasury stock – at cost 14.5 shares and 13.7 shares in 2020 and 2019, respectively	**(587)**	(527)
Accumulated other comprehensive loss	**(409)**	(375)
Total stockholders' equity	**2,856**	2,957
Non-controlling interests	**9**	10
Total equity	**2,865**	2,967
Total liabilities and stockholders' equity	**$ 8,444**	$ 7,710

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,	**2020**	2019
Operating Activities		
Net income	**$ 69**	$ 218
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**58**	58
Amortization	**68**	69
Share-based compensation	**16**	16
Restructuring and asset impairment charges	**50**	25
Gain from sale of business	**—**	(1)
Other, net	**18**	4
Payments for restructuring	**(12)**	(12)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	**48**	(68)
Changes in inventories	**(63)**	(10)
Changes in accounts payable	**(86)**	(23)
Other, net	**13**	(70)
Net Cash – Operating activities	**179**	206
Investing Activities		
Capital expenditures	**(95)**	(129)
Acquisitions of businesses, net of cash acquired	**—**	(18)
Proceeds from sale of business	**—**	(2)
Other, net	**7**	3
Net Cash – Investing activities	**(88)**	(146)
Financing Activities		
Short-term debt issued, net	**359**	257
Short-term debt repaid	**(422)**	(113)
Long-term debt issued, net	**987**	—
Repurchase of common stock	**(60)**	(39)
Proceeds from exercise of employee stock options	**5**	8
Dividends paid	**(95)**	(87)
Other, net	**—**	(1)
Net Cash – Financing activities	**774**	25
Effect of exchange rate changes on cash	**(12)**	2
Net change in cash and cash equivalents	**853**	87
Cash and cash equivalents at beginning of year	**724**	296
Cash and cash equivalents at end of period	**$ 1,577**	$ 383
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ 45**	$ 45
Income taxes (net of refunds received)	**$ 11**	$ 74

See accompanying notes to condensed consolidated financial statements.

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 19, "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, 2019 ("2019 Annual Report") in preparing these unaudited condensed consolidated financial statements, with the exception of accounting standard updates described in Note 2. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes included in our 2019 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, postretirement obligations and assets, revenue recognition, income tax contingency accruals and valuation allowances, goodwill and indefinite lived intangible impairment testing, contingent liabilities and lease accounting. The global outbreak of the novel coronavirus (COVID-19) disease was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020 and 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. Recently Issued Accounting Pronouncements

Recently Adopted Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," amending the accounting for the impairment of financial instruments, including trade receivables. Under previous guidance, credit losses were recognized when the applicable losses had a probable likelihood of occurring and this assessment was based on past events and current conditions. The amended current guidance eliminates the “probable” threshold and requires an entity to use a broader range of information, including forecast information when estimating expected credit losses. Generally, this should result in a more timely recognition of credit losses. This guidance is effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted for interim and annual periods beginning after December 15, 2018. The requirements of the amended guidance should be applied using a modified retrospective approach except for debt securities, which require a prospective transition approach. We adopted this guidance as of January 1, 2020. The adoption of this guidance did not have a material impact on our financial condition and results of operations.

Note 3. Acquisitions and Divestitures

Acquisitions

During the three and six months ended June 30, 2020 we spent approximately $0 million, net of cash received on acquisition activity.

During the three and six months ended June 30, 2019 we spent approximately $13 million and $18 million, net of cash received on acquisition activity, respectively.

Note 4. Revenue

Disaggregation of Revenue

The following table illustrates the sources of revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2020	2019	2020	2019
Revenue from contracts with customers	**$ 1,114**	$ 1,281	**$ 2,188**	$ 2,459
Lease Revenue	**46**	64	**95**	123
Total	**$ 1,160**	$ 1,345	**$ 2,283**	$ 2,582

The following table reflects revenue from contracts with customers by application:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2020	2019	2020	2019
Water Infrastructure				
Transport	**$ 350**	$ 396	**$ 668**	$ 742
Treatment	**105**	101	**176**	178
Applied Water				
Building Services	**187**	216	**374**	429
Industrial Water	**150**	178	**301**	344
Measurement & Control Solutions				
Water	**161**	195	**344**	394
Energy	**70**	85	**142**	158
Software as a Service	**23**	25	**44**	49
Test	**68**	85	**139**	165
Total	**$ 1,114**	$ 1,281	**$ 2,188**	$ 2,459

The following table reflects revenue from contracts with customers by geographical region:

(in millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Water Infrastructure				
United States	**$ 144**	$ 160	**$ 265**	$ 293
Europe	**177**	179	**334**	339
Asia Pacific	**81**	94	**140**	168
Other	**53**	64	**105**	120
Applied Water				
United States	**183**	212	**374**	413
Europe	**81**	92	**163**	186
Asia Pacific	**36**	41	**60**	80
Other	**38**	49	**79**	94
Measurement & Control Solutions				
United States	**212**	252	**433**	488
Europe	**58**	64	**132**	136
Asia Pacific	**25**	27	**47**	59
Other	**26**	47	**56**	83
Total	**$ 1,114**	$ 1,281	**$ 2,188**	$ 2,459

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, 2019	$ 96	$ 113
Additions, net	55	84
Revenue recognized from opening balance	—	(66)
Billings	(50)	—
Other	10	—
Balance at June 30, 2019	$ 111	$ 131
Balance at January 1, 2020	**$ 106**	**$ 135**
Additions, net	**63**	**85**
Revenue recognized from opening balance	**—**	**(70)**
Billings	**(60)**	**—**
Other	**(2)**	**(4)**
Balance at June 30, 2020	**$ 107**	**$ 146**

(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, 2020, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied for contracts with performance obligations, amount to $467 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 5. Restructuring and Asset Impairment Charges

Restructuring

In response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic, on June 2, 2020 management committed to restructuring activities across our businesses and functions globally. The plan is designed to support our long-term financial resilience and simplify our operations, strengthen our competitive positioning and better serve our customers.

As a result of this action, 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 segments and asset impairments within our Measurement & Control Solutions segment. Immaterial restructuring charges incurred during the first quarter are included in the plan information presented below.

During the three and six months ended June 30, 2019, we recognized restructuring charges of $14 million and $22 million, respectively. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount and consolidation of facilities within our Measurement & Control Solutions and Water Infrastructure segments, as well as headcount reductions within our Applied Water segment.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2020**	2019	**2020**	2019
By component:				
Severance and other charges	**$ 21**	$ 13	**$ 23**	$ 20
Lease related charges	**—**	—	**—**	1
Asset impairment	**17**	1	**17**	1
Total restructuring charges	**$ 38**	$ 14	**$ 40**	$ 22
Asset impairment	**10**	—	**10**	3
Total restructuring and asset impairment charges	**$ 48**	$ 14	**$ 50**	$ 25
By segment:				
Water Infrastructure	**$ 6**	$ 7	**$ 8**	$ 11
Applied Water	**2**	2	**2**	2
Measurement & Control Solutions	**40**	5	**40**	12

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, 2020 and 2019:

(in millions)	2020	2019
Restructuring accruals - January 1	**$ 27**	$ 5
Restructuring charges	**40**	22
Cash payments	**(12)**	(12)
Asset impairment	**(17)**	(1)
Foreign currency and other	**(1)**	—
Restructuring accruals - June 30	**$ 37**	$ 14
By segment:		
Water Infrastructure	**$ 4**	$ 4
Applied Water	**1**	2
Measurement & Control Solutions	**27**	5
Regional selling locations (a)	**4**	3
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 for actions commenced as of June 30, 2020:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2020:					
Total expected costs	$ 28	$ 13	$ 34	$ 3	$ 78
Costs incurred during Q1 2020	1	—	—	—	1
Costs incurred during Q2 2020	5	2	30	—	37
Total expected costs remaining	**$ 22**	**$ 11**	**$ 4**	**$ 3**	**$ 40**
Actions Commenced in 2019:					
Total expected costs	$ 20	$ 5	$ 27	$ —	$ 52
Costs incurred during 2019	18	5	27	—	50
Costs incurred during Q1 2020	1	—	—	—	1
Costs incurred during Q2 2020	1	—	—	—	1
Total expected costs remaining	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Actions Commenced in 2017:					
Total expected costs	$ 8	$ 5	$ 4	$ —	$ 17
Costs incurred during 2017	5	4	2	—	11
Costs incurred during 2018	2	1	1	—	4
Costs incurred during 2019	1	—	1	—	2
Costs incurred during Q1 2020	—	—	—	—	—
Costs incurred during Q2 2020	—	—	—		—
Total expected costs remaining	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

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 2021. The Water Infrastructure, Applied Water, and Measurement & Control Solutions actions commenced in 2019 consist primarily of severance charges. The actions commenced in 2019 are complete. The Water Infrastructure, Applied Water and Measurement & Control Solutions actions commenced in 2017 consist primarily of severance charges and are complete.

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 9, "Goodwill and Other Intangible Assets," for additional information.

During the first quarter of 2019 we determined that certain assets within our Measurement & Control Solutions segment, including a customer relationship, were impaired. Accordingly we recognized an impairment charge of $3 million. Refer to Note 9, "Goodwill and Other Intangible Assets," for additional information.

Note 6. 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, 2020 was $4 million resulting in an effective tax rate of 10.9%, compared to a $17 million expense resulting in an effective tax rate of 10.5% for the same period in 2019. The income tax provision for the six months ended June 30, 2020 was $8 million resulting in an effective tax rate of 10.4%, compared to a $32 million expense resulting in an effective tax rate of 12.8% for the same period in 2019. The effective tax rate for the three and six month periods ended June 30, 2020 differs from the United States federal statutory rate primarily due to the mix of earnings in jurisdictions, 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, 2020 differs from the same periods in 2019 due to the relative impact of the benefit from favorable equity compensation deductions on the effective tax rate as well as release of unrecognized tax benefits in 2020, offset by changes in tax law in Switzerland in 2019.

Unrecognized Tax Benefits

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities or litigation, based on the technical merits of the position. The tax benefits recognized in the condensed consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The amount of unrecognized tax benefits at June 30, 2020 was $126 million, as compared to $129 million at December 31, 2019, which if ultimately recognized will reduce our effective tax rate. We believe that it is reasonably possible that the unrecognized tax benefits will be reduced by approximately $1 million within the next 12 months as a result of the expiration of certain statutes of limitations. We classify interest expense relating to unrecognized tax benefits as a component of other non-operating expense, net, and tax penalties as a component of income tax expense in our Condensed Consolidated Income Statements. As of June 30, 2020, we had $9 million of interest accrued for 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, 2020, we have not recorded any unrecognized tax benefits related to this uncertain tax position.

Note 7. 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,	
	2020	2019	**2020**	2019
Net income (in millions)	**$ 31**	$ 139	**$ 69**	$ 218
Shares (in thousands):				
Weighted average common shares outstanding	**179,933**	179,964	**180,043**	179,842
Add: Participating securities (a)	**32**	35	**29**	30
Weighted average common shares outstanding — Basic	**179,965**	179,999	**180,072**	179,872
Plus incremental shares from assumed conversions: (b)				
Dilutive effect of stock options	**563**	832	**644**	834
Dilutive effect of restricted stock units and performance share units	**79**	322	**234**	427
Weighted average common shares outstanding — Diluted	**180,607**	181,153	**180,950**	181,133
Basic earnings per share	**$ 0.17**	$ 0.77	**$ 0.38**	$ 1.21
Diluted earnings per share	**$ 0.17**	$ 0.77	**$ 0.38**	$ 1.20

(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 15, "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)	**2020**	2019	**2020**	2019
Stock options	**1,766**	1,418	**1,567**	1,406
Restricted stock units	**441**	382	**377**	365
Performance share units	**313**	455	**299**	463

Note 8. Inventories

The components of total inventories are summarized as follows:

(in millions)	**June 30, 2020**	December 31, 2019
Finished goods	**$ 234**	$ 212
Work in process	**54**	47
Raw materials	**307**	280
Total inventories	**$ 595**	$ 539

Note 9. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2020 are as follows:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Balance as of January 1, 2020	$ 651	$ 513	$ 1,675	$ 2,839
Activity in 2020				
Foreign currency and other	(3)	(1)	(15)	(19)
Balance as of June 30, 2020	**$ 648**	**$ 512**	**$ 1,660**	**$ 2,820**

Other Intangible Assets

Information regarding our other intangible assets is as follows:

	June 30, 2020			December 31, 2019		
(in millions)	**Carrying Amount**	**Accumulated Amortization**	**Net Intangibles**	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	**$ 922**	**$ (374)**	**$ 548**	$ 945	$ (352)	$ 593
Proprietary technology and patents	**200**	**(117)**	**83**	204	(111)	93
Trademarks	**139**	**(55)**	**84**	148	(52)	96
Software	**449**	**(227)**	**222**	428	(206)	222
Other	**21**	**(16)**	**5**	20	(16)	4
Indefinite-lived intangibles	**166**	**—**	**166**	166	—	166
Other Intangibles	**$ 1,897**	**$ (789)**	**$ 1,108**	$ 1,911	$ (737)	$ 1,174

Amortization expense related to finite-lived intangible assets was $33 million and $68 million for the three and six month periods ended June 30, 2020, respectively, and $34 million and $69 million for the three and six month periods ended June 30, 2019, 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.

During the first quarter of 2019, we determined that the intended use of a finite-lived customer relationship within the test application of our Measurement & Control Solutions segment had changed. Accordingly we recorded a $3 million impairment charge. The charge was calculated using the income approach and is reflected in “Restructuring and asset impairment charges” in our Condensed Consolidated Income Statements.

Note 10. 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 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 $257 million and $0 million as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020, 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 $100 million, $83 million, $25 million, $16 million, $15 million and $13 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 2019 we entered into additional cross currency swaps. The total notional amount of derivative instruments designated as net investment hedges was $720 million and $714 million as of June 30, 2020 and December 31, 2019, respectively.

In July 2020, we entered into additional cross currency swaps with a notional amount $425 million to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate.

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 $559 million and $554 million as of June 30, 2020 and December 31, 2019, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2020**	2019	**2020**	2019
Cash Flow Hedges				
Foreign Exchange Contracts				
Amount of gain (loss) recognized in OCI	**$ 6**	$ —	**$ 4**	$ (9)
Amount of (gain) loss reclassified from OCI into revenue	**(1)**	1	**1**	2
Amount of loss reclassified from OCI into cost of revenue	**1**	1	**2**	2
Net Investment Hedges				
Cross Currency Swaps				
Amount of gain (loss) recognized in OCI	**$ (22)**	$ (8)	**$ 23**	$ (1)
Amount of income recognized in Interest Expense	**5**	4	**$ 9**	$ 7
Foreign Currency Denominated Debt				
Amount of gain (loss) recognized in OCI	**$ (15)**	$ (6)	**$ (5)**	$ 1

As of June 30, 2020, $4 million of net gains on cash flow hedges are expected to be reclassified into earnings in the next 12 months.

As of June 30, 2020, 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 foreign exchange contracts currently included in our hedging program designated as hedging instruments were as follows:

(in millions)	June 30, 2020	December 31, 2019
Derivatives designated as hedging instruments		
Assets		
Cash Flow Hedges		
Other current assets	**$ 4**	$ —
Net Investment Hedges		
Other non-current assets	**$ 19**	$ 4
Liabilities		
Net Investment Hedges		
Other non-current accrued liabilities	**$ (13)**	$ (24)

The fair value of our long-term debt, due in 2023, designated as a net investment hedge was $582 million and $591 million as of June 30, 2020 and December 31, 2019, respectively.

Note 11. Accrued and Other Current Liabilities

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

(in millions)	June 30, 2020	December 31, 2019
Compensation and other employee benefits	**$ 196**	$ 199
Customer-related liabilities	**166**	153
Accrued taxes	**83**	79
Lease liabilities	**57**	61
Accrued warranty costs	**56**	36
Other accrued liabilities	**105**	100
Total accrued and other current liabilities	**$ 663**	$ 628

Note 12. Credit Facilities and Debt

Total debt outstanding is summarized as follows:

(in millions)	June 30, 2020	December 31, 2019
1.950% Senior Notes due 2028 (a)	**$ 500**	$ —
2.250% Senior Notes due 2031 (a)	**500**	—
4.875% Senior Notes due 2021 (b)	**600**	600
2.250% Senior Notes due 2023 (b)	**562**	557
3.250% Senior Notes due 2026 (b)	**500**	500
4.375% Senior Notes due 2046 (b)	**400**	400
Commercial paper	**50**	276
Other	**162**	—
Debt issuance costs and unamortized discount (c)	**(31)**	(17)
Total debt	**3,243**	2,316
Less: short-term borrowings and current maturities of long-term debt	**212**	276
Total long-term debt	**$ 3,031**	$ 2,040

(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 2028 and 2031 was $504 million and $503 million, respectively, as of June 30, 2020.

(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 2021 was $630 million and $629 million as of June 30, 2020 and December 31, 2019, respectively. The fair value of our Senior Notes due 2023 was $582 million and $591 million as of June 30, 2020 and December 31, 2019, respectively. The fair value of our Senior Notes due 2026 was $551 million and $518 million as of June 30, 2020 and December 31, 2019, respectively. The fair value of our Senior Notes due 2046 was $439 million and $431 million as of June 30, 2020 and December 31, 2019, 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 beginning on January 30, 2021. As of June 30, 2020, 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, subject to exceptions, to incur debt secured by liens and engage in sale and leaseback transactions, as well as provide for customary events of default (subject, in certain cases, to receipt of notice of default and/or customary grace and cure periods). 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, 2020, 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 score. 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 Environmental, Social and Governance 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 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 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 test maximum leverage ratio. The amendment also restricts 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, 2020, 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, 2020 and December 31, 2019, $50 million and $0 million of the U.S. Dollar commercial paper program was outstanding, respectively, at a weighted average interest rate of 2.18%. 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 $562 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, 2020 and December 31, 2019, $0 million and $276 million of the Company's Euro commercial paper program was outstanding, respectively. We have the ability to continue borrowing under this program going forward in future periods.

Term Loan Facilities

ING Bank Term Loan Facility

On April 25, 2020, the Company’s subsidiary, Xylem Europe GmbH (the “borrower”) entered into a 12-month €100 million (approximately $112 million) term loan facility, the terms of which are set forth in a term loan agreement among the borrower, the Company, as parent guarantor and ING Bank. The Company entered into a parent guarantee in favor of ING Bank also dated April 25, 2020 to secure all present and future obligations of the borrower under the Term Loan Agreement. Borrowings accrue interest at a rate equal to the EURIBOR or a replacement base rate, plus an applicable margin based on Xylem's credit rating. Xylem will also pay quarterly fees whether such commitment is used or unused. The full amount of $112 million has been drawn as of June 30, 2020 at a weighted average interest rate of 1.40%.

Australia & New Zealand Banking Group Limited Term Loan Facility

On April 30, 2020, the Company entered into a 12-month $50 million term loan facility the terms of which are set forth in a term loan agreement among the Company and Australia and New Zealand Banking Group Limited. Borrowings accrue interest at a rate equal to an adjusted LIBOR rate plus 1.50%. The full amount of $50 million has been drawn as of June 30, 2020 at a weighted average interest rate of 2.26%.

Note 13. Postretirement Benefit Plans

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

(in millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Domestic defined benefit pension plans:				
Service cost	**$ 1**	$ —	**$ 2**	$ 1
Interest cost	**1**	1	**2**	2
Expected return on plan assets	**(2)**	(2)	**(4)**	(4)
Amortization of net actuarial loss	**1**	1	**2**	1
Net periodic benefit cost	**$ 1**	$ —	**$ 2**	$ —
International defined benefit pension plans:				
Service cost	**$ 3**	$ 2	**$ 6**	$ 5
Interest cost	**3**	5	**6**	10
Expected return on plan assets	**(3)**	(9)	**(6)**	(18)
Amortization of net actuarial loss	**3**	2	**6**	4
Net periodic benefit cost	**$ 6**	$ —	**$ 12**	$ 1
Total net periodic benefit cost	**$ 7**	$ —	**$ 14**	$ 1

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

The total net periodic benefit cost for other postretirement 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, 2020. The total net periodic benefit cost for other postretirement employee benefit plans was less than $1 million for both the three and six months ended June 30, 2019, including net credits recognized into other comprehensive income of $1 million for both the three and six months ended June 30, 2019.

We contributed $16 million and $9 million to our defined benefit plans during the six months ended June 30, 2020 and 2019, respectively. Additional contributions ranging between approximately $5 million and $15 million are expected during the remainder of 2020.

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 UK, 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 2021. 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. As a result of the change in assets from a mix of equities and bonds to the bulk annuity, the plan's expected rate of return on assets was reduced to 1.00% at December 31, 2019. The rate at December 31, 2018 was 7.25%. On January 27, 2020, the plan's assets of $336 million were transferred to the insurance company for the purchase of the bulk annuity.

Note 14. Equity

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 Income (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

The following table shows the changes in stockholders' equity for the six months ended June 30, 2019:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2019	$ 2	$ 1,950	$ 1,639	$ (336)	$ (487)	$ 14	$ 2,782
Sale of business	—	—	—	—	—	(2)	(2)
Net income	—	—	79	—	—	—	79
Other comprehensive income, net	—	—	—	20	—	—	20
Dividends declared ($0.24 per share)	—	—	(44)	—	—	—	(44)
Stock incentive plan activity	—	12	—	—	(14)	—	(2)
Repurchase of common stock	—	—	—	—	(25)	—	(25)
Balance at March 31, 2019	$ 2	$ 1,962	$ 1,674	$ (316)	$ (526)	$ 12	$ 2,808
Net income	—	—	139	—	—	—	139
Other comprehensive loss, net	—	—	—	(11)	—	—	(11)
Dividends declared ($0.24 per share)	—	—	(43)	—	—	—	(43)
Stock incentive plan activity	—	13	—	—	—	—	13
Balance at June 30, 2019	$ 2	$ 1,975	$ 1,770	$ (327)	$ (526)	$ 12	$ 2,906

Note 15. Share-Based Compensation Plans

Share-based compensation expense was $8 million and $16 million during the three and six months ended June 30, 2020, respectively, and $7 million and $16 million during the three and six months ended June 30, 2019, respectively. The unrecognized compensation expense related to our stock options, restricted stock units and performance share units was $9 million, $29 million and $14 million, respectively, at June 30, 2020 and is expected to be recognized over a weighted average period of 2.2, 2.1 and 2.2 years, respectively. The amount of cash received from the exercise of stock options was $5 million and $8 million for the six months ended June 30, 2020 and 2019, respectively.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2020:

	Share units (in thousands)	Weighted Average Exercise Price / Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2020	2,040	$ 48.56	6.3	
Granted	548	74.00		
Exercised	(131)	41.03		
Forfeited and expired	(40)	77.28		
Outstanding at June 30, 2020	**2,417**	**$ 54.27**	**6.7**	**$ 34**
Options exercisable at June 30, 2020	**1,615**	**$ 44.49**	**5.4**	**$ 33**
Vested and expected to vest as of June 30, 2020	**2,309**	**$ 53.36**	**6.6**	**$ 33**

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, 2020 was $5.6 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 2020 grants:

Volatility	**24.07 %**
Risk-free interest rate	**15.12 %**
Dividend yield	**1.43 %**
Expected term (in years)	**5.8**
Weighted-average fair value / share	**$ 14.69**

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 United States 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, 2020. 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, 2020	512	$ 68.95
Granted	317	75.01
Vested	(237)	63.32
Forfeited	(21)	74.16
Outstanding at June 30, 2020	**571**	**$ 74.42**

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, 2020. 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, 2020	225	$ 64.51
Granted	78	78.30
Vested	(89)	49.15
Forfeited	(8)	77.05
Outstanding at June 30, 2020	**206**	**$ 75.89**

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, 2020:

	Share units (in thousands)	Weighted Average Grant Date Fair Value /Share
Outstanding at January 1, 2020	225	$ 75.80
Granted	78	100.69
Adjustment for Market Condition Achieved (a)	35	49.15
Vested	(124)	49.15
Forfeited	(8)	77.05
Outstanding at June 30, 2020	**206**	**$ 96.47**

(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 2020 grants:

Volatility	**22.6 %**
Risk-free interest rate	**1.08 %**

Note 16. Capital Stock

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. For the three and six months ended June 30, 2019, the Company repurchased less than 0.1 million shares for less than $1 million and approximately 0.5 million shares for $39 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, 2020. For the six months ended June 30, 2020, we repurchased approximately 0.7 million shares for $50 million. There were no shares repurchased under the program for the three months ended June 30, 2019. For the six months ended June 30, 2019, we repurchased approximately 0.3 million shares for $25 million. There are up to $288 million in shares that may still be purchased under this plan as of June 30, 2020.

Aside from the aforementioned repurchase program, we repurchased less than 0.1 million shares and approximately 0.1 million shares for less than $1 million and approximately $10 million for the three and six months ended June 30, 2020, 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 0.2 million shares for less than $1 million and approximately $14 million for the three and six months ended June 30, 2019, respectively.

Note 17. Accumulated Other Comprehensive Loss

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

(in millions)	Foreign Currency Translation	Postretirement 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 postretirement benefit plans into other non-operating income (expense), net	—	4	—	4
Income tax impact on amortization of postretirement 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 postretirement benefit plans into other non-operating income (expense), net	—	4	—	4
Income tax impact on amortization of postretirement 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)

The following table provides the components of accumulated other comprehensive loss for the six months ended June 30, 2019:

(in millions)	Foreign Currency Translation		Postretirement Benefit Plans		Derivative Instruments		Total	
Balance at January 1, 2019	$	(121)	$	(214)	$	(1)	$	(336)
Foreign currency translation adjustment		29		—		—		29
Tax on foreign currency translation adjustment		(4)		—		—		(4)
Amortization of prior service cost and net actuarial loss on postretirement benefit plans into other non-operating income (expense), net		—		2		—		2
Income tax impact on amortization of postretirement benefit plan items		—		(1)		—		(1)
Unrealized loss on derivative hedge agreements		—		—		(9)		(9)
Income tax benefit on unrealized loss on derivative hedge agreements		—		—		1		1
Reclassification of unrealized loss on derivative hedge agreements into revenue		—		—		1		1
Reclassification of unrealized loss on foreign exchange agreements into cost of revenue		—		—		1		1
Balance at March 31, 2019	$	(96)	$	(213)	$	(7)	$	(316)
Foreign currency translation adjustment		(18)		—		—		(18)
Tax on foreign currency translation adjustment		3		—		—		3
Amortization of prior service cost and net actuarial loss on postretirement benefit plans into other non-operating income (expense), net		—		2		—		2
Reclassification of unrealized loss 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, 2019	$	(111)	$	(211)	$	(5)	$	(327)

Note 18. 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 and 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), Exelis and Xylem, ITT Corporation (now 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 Corporation (now ITT LLC) remains a substantial entity with sufficient financial resources to honor its obligations to us.

See Note 6, "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 $4 million and $5 million as of June 30, 2020 and December 31, 2019, respectively, for these general legal matters.

Indemnifications

As part of our 2011 spin-off from our former parent, ITT Corporation (now ITT LLC), Exelis 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. The former parent'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. On May 29, 2015, Harris Inc. acquired Exelis. As the parent of Exelis, Harris Inc. is responsible for Exelis' indemnification obligations under the Distribution Agreement.

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, 2020 and December 31, 2019, the amount of surety bonds, bank guarantees, insurance letters of credit and stand-by letters of credit was $298 million and $340 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 United States 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 June 30, 2020 and December 31, 2019 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 the changes in our product warranty accrual:

(in millions)	**2020**	2019
Warranty accrual – January 1	**$ 41**	$ 60
Net charges for product warranties in the period	**34**	11
Settlement of warranty claims	**(15)**	(23)
Warranty accrual - June 30	**$ 60**	$ 48

Note 19. Segment Information

Our business has three reportable segments: Water Infrastructure, Applied Water and Measurement & Control Solutions. When determining the reportable segments, the Company aggregated operating segments based on their similar economic and operating characteristics. 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 2019 Annual Report). The following tables contain financial information for each reportable segment:

(in millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenue:				
Water Infrastructure	$ 501	$ 561	$ 939	$ 1,043
Applied Water	337	394	675	773
Measurement & Control Solutions	322	390	669	766
Total	$ 1,160	$ 1,345	$ 2,283	$ 2,582
Operating Income:				
Water Infrastructure	$ 73	$ 98	$ 112	$ 149
Applied Water	41	62	88	118
Measurement & Control Solutions	(46)	26	(58)	42
Corporate and other	(14)	(15)	(27)	(29)
Total operating income	$ 54	$ 171	$ 115	$ 280
Interest expense	$ 18	$ 18	$ 34	$ 36
Other non-operating (expense) income, net	(1)	3	(4)	5
Gain from sale of business	—	—	—	1
Income before taxes	$ 35	$ 156	$ 77	$ 250
Depreciation and Amortization:				
Water Infrastructure	$ 16	$ 16	$ 31	$ 31
Applied Water	5	6	11	12
Measurement & Control Solutions	34	35	70	71
Regional selling locations (a)	7	4	11	8
Corporate and other	—	2	3	5
Total	$ 62	$ 63	$ 126	$ 127
Capital Expenditures:				
Water Infrastructure	$ 8	$ 21	$ 18	$ 51
Applied Water	3	4	12	10
Measurement & Control Solutions	24	29	51	53
Regional selling locations (b)	8	5	12	9
Corporate and other	1	1	2	6
Total	$ 44	$ 60	$ 95	$ 129

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

This Report contains information that may constitute “forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” "contemplate," "predict," “forecast,” “believe,” “target,” “will,” “could,” “would,” “should,” "potential," "may" and similar expressions identify forward-looking statements. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include any statements that are not historical in nature, including any statements about the capitalization of Xylem Inc. (the "Company"), the Company’s restructuring and realignment plans, future strategic plans and other statements that describe the Company’s business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future - including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results - are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements. Many of these risks and uncertainties are currently amplified by and may continue to be amplified by, or in the future may be amplified by, the novel coronavirus ("COVID-19") pandemic.

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions; uncertainty of the magnitude, duration, geographic reach and impact on the global economy of the COVID-19 pandemic; the current, and uncertain future, impact of the COVID-19 pandemic on our business, growth, projections, financial condition, operations, cash flows, and liquidity, including the impact of adverse economic conditions caused by the COVID-19 pandemic on our performance or customer markets; actual or potential other epidemics, pandemics or global health crises; geopolitical and other risks associated with our international operations, including military actions, protectionism, economic sanctions or trade barriers including tariffs and embargoes that could affect customer markets and our business, and non-compliance with laws, including foreign corrupt practice laws, data privacy, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; disruption, competition and pricing pressures in the markets we serve; industrial, governmental and private sector spending; the strength of housing and related markets; weather conditions; ability to retain and attract talent and key members of management; our relationship with and the performance of our supply chain including channel partners; our ability to successfully identify, complete and integrate acquisitions; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; changes in the value of goodwill or intangible assets; the preliminary nature of our cost and savings estimates related to restructuring, realignment and related charges, including the timing of such charges and savings, which are subject to change as the Company makes decisions and refines estimates over time; timing delays in implementing restructuring, realignment and strategic initiatives; our ability to realize all of the cost savings anticipated in connection with restructuring and realignment; management and employee distraction resulting from restructuring actions; our ability to continue making strategic investments for growth; risks relating to product defects, product security, product liability and recalls; claims or investigations by governmental or regulatory bodies; cybersecurity attacks, breaches or other disruptions of information technology systems on which we rely; our sustainability initiatives; the anticipated use of proceeds from our green bond offering, including any failure to allocate the net proceeds to eligible green projects, or to meet or continue to meet the investment requirements of certain environmentally focused investors; litigation and contingent liabilities; and other factors set forth under “Item 1A. Risk Factors” in our 2019 Annual Report, "Item 1A. Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and in subsequent filings we have made or may make with the SEC.

All forward-looking statements made herein are based on information currently available to the Company as of the date of this Report. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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 reporting periods included herein are described as ending on the last day of the calendar quarter.

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. We also offer smart lighting solutions that improve efficiency and public safety efforts across communities. 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

The global spread of the COVID-19 pandemic has curtailed the movement of people, goods and services worldwide, including in many of the regions where we sell our products and services and conduct operations.

This section summarizes the most significant impacts related to the COVID-19 pandemic that we have experienced to date, and we have included additional details as applicable throughout other sections of this Report. Many of these impacts did not begin to be felt broadly across our businesses until the latter part of the first quarter of 2020 and continued into the second quarter. In response to the COVID-19 pandemic, Xylem deployed a COVID-19 Response Team, responsible for Xylem's Pandemic Plan, which is designed to aid in prevention, preparedness, response and recovery at our sites.

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 COVID-19 from those that are more broadly influenced by ongoing macroeconomic, market and industry dynamics that may also be, to varying degrees, related to the COVID-19 pandemic and its consequences.

Public health officials have recommended, or governments have mandated, precautions to mitigate the spread of COVID-19, including stay at home or similar measures in many of the areas in which we operate. Operationally, our production facilities located in Latin America, Europe and Asia Pacific experienced reduced production levels due to such measures. Currently our overall operating capacity remains just over 90% globally, with all of our production facilities operational. Our production facilities continue to spread out operations over multiple shifts and implement other protective measures such as temperature screening and social distancing while maintaining operational capabilities in order to maintain a safe work environment.

The COVID-19 pandemic is also adversely affecting, and is expected to continue to adversely affect, our operations, supply chains and businesses. While we expect, from time to time, to experience unpredictable interruptions with our external suppliers, we have enhanced our supplier pulsing and redundancy to minimize those impacts.

To date, the most significant impacts were experienced in volume reductions ranging across all segments and major geographic regions.

Future demand for our products and services is uncertain as the COVID-19 pandemic has also had an adverse impact on many of the customers we serve. As such, we have and may continue to experience decreased or delayed demand for our products and services, as well as changes in the payment patterns of our customers. At the end of the second quarter, total backlog increased 11.8% as compared to December 31, 2019 and there has not been a notable increase in contract cancellations to date. In many cases, Xylem’s products and services are considered "essential services" under various governmental mandates, and as a result we did not experience significant issues in our ability to distribute products or services, aside from customer-driven project delays and shipping delays due to stay at home measures. However, because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain and rapidly changing, the pandemic’s ongoing and future impacts on our business, financial condition, results of operations, and stock price remains uncertain and difficult to predict, but we expect our results to continue to be adversely impacted beyond the quarter ending June 30, 2020.

In response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic, management committed to restructuring activities across our businesses and functions globally. These initiatives are designed to support our long-term financial resilience and simplify our operations, strengthen our competitive positioning and better serve our customers. In light of the uncertainty created by the COVID-19 pandemic, we have also proactively taken further cost reduction actions which include a temporary 20% reduction in the base salary of the Company's Chief Executive Officer ("CEO") and all direct reports to the CEO and a temporary 20% reduction in annual cash retainer fees payable to our Board of Directors. These temporary reductions are effective from June 1, 2020 through December 31, 2020. Additionally, we have committed to reduced capital expenditure and discretionary operating spending during the year.

Xylem has taken measures to protect the health and safety of our employees and work with our customers to minimize potential disruptions. In the first quarter, we implemented a support pay program for employees impacted by COVID-19, and an essential services premium pay program for the benefit of employees whose roles are classified as an “essential service” and, as such, are required to work either onsite at a Xylem facility or in the field supporting customers during periods of mandated stay at home or similar measures. These programs will remain in place through the third quarter of 2020 and continue to be evaluated for continuation as necessary going forward. Xylem Watermark, our corporate social responsibility program, is also supporting our communities in addressing the challenges posed by this global pandemic through its partnership with Americares and UNICEF, as well as the expansion of the Partner Community Grants program and other philanthropic commitments.

Many of our offices globally have transitioned to a fully remote work from home status, with no material disruption to operations, financial reporting systems, internal control over financial reporting or disclosure controls and procedures. As public health officials and governments ease recommendations and regulations regarding stay at home measures, our COVID-19 Response Team is applying a set of Xylem "Return to Workplace" health and safety guidelines for remote workers to return to our facilities. These guidelines require government officials to first declare an easing of their restrictions, upon which we do a full review of our site to determine its readiness and follow a phased return to work approach, all in service to help ensure the safety of our people.

We will continue to work with our customers, employees, suppliers and communities to address the impacts of COVID-19. We continue to assess possible implications to our business, supply chain and customers, and to take necessary actions in an effort to mitigate adverse consequences.

Risk related to these items are described in further detail under "Item 1A. Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

Executive Summary

Xylem reported revenue for the second quarter of 2020 of $1,160 million, a decrease of 13.8% compared to $1,345 million reported in the second quarter of 2019. On a constant currency basis, revenue decreased by $160 million, or 11.9%, driven entirely by organic declines across all segments and all end markets. Organic revenue decline during the quarter was anticipated as our business continues to be impacted by the COVID-19 pandemic.

We generated operating income of $54 million (margin of 4.7%) during the second quarter of 2020, as compared to $171 million (margin of 12.7%) in 2019. Operating income in the second quarter of 2020 included unfavorable impacts from increased restructuring and realignment costs of $22 million and special charges of $11 million incurred during the period. Excluding the impact of these items, adjusted operating income was $108 million (adjusted margin of 9.3%) during the second quarter of 2020 as compared to $192 million (adjusted margin of 14.3%) in 2019. The decrease in adjusted operating margin was primarily due to unfavorable volume, impacted significantly by COVID-19; cost inflation; increased inventory management costs; incremental COVID-19 related costs; increased spending on strategic investments and unfavorable mix. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

Additional financial highlights for the quarter ended June 30, 2020 include the following:

- Orders of $1,232 million, down 11.5% from $1,392 million in the prior year, and down 8.9% on an organic basis, impacted by the COVID-19 pandemic.
- Earnings per share of $0.17, down 77.9% when compared to the prior year ($0.40, down 49.4% on an adjusted basis).
- Net cash flow provided by operating activities of $179 million for the six months ended June 30, 2020, down $27 million from the prior year. Free cash flow of $84 million, up $7 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 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 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.

(In millions, except for per share data)	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		**2020**		2019	
Net income & Earnings per share	**$ 31**	**$ 0.17**	$ 139	$ 0.77	**$ 69**	**$ 0.38**	$ 218	$ 1.20
Restructuring and realignment, net of tax of $10 and $12 for 2020 and $4 and $8 for 2019	**33**	**0.18**	17	0.09	**40**	**0.22**	33	0.18
Special charges, net of tax of $3 and $3 for 2020 and $0 for 2019	**10**	**0.06**	—	—	**11**	**0.06**	4	0.02
Tax-related special items	**(1)**	**(0.01)**	(13)	(0.07)	**(5)**	**(0.03)**	(17)	(0.09)
Gain from sale of business, net of tax of $0 for 2019	**—**	**—**	—	—	**—**	**—**	(1)	—
Adjusted net income & Adjusted earnings per share	**$ 73**	**$ 0.40**	$ 143	$ 0.79	**$ 115**	**$ 0.63**	$ 237	$ 1.31

- "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.
- “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 other special non-operating items, such as pension adjustments.
- "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.

(In millions)	Six Months Ended June 30,	
	2020	2019
Net cash provided by operating activities	**$ 179**	$ 206
Capital expenditures	**(95)**	(129)
Free cash flow	**$ 84**	$ 77
Net cash used by investing activities	**$ (88)**	$ (146)
Net cash provided by financing activities	**$ 774**	$ 25

- “EBITDA” defined as earnings before interest, taxes, depreciation and amortization expense and "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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2020**	2019	**2020**	2019
Net Income	**$ 31**	$ 139	**$ 69**	$ 218
Income tax expense	**4**	17	**8**	32
Interest expense (income), net	**16**	18	**30**	35
Depreciation	**29**	29	**58**	58
Amortization	**33**	34	**68**	69
EBITDA	**$ 113**	$ 237	**$ 233**	$ 412
Share-based compensation	**$ 8**	$ 7	**16**	16
Restructuring and realignment	**43**	21	**52**	41
Special charges	**13**	—	**14**	4
Gain from sale of business	**—**	—	**—**	(1)
Adjusted EBITDA	**$ 177**	$ 265	**$ 315**	$ 472

2020 Outlook

We withdrew 2020 guidance on March 31, 2020 due to uncertainties caused by COVID-19. Given the continued uncertainties around the potential impact on the second half of the year, we are not reinstating full-year guidance, but we are providing the revenue outlook for the third quarter. We expect revenue to be down 10% to 14% in the third quarter, 8% to 12% organically, driven primarily by the impact of COVID-19.

The following is a summary of our revenue outlook by each of our end markets:

- Utilities revenue decreased by approximately 7% organically through the first half of the year driven by weakness in the United States, the Middle East and Asia Pacific, partially offset by strength in Europe. During 2020 we expect continued resilience on the wastewater side as essential operational spending continues and capital project funding for the year has been secured. However, the clean water utilities will continue facing workforce challenges from impacts of COVID-19 on the way in which they need to operate. We are seeing delays in project deployments, but expect to start to see modest recovery as physical distancing requirements ease. We continue to gain momentum behind key multi-year wins setting up healthy longer term growth.
- Industrial revenue decreased by approximately 13% organically through the first half of the year driven by weakness in North America, the emerging markets and western Europe. As 2020 progresses we expect industrial facilities to continue limiting access to sales teams and channel partners, causing slower orders and activity while non-essential work is deferred. Exposure to the impacts of a soft oil and gas market will continue to have an effect on both our dewatering and applied water businesses potentially leading to demand declines. We anticipate modest recovery in growth trajectory as countries and regions begin to re-open and activity resumes.
- In the commercial markets, organic revenue decline was approximately 11% through the first half of the year driven by weakness in the United States and the emerging markets. During 2020 we expect replacement business in the United States to continue to be impacted by COVID-19. We anticipate mixed performance in the institutional building sector depending on the "essential" nature of end customer. Backlog remains robust as we work to restock distributors that delayed orders early on in the pandemic.
- In the residential markets, organic revenue decline was approximately 14% through the first half of the year driven by weakness in western Europe, the United States and Asia Pacific. This market is primarily driven by replacement revenue serviced through our distribution network. As such, we anticipate primarily emergency replacement activity as a result of social distancing requirements.

In response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic, on June 2, 2020 management committed to structural cost actions across our businesses and functions globally. These plans are designed to support our long-term financial resilience and simplify our operations, strengthen our competitive positioning and better serve our customers. Additionally, we will continue to strategically execute previously announced restructuring and realignment actions, primarily to reposition our European and North American businesses in an effort to optimize our cost structure and improve our operational efficiency and effectiveness. During 2020, we expect to incur between $80 million and $100 million in restructuring and realignment costs, with approximately $25 million of these costs being non-cash charges. We expect to realize approximately $67 million of net savings in 2020, consisting of $25 million of incremental net savings from restructuring and realignment actions initiated in 2019, and approximately $42 million of net savings from the restructuring, realignment and other structural cost actions initiated during this year.

Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2020**	2019	Change	**2020**	2019	Change
Revenue	**$ 1,160**	$ 1,345	(13.8) %	**$ 2,283**	$ 2,582	(11.6) %
Gross profit	**434**	526	(17.5) %	**843**	1,000	(15.7) %
Gross margin	**37.4 %**	39.1 %	(170) bp	**36.9 %**	38.7 %	(180) bp
Total operating expenses	**380**	355	7.0 %	**728**	720	1.1 %
Expense to revenue ratio	**32.8 %**	26.4 %	640 bp	**31.9 %**	27.9 %	400 bp
Restructuring and realignment costs	**43**	21	104.8 %	**52**	41	26.8 %
Special charges	**11**	—	NM	**11**	4	175.0 %
Adjusted operating expenses	**326**	334	(2.4) %	**665**	675	(1.5) %
Adjusted operating expenses to revenue ratio	**28.1 %**	24.8 %	330 bp	**29.1 %**	26.1 %	300 bp
Operating income	**54**	171	(68.4) %	**115**	280	(58.9) %
Operating margin	**4.7 %**	12.7 %	(800) bp	**5.0 %**	10.8 %	(580) bp
Interest and other non-operating expense, net	**19**	15	26.7 %	**38**	31	22.6 %
Gain from sale of business	**—**	—	— %	**—**	1	NM
Income tax expense	**4**	17	(76.5) %	**8**	32	(75.0) %
Tax rate	**10.9 %**	10.5 %	40 bp	**10.4 %**	12.8 %	(240) bp
Net income	**$ 31**	$ 139	(77.7) %	**$ 69**	$ 218	(68.3) %

NM - Not meaningful change

Revenue

Revenue generated during the three and six months ended June 30, 2020 was $1,160 million and $2,283 million, reflecting decreases of $185 million, or 13.8%, and $299 million, or 11.6%, respectively, compared to the same prior year periods. On a constant currency basis, revenue declined 11.9% and 9.9% for the three and six months ended June 30, 2020. The decreases at constant currency consisted entirely of declines in organic revenue of $160 million and $255 million, respectively, reflecting significantly lower demand across all major geographic regions and segments largely due to COVID-19 related impacts.

The following table illustrates the impact from organic declines, recent acquisitions and divestitures, and foreign currency translation in relation to revenue during the three and six months ended June 30, 2020:

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(In millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2019 Revenue	$ 561		$ 394		$ 390		$ 1,345	
Organic Impact	(44)	(7.8)%	(51)	(12.9)%	(65)	(16.7)%	(160)	(11.9)%
Acquisitions/(Divestitures)	—	— %	—	— %	—	— %	—	— %
Constant Currency	(44)	(7.8)%	(51)	(12.9)%	(65)	(16.7)%	(160)	(11.9)%
Foreign currency translation (a)	(16)	(2.9)%	(6)	(1.5)%	(3)	(0.8)%	(25)	(1.9)%
Total change in revenue	(60)	(10.7)%	(57)	(14.5)%	(68)	(17.4)%	(185)	(13.8)%
2020 Revenue	**$ 501**		**$ 337**		**$ 322**		**$ 1,160**	

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

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(In millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2019 Revenue	$ 1,043		$ 773		$ 766		$ 2,582	
Organic Impact	(76)	(7.3)%	(89)	(11.5)%	(90)	(11.7)%	(255)	(9.9)%
Acquisitions/(Divestitures)	—	— %	—	— %	—	— %	—	— %
Constant Currency	(76)	(7.3)%	(89)	(11.5)%	(90)	(11.7)%	(255)	(9.9)%
Foreign currency translation (a)	(28)	(2.7)%	(9)	(1.2)%	(7)	(0.9)%	(44)	(1.7)%
Total change in revenue	(104)	(10.0)%	(98)	(12.7)%	(97)	(12.7)%	(299)	(11.6)%
2020 Revenue	**$ 939**		**$ 675**		**$ 669**		**$ 2,283**	

(a) Foreign currency translation impact for the year due to the weakening in value of various currencies against the U.S. Dollar, the largest being the Euro, the Norwegian Krone, the Australian Dollar, the Chinese Yuan, the South African Rand and the British Pound.

Water Infrastructure

Water Infrastructure revenue decreased $60 million, or 10.7%, for the second quarter of 2020 (7.8% decrease at constant currency) as compared to the prior year. Revenue was negatively impacted by $16 million of foreign currency translation, with the change at constant currency coming entirely from an organic decline of $44 million. Organic weakness for the quarter was primarily driven by the industrial end market, particularly in North America, due to continued soft market conditions in oil and gas and mining, as well as in the emerging markets. Organic revenue decline for the quarter was also driven by weakness in the utility end market, particularly in the United States, due to softness in the construction market as compared to the prior year, as well as in India due the market slow down as well as the lapping of a large project delivery in the prior year. Declines in the utility end market were marginally offset by organic growth in Europe during the period primarily driven by spending for operational needs in eastern Europe. Market conditions in both end markets for the segment were negatively impacted by the COVID-19 pandemic during the quarter, heavily impacting the organic revenue decline.

From an application perspective, the organic revenue decline during the second quarter was primarily driven by our transport application, where market conditions continued to soften in the United States in the dewatering applications, with construction, mining and oil and gas all down in the quarter, heavily impacted by the COVID-19 pandemic. Organic revenue decline within the transport application was also driven by softness in Asia Pacific and Latin America which were also impacted by the COVID-19 pandemic during the quarter. Organic revenue decline in the transport application was partially offset by modest growth from our treatment application, driven by project deliveries in the United States during the quarter.

For the six months ended June 30, 2020, revenue decreased $104 million, or 10.0% (7.3% decrease at constant currency) as compared to prior year. Revenue was negatively impacted by $28 million of foreign currency translation, with the change at constant currency coming entirely from an organic decline of $76 million. Organic weakness for the six month period was primarily driven by the industrial end market, particularly in North America, due to continued soft market conditions in oil and gas and mining, and in the emerging markets, where organic growth was heavily impacted by the COVID-19 pandemic during the year. Organic revenue decline during the six month period was also driven by weakness in the utility end market, particularly in the United States, due to softness in construction and the lapping of projects in the prior year, as well as in India due to the timing of project deployments in the prior year. Declines in the utility end market in these regions were partially offset by organic growth in Europe during the period. The COVID-19 pandemic negatively impacted organic growth during the period throughout the entire segment and both end markets.

From an application perspective, the organic revenue decline during the six months ended June 30, 2020 was driven by our transport application where market conditions continued to soften in United States in the dewatering applications, with construction, oil and gas and mining all down during the first half of the year. We also saw organic revenue decline within the emerging markets in the transport application, primarily driven softness in Latin America and India, with India experiencing the lapping of some large projects executed in the prior year. Organic revenue declines in the transport application for all regions were impacted by the COVID-19 pandemic during the period. Organic revenue declines within the transport application were partially offset by modest organic growth in the treatment application during the year, primarily driven by projects in the middle east.

Applied Water

Applied Water revenue decreased $57 million, or 14.5%, for the second quarter of 2020 (12.9% decrease at constant currency) as compared to the prior year. Revenue was negatively impacted by $6 million of foreign currency translation for the quarter, with the change at constant currency coming entirely from an organic decline of $51 million. Organic weakness for the quarter was driven by declines across all end markets and in all major geographic regions. Organic revenue declines in the segment were impacted by weakening market conditions during the quarter which have been accelerated by the COVID-19 pandemic, particularly in the United States, western Europe and in the emerging markets where restricted activities impacted the markets served.

From an application perspective, the organic revenue decline in the second quarter was led by weakness in the industrial water application driven by the United States, western Europe and the emerging markets, where we experienced industry softening, which has been amplified by the COVID-19 pandemic with restricted activities. The building services application in the commercial markets also experienced a decline in organic revenue during the quarter which was driven by the impact of the COVID-19 pandemic in the United States where the timing of shipments was impacted by the economic slowdown and restricted activity. Weakness in the building services application in the residential market also contributed to the organic revenue decline during the quarter, primarily in the United States and western Europe.

For the six months ended June 30, 2020, revenue decreased $98 million, or 12.7% (11.5% decrease at constant currency) as compared to the prior year. Revenue was negatively impacted by $9 million of foreign currency translation for the period, with the change at constant currency coming entirely from an organic decline of $89 million. Organic weakness during the first half of the year was driven by declines across all end markets and in all major geographic regions. Organic revenue declines in the segment were significantly driven by impacts from the COVID-19 pandemic, particularly in the United States, the emerging markets and western Europe where lockdown activities caused a slow down in the markets served and the general softening of market conditions.

From an application perspective, the organic revenue decline for the six month period was led by weakness in the building services application. The building services application in the commercial markets experienced a decline in organic revenue during the period driven by the impact of the COVID-19 pandemic in the United States, where construction was impacted by the economic slowdown, as well as in the emerging markets, particularly China and the Middle East. Weakness in the building services application in the residential market also contributed to the organic revenue decline during the first half of the year, primarily in the United States and western Europe. The segment also had organic revenue declines in the industrial water application driven by continued industry softening, which has been amplified by the COVID-19 pandemic, in the United States, western Europe and the emerging markets.

Measurement & Control Solutions

Measurement & Control Solutions revenue decreased $68 million, or 17.4%, for the second quarter of 2020 (16.7% at constant currency) as compared to the prior year. Revenue was negatively impacted by $3 million of foreign currency translation for the quarter, with the change at constant currency coming entirely from an organic decline of $65 million. Organic weakness for the quarter was driven by a decline in the utility end market, primarily in North America and the Middle East and, to a lesser extent, weakness in the industrial end market across all major geographic regions. Organic revenue declines in the segment were significantly impacted by the COVID-19 pandemic during the quarter, particularly in the United States.

From an application perspective, the organic revenue decline for the segment was driven by the water application, where the COVID-19 pandemic drove market softness in the United States, and we lapped strong project deployments in the Middle East during the second quarter of the prior year. The test application also experienced organic revenue decline during the quarter, primarily driven by the negative impacts of the COVID-19 pandemic experienced in North America and western Europe, as well as the lapping of large ocean and coastal projects in the Middle East in the prior year. Organic revenue declined in the energy application driven by large gas project deployments in the United States during the prior year that did not repeat, coupled with softening market conditions, which were negatively impacted by the COVID-19 pandemic. The software as a service ("SaaS") application had a modest decline in revenue as compared to the prior year, primarily in the United States.

For the six months ended June 30, 2020, revenue decreased $97 million, or 12.7% (11.7% at constant currency) as compared to the prior year. Revenue was negatively impacted by $7 million of foreign currency translation during the six month period, with the change at constant currency coming entirely from an organic decline of $90 million. Organic weakness for the period was driven by a decline in the utility end market, primarily in the United States, the Middle East and Asia Pacific, marginally offset by modest organic growth in western Europe during the first half of the year. Organic revenue declines in the segment were impacted by the COVID-19 pandemic during the period, particularly in the United States and the emerging markets.

From an application perspective, the organic revenue decline for the segment was driven by the water application, where the COVID-19 pandemic drove market softness in the United States and we lapped strong project deployments in the Middle East during the prior year. The test application also experienced organic revenue decline during the period across all major regions, where we experienced negative impacts from the COVID-19 pandemic, and large prior year project executions in the Middle East. The energy application and, to a lesser extent, the SaaS application also had declines in organic revenue as compared to the prior year, primarily in the United States as we lapped a few large project deployments and continue to be negatively impacted by the COVID-19 pandemic.

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 2020 were $1,232 million, a decrease of $160 million, or 11.5%, over the prior year (8.9% decrease at constant currency). Orders received during the six months ended June 30, 2020 were $2,493 million, a decrease of $214 million, or 7.9%, over the prior year (5.7% decrease at constant currency). Order intake was negatively impacted by $36 million and $59 million of foreign currency translation for the three and six months ended June 30, 2020, respectively. The change at constant currency was driven entirely by organic declines of $124 million and $155 million for the three and six months ended June 30, 2020, respectively.

The following table illustrates the impact from organic declines, recent acquisitions and divestitures, and foreign currency translation in relation to orders during the three and six months ended June 30, 2020:

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2019 Orders	$ 586		$ 399		$ 407		$ 1,392	
Organic Impact	39	6.7 %	(67)	(16.8) %	(96)	(23.6) %	(124)	(8.9) %
Acquisitions/(Divestitures)	—	— %	—	— %	—	— %	—	— %
Constant Currency	39	6.7 %	(67)	(16.8) %	(96)	(23.6) %	(124)	(8.9) %
Foreign currency translation (a)	(27)	(4.6) %	(6)	(1.5) %	(3)	(0.7) %	(36)	(2.6) %
Total change in orders	12	2.0 %	(73)	(18.3) %	(99)	(24.3) %	(160)	(11.5) %
2020 Orders	**$ 598**		**$ 326**		**$ 308**		**$ 1,232**	

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

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2019 Orders	$ 1,118		$ 793		$ 796		$ 2,707	
Organic Impact	36	3.2 %	(85)	(10.7) %	(106)	(13.3) %	(155)	(5.7) %
Acquisitions/(Divestitures)	—	— %	—	— %	—	— %	—	— %
Constant Currency	36	3.2 %	(85)	(10.7) %	(106)	(13.3) %	(155)	(5.7) %
Foreign currency translation (a)	(42)	(3.8) %	(10)	(1.3) %	(7)	(0.9) %	(59)	(2.2) %
Total change in orders	(6)	(0.5) %	(95)	(12.0) %	(113)	(14.2) %	(214)	(7.9) %
2020 Orders	**$ 1,112**		**$ 698**		**$ 683**		**$ 2,493**	

(a) Foreign currency translation impact for the year due to the weakening in value of various currencies against the U.S. Dollar, the largest being the Euro, the Norwegian Krone, the Australian Dollar, the Chinese Yuan, the South African Rand and the British Pound.

Water Infrastructure

Water Infrastructure segment orders increased $12 million, or 2.0%, to $598 million (6.7% increase at constant currency) for the second quarter of 2020 as compared to the prior year. Order intake during the quarter was negatively impacted by $27 million of foreign currency translation, with the change at constant currency coming from organic order growth in the transport application, which was partially offset by an organic decline in orders in the treatment application. Organic growth in the transport application was driven by strong order intake in India, where we had a significant project order of greater than $100 million during the quarter, partially offset by market weakness in the dewatering transport application, primarily in the United States. The treatment application saw a reduction in organic orders during the quarter, primarily in the emerging markets and North America where we had several large project orders during the prior year, and in Europe where market conditions softened. We believe the COVID-19 pandemic also negatively impacted organic order growth during the quarter.

For the six months ended June 30, 2020, orders decreased $6 million, or 0.5%, to $1,112 million (3.2% increase at constant currency) as compared to the same prior year period. Order intake during the period was negatively impacted by $42 million of foreign currency translation, with the change at constant currency coming from organic growth in orders in the transport application, which was partially offset by a modest decline in organic orders in the treatment application. Organic growth in the transport application was driven by strong order intake in India, where we had a significant project order during the second quarter of greater than $100 million, partially offset by market weakness in the transport applications, primarily driven by the dewatering application in North America. The treatment application experienced a modest organic order decline during the first half of the year, primarily driven by large project orders in the emerging markets placed during the prior year, which was partially offset by strong order intake in Europe and Latin America during the period. e believe the COVID-19 pandemic also negatively impacted organic order growth for the segment during the first half of the year.

Applied Water

Applied Water segment orders decreased $73 million, or 18.3%, to $326 million (16.8% decrease at constant currency) for the second quarter of 2020 as compared to the prior year. Order intake during the quarter was negatively impacted by $6 million of foreign currency translation. The order decrease on a constant currency basis was primarily driven by organic weakness across all end markets in the United States and reduced order intake in western Europe and the emerging markets during the quarter with continued negative impact on orders from the COVID-19 pandemic.

For the six months ended June 30, 2020, orders decreased $95 million, or 12.0%, to $698 million (10.7% decrease at constant currency) as compared to the same prior year period. Order intake during the period was negatively impacted by $10 million of foreign currency translation. The order decrease on a constant currency basis was primarily driven by organic weakness across all end markets in the United States and, to a lesser extent, reduced order intake in the emerging markets and western Europe during the period. We believe that the COVID-19 pandemic negatively impacted the organic order growth during the period.

Measurement & Control Solutions

Measurement & Control Solutions segment orders decreased $99 million, or 24.3%, to $308 million (23.6% decrease at constant currency) for the second quarter of 2020 as compared to the prior year. Order intake during the quarter was negatively impacted by $3 million of foreign currency translation. The order decrease on a constant currency basis was driven by an organic decline in the water application which was negatively impacted by the COVID-19 pandemic and the lapping of strong prior year orders. Order intake in the test application also declined organically during the quarter, driven by negative COVID-19 impacts in North America and Europe. The energy application experienced reduced order intake during the quarter as the impact from large prior year gas project deployments, coupled with the negative impact of the COVID-19 pandemic, more than offset electric order growth during the quarter. The SaaS application also saw modest organic order decline in the quarter as several of our large prior year orders did not repeat.

For the six months ended June 30, 2020, orders decreased $113 million, or 14.2%, to $683 million (13.3% decrease at constant currency) as compared to the same prior year period. Order intake during the period was negatively impacted by $7 million of foreign currency translation. The order decrease on a constant currency basis was driven by an organic decline in the water application and, to a lesser extent, the energy application, specifically driven by prior year gas project deployments, both of which were negatively impacted by the COVID-19 pandemic and the lapping of prior year orders. The SaaS application also contributed to the organic decline driven by the lapping of large project deployment orders in North America during the prior year. The test application, primarily in North America, also experienced a reduction in order intake during the period. We believe that the COVID-19 pandemic negatively impacted the organic order growth during the period.

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 can occur from time to time. Total backlog was $2,013 million at June 30, 2020, an increase of $148 million or 7.9%, as compared to June 30, 2019 backlog of $1,865 million, and an increase of $212 million or 11.8%, as compared to December 31, 2019 backlog of $1,801 million. We anticipate that approximately 46% of the backlog at June 30, 2020 will be recognized as revenue in the remainder of 2020. Cancellations in the quarter were materially consistent with the prior year.

Gross Margin

Gross margin as a percentage of revenue decreased 170 and 180 basis points to 37.4% and 36.9% for the three and six months ended June 30, 2020, as compared to 39.1% and 38.7% for comparative 2019 periods. The gross margin decrease for both periods was primarily driven by cost inflation, increased inventory management costs, unfavorable volume, impacted by COVID-19, unfavorable mix and other lesser impacts, which were partially offset by cost reductions from our global procurement and productivity improvement initiatives and price realization.

Operating Expenses

The following table presents operating expenses for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2020**	2019	Change	**2020**	2019	Change
Selling, general and administrative expenses ("SG&A")	**$ 288**	$ 294	(2.0) %	**$ 585**	$ 597	(2.0) %
SG&A as a % of revenue	**24.8 %**	21.9 %	290 bp	**25.6 %**	23.1 %	250 bp
Research and development expenses ("R&D")	**44**	47	(6.4) %	**93**	98	(5.1) %
R&D as a % of revenue	**3.8 %**	3.5 %	30 bp	**4.1 %**	3.8 %	30 bp
Restructuring and asset impairment charges	**48**	14	242.9 %	**50**	25	100.0 %
Operating expenses	**$ 380**	$ 355	7.0 %	**$ 728**	$ 720	1.1 %
Expense to revenue ratio	**32.8 %**	26.4 %	640 bp	**31.9 %**	27.9 %	400 bp

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

SG&A expenses decreased by $6 million to $288 million, or 24.8% of revenue, in the second quarter of 2020, as compared to $294 million, or 21.9% of revenue, in the comparable 2019 period; and decreased $12 million to $585 million, or 25.6% of revenue, in the six months ended June 30, 2020, as compared to $597 million, or 23.1% of revenue, for the six months ended in 2019. The increase in SG&A as a percent of revenue for both periods was primarily driven by the drop in revenue, which was significantly driven by impacts of the COVID-19 pandemic, as well as in cost inflation and additional investment in strategic growth initiatives, which were partially offset by cost reductions from global procurement and productivity improvement initiatives, including restructuring savings.

Research and Development ("R&D") Expenses

R&D expense was $44 million, or 3.8% of revenue, in the second quarter of 2020, as compared to $47 million, or 3.5% of revenue, in the comparable period of 2019; and was $93 million, or 4.1% of revenue, in the six months ended June 30, 2020, as compared to $98 million, or 3.8% of revenue, in the comparable period of 2019. The increase in R&D as a percent of revenue for both periods was primarily driven by the drop in revenue, which was significantly driven by impacts of the COVID-19 pandemic.

Restructuring and Asset Impairment Charges

Restructuring

In response to the changes in business and economic conditions arising as a result of the COVID-19 pandemic, on June 2, 2020 management committed to restructuring activities across our businesses and functions globally. The plan is designed to support our long-term financial resilience and simplify our operations, strengthen our competitive positioning and better serve our customers.

As a result of this action, 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 segments and asset impairments within our Measurement & Control Solutions segment. Immaterial restructuring charges incurred during the first quarter are included in the plan information presented below.

During the three and six months ended June 30, 2019, we recognized restructuring charges of $14 million and $22 million, respectively. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount and consolidation of facilities within our Measurement & Control Solutions and Water Infrastructure segments, as well as headcount reductions within our Applied Water segment.

The following is a roll-forward for the six months ended June 30, 2020 and 2019 of employee position eliminations associated with restructuring activities:

	2020	2019
Planned reductions - January 1	**196**	69
Additional planned reductions	**579**	350
Actual reductions and reversals	**(115)**	(298)
Planned reductions - June 30	**660**	121

The following table presents expected restructuring spend for actions commenced as of June 30, 2020:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2020:					
Total expected costs	$ 28	$ 13	$ 34	$ 3	$ 78
Costs incurred during Q1 2020	1	—	—	—	1
Costs incurred during Q2 2020	5	2	30		37
Total expected costs remaining	**$ 22**	**$ 11**	**$ 4**	**$ 3**	**$ 40**
Actions Commenced in 2019:					
Total expected costs	$ 20	$ 5	$ 27	$ —	$ 52
Costs incurred during 2019	18	5	27	—	50
Costs incurred during Q1 2020	1	—	—	—	1
Costs incurred during Q2 2020	1	—	—	—	1
Total expected costs remaining	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Actions Commenced in 2017:					
Total expected costs	$ 8	$ 5	$ 4	$ —	$ 17
Costs incurred during 2017	5	4	2	—	11
Costs incurred during 2018	2	1	1	—	4
Costs incurred during 2019	1	—	1	—	2
Costs incurred during Q1 2020	—	—	—	—	—
Costs incurred during Q2 2020	—	—	—		—
Total expected costs remaining	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

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 2021. The Water Infrastructure, Applied Water, and Measurement & Control Solutions actions commenced in 2019 consist primarily of severance charges. The actions commenced in 2019 are complete. The Water Infrastructure, Applied Water and Measurement & Control Solutions actions commenced in 2017 consist primarily of severance charges and are complete.

The discontinuance of a product line resulted $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 $60 million and $80 million in restructuring costs for the full year, with approximately $20 million of these costs being non-cash charges. 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. We expect to realize approximately $25 million of incremental net savings in 2020 from restructuring actions initiated in 2019, and approximately $22 million of net savings in 2020 from the restructuring actions initiated during this year.

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 9, "Goodwill and Other Intangible Assets," for additional information.

During the first quarter of 2019 we determined that certain assets within our Measurement & Control Solutions segment, including customer relationships, were impaired. Accordingly we recognized an impairment charge of $3 million. Refer to Note 9, "Goodwill and Other Intangible Assets," for additional information.

Operating Income

Operating income during the second quarter of 2020 was $54 million, reflecting a decrease of 68.4% compared to $171 million in the second quarter of 2019. Operating margin was 4.7% for the second quarter of 2020 versus 12.7% for the comparable period in 2019, a decrease of 800 basis points. Operating margin was negatively impacted by increased restructuring and realignment costs of $22 million and special charges of $11 million incurred in during the quarter. Excluding these restructuring and realignment costs and special charges, adjusted operating income was $108 million with an adjusted operating margin of 9.3% in the second quarter of 2020 as compared to adjusted operating income of $192 million with an adjusted operating margin of 14.3% in the second quarter of 2019. The decrease in adjusted operating margin was primarily due to unfavorable volume, impacted significantly by COVID-19; cost inflation; increased inventory management costs; incremental COVID-19 related costs; increased spending on strategic investments and unfavorable mix. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

Operating income for the six months ended June 30, 2020 was $115 million, reflecting a decrease of 58.9% compared to $280 million in 2019. Operating margin was 5.0% for the six months ended June 30, 2020 versus 10.8% for the comparable period in 2019, a decrease of 580 basis points. Operating margin was negatively impacted by increased restructuring and realignment costs of $11 million and increased special charges of $7 million as compared to the prior year. Excluding these restructuring and realignment costs and special charges, adjusted operating income was $178 million with an adjusted operating margin of 7.8% for the six months ended June 30, 2020 as compared to adjusted operating income of $325 million with an adjusted operating margin of 12.6% in 2019. The decrease in adjusted operating margin was primarily due to unfavorable volume, impacted significantly by COVID-19; cost inflation; increased inventory management costs; unfavorable mix; increased spending on strategic investments and other lesser impacts. These impacts were partially offset by our productivity and other cost saving initiatives and price realization.

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:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2020**	2019	Change	**2020**	2019	Change
Water Infrastructure						
Operating income	**$ 73**	$ 98	(25.5) %	**$ 112**	$ 149	(24.8) %
Operating margin	***14.6 %***	*17.5 %*	*(290) bp*	***11.9 %***	*14.3 %*	*(240) bp*
Restructuring and realignment costs	**8**	9	(11.1) %	**13**	18	(27.8) %
Adjusted operating income	**$ 81**	$ 107	(24.3) %	**$ 125**	$ 167	(25.1) %
Adjusted operating margin	***16.2 %***	*19.1 %*	*(290) bp*	***13.3 %***	*16.0 %*	*(270) bp*
Applied Water						
Operating income	**$ 41**	$ 62	(33.9) %	**$ 88**	$ 118	(25.4) %
Operating margin	***12.2 %***	*15.7 %*	*(350) bp*	***13.0 %***	*15.3 %*	*(230) bp*
Restructuring and realignment costs	**4**	4	— %	**6**	7	(14.3) %
Adjusted operating income	**$ 45**	$ 66	(31.8) %	**$ 94**	$ 125	(24.8) %
Adjusted operating margin	***13.4 %***	*16.8 %*	*(340) bp*	***13.9 %***	*16.2 %*	*(230) bp*
Measurement & Control Solutions						
Operating (loss) income	**$ (46)**	$ 26	(276.9) %	**$ (58)**	$ 42	(238.1) %
Operating margin	***(14.3) %***	*6.7 %*	*(2,100) bp*	***(8.7) %***	*5.5 %*	*(1,420) bp*
Restructuring and realignment costs	***31***	8	287.5 %	***33***	16	106.3 %
Special charges	***10***	—	NM	***10***	4	150.0 %
Adjusted operating (loss) income	***$ (5)***	$ 34	(114.7) %	***$ (15)***	$ 62	(124.2) %
Adjusted operating margin	***(1.6) %***	*8.7 %*	*(1,030) bp*	***(2.2) %***	*8.1 %*	*(1,030) bp*
Corporate and other						
Operating loss	**$ (14)**	$ (15)	(6.7) %	**$ (27)**	$ (29)	(6.9) %
Special charges	**1**	—	NM	**1**	—	NM
Adjusted operating loss	**$ (13)**	$ (15)	(13.3) %	**$ (26)**	$ (29)	(10.3) %
Total Xylem						
Operating income	**$ 54**	$ 171	(68.4) %	**$ 115**	$ 280	(58.9) %
Operating margin	***4.7 %***	*12.7 %*	*(800) bp*	***5.0 %***	*10.8 %*	*(580) bp*
Restructuring and realignment costs	**43**	21	104.8 %	**52**	41	26.8 %
Special charges	**11**	—	NM	**11**	4	175.0 %
Adjusted operating income	**$ 108**	$ 192	(43.8) %	**$ 178**	$ 325	(45.2) %
Adjusted operating margin	***9.3 %***	*14.3 %*	*(500) bp*	***7.8 %***	*12.6 %*	*(480) bp*

NM - Not meaningful percentage change

Water Infrastructure

Operating income for our Water Infrastructure segment decreased $25 million, or 25.5%, for the second quarter of 2020 compared to the prior year, with operating margin also decreasing from 17.5% to 14.6%. Operating margin benefited from a slight decrease in restructuring and realignment costs of $1 million in 2020. Excluding these restructuring and realignment costs, adjusted operating income decreased $26 million, or 24.3%, with adjusted operating margin decreasing from 19.1% to 16.2%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation; unfavorable volume, impacted significantly by COVID-19; increased inventory management costs; unfavorable mix; increased spending on strategic investments and other lesser impacts. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

For the six months ended June 30, 2020, operating income decreased $37 million, or 24.8%, as compared to the prior year, with operating margin also decreasing from 14.3% to 11.9%. Operating margin benefited from a decrease in restructuring and realignment costs of $5 million in 2020. Excluding these restructuring and realignment costs, adjusted operating income decreased $42 million, or 25.1%, with adjusted operating margin decreasing from 16.0% to 13.3%. The decrease in adjusted operating margin during the period was primarily due by cost inflation, unfavorable volume, impacted significantly by COVID-19; unfavorable mix; increased inventory management costs; increased spending on strategic investments, negative currency impacts and other lesser impacts. These impacts were partially offset cost reductions from our productivity and other cost saving initiatives and price realization.

Applied Water

Operating income for our Applied Water segment decreased $21 million, or 33.9%, for the second quarter of 2020 compared to the prior year, with operating margin also decreasing from 15.7% to 12.2%. Operating margin was impacted by $4 million in restructuring and realignment costs in both years. Excluding these restructuring and realignment costs, adjusted operating income decreased $21 million, or 31.8%, with adjusted operating margin decreasing from 16.8% to 13.4%. The decrease in adjusted operating margin for the quarter was primarily due to unfavorable volume, impacted significantly by COVID-19; cost inflation; increased inventory management costs; unfavorable mix and other various lesser impacts. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

For the six months ended June 30, 2020, operating income decreased $30 million, or 25.4%, as compared to the prior year, with operating margin also decreasing from 15.3% to 13.0%. Operating margin benefited from a slight decrease in restructuring and realignment costs of $1 million in 2020. Excluding these restructuring and realignment costs, adjusted operating income decreased $31 million, or 24.8%, with adjusted operating margin decreasing from 16.2% to 13.9%. The decrease in adjusted operating margin during the period was primarily due to unfavorable volume, impacted significantly by COVID-19; cost inflation; increased inventory management costs and other lesser impacts. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

Measurement & Control Solutions

Operating income for our Measurement & Control Solutions segment decreased $72 million, or 276.9%, for the second quarter of 2020 compared to the prior year, resulting in an operating loss of $46 million, with operating margin also decreasing from 6.7% to (14.3)%. Operating margin was negatively impacted by increased restructuring and realignment costs of $23 million and $10 million of special charges incurred in 2020. Excluding these items, adjusted operating income decreased $39 million, or 114.7%, resulting in an adjusted operating loss of $5 million, with adjusted operating margin decreasing from 8.7% to (1.6)%. The decrease in adjusted operating margin for the quarter was primarily due to unfavorable volume, impacted significantly by COVID-19; cost inflation; increased quality management costs; increased spending on strategic investments and incremental COVID-19 related costs. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

For the six months ended June 30, 2020, operating income decreased $100 million, or 238.1%, as compared to the prior year, resulting in an operating loss of $58 million, with operating margin also decreasing from 5.5% to (8.7)%. Operating margin was negatively impacted by increased restructuring and realignment costs of $17 million and increased special charges of $6 million in 2020. Excluding these items, adjusted operating income decreased $77 million, or 124.2%, resulting in an adjusted operating loss of $15 million, with adjusted operating margin decreasing from 8.1% to (2.2)%. The decrease in adjusted operating margin during the period was driven by unfavorable volume, impacted significantly by COVID-19; increased quality management costs, primarily due to a $15 million warranty charge recorded during the first quarter for a firmware issue in some of our meters; cost inflation; increased spending on strategic investments, unfavorable mix and other lesser impacts. These impacts were partially offset by cost reductions from our productivity and other cost saving initiatives and price realization.

Corporate and other

Operating loss for corporate and other decreased $1 million, or 6.7%, for the second quarter of 2020 compared to the prior year period. For the six months ended June 30, 2020, operating loss for corporate and other decreased $2 million, or 6.9%, compared to the same prior year period. The decreases in cost are the result of cost saving actions taken during the year.

Interest Expense

Interest expense was $18 million and $34 million for the three and six months ended June 30, 2020 and $18 million and $36 million for the three and six months ended June 30, 2019. The decrease in interest expense for the six month period ended June 30, 2020 is primarily driven by the impact of cross currency swaps. See Note 10, "Derivative Financial Instruments", of our condensed consolidated financial statements for a description of our cross currency swaps.

Income Tax Expense

The income tax provision for the three months ended June 30, 2020 was $4 million resulting in an effective tax rate of 10.9%, compared to a $17 million expense resulting in an effective tax rate of 10.5% for the same period in 2019. The income tax provision for the six months ended June 30, 2020 was $8 million resulting in an effective tax rate of 10.4%, compared to a $32 million expense resulting in an effective tax rate of 12.8% for the same period in 2019. The effective tax rate for the three and six month periods ended June 30, 2020 differs from the United States federal statutory rate primarily due to the mix of earnings in jurisdictions, 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, 2020 differs from the same periods in 2019 due to the relative impact of the benefit from favorable equity compensation deductions on the effective tax rate as well as release of unrecognized tax benefits in 2020, offset by changes in tax law in Switzerland in 2019.

Other Comprehensive Income (Loss)

Other comprehensive income was $52 million for the three months ended June 30, 2020 compared to a loss of $11 million for the same period in 2019. Foreign currency translation contributed favorable impacts during the quarter of $53 million, driven primarily by the strengthening of the British Pound, the Australian Dollar and the Chinese Yuan as compared to the U.S. Dollar in 2020 versus the weakening of these currencies in the same prior year period. Additionally, the strengthening of the Euro as compared to the U.S. Dollar was greater in 2020 than the strengthening in the prior year. These favorable currency translation impacts were partially offset by the movement in our Euro net investment hedges during the quarter. In addition to net favorable foreign currency translation impacts, there were also favorable impacts from gain in derivative hedge agreements of $6 million and the movement of tax on the net investment hedges as compared to the prior year of $5 million that contributed to the increase in in other comprehensive income during the quarter.

For the six months ended June 30, 2020, other comprehensive loss was $35 million compared to income of $9 million for the same period in 2019. Foreign currency translation contributed unfavorable impacts during the period of $54 million, driven primarily by the weakening of the British Pound, the South African Rand, the Canadian Dollar, the Euro, the Mexican Peso, the Indian Rupee and the Chilean Peso as compared to the U.S. Dollar in 2020 versus the strengthening of these currencies in the same prior year period. These unfavorable currency translation impacts were partially offset by the movement in our Euro net investment hedges during the period. In addition to net unfavorable foreign currency translation impacts, there was an unfavorable impact from the movement of tax on the net investment hedges as compared to the prior year of $5 million during the period that contributed to the loss. Partially offsetting these unfavorable drivers was a gain in derivative hedge agreements during the year as compared to a loss in the same prior year period.

Liquidity and Capital Resources

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

(In millions)	Six Months Ended June 30, 2020	2019	Change
Operating activities	**$ 179**	$ 206	$ (27)
Investing activities	**(88)**	(146)	58
Financing activities	**774**	25	749
Foreign exchange (a)	**(12)**	2	(14)
Total	**$ 853**	$ 87	$ 766

(a) The impact is primarily due to the weakness of the Canadian Dollar, the Russian Ruble, the Chilean Peso, the Indian Rupee, the Mexican Peso and various other currencies against the U.S. Dollar.

Sources and Uses of Liquidity

Operating Activities

Net cash provided by operating activities was $179 million for the six months ended June 30, 2020 as compared to $206 million in the comparable prior year period. This decrease was primarily driven by a decrease in cash from earnings, partially offset by a significant decrease cash paid for taxes during the first half of the current year as compared to the prior year, partially from delayed timing of payments.

Investing Activities

Cash used in investing activities was $88 million for the six months ended June 30, 2020 as compared to $146 million in the comparable prior year period. This decrease in cash used of $58 million was mainly driven by lower spending on capital expenditures compared to the prior year and a $18 million reduction in spending on acquisitions.

Financing Activities

Cash generated by financing activities was $774 million for the six months ended June 30, 2020 as compared to cash generated of $25 million in the comparable prior year period. This increase 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 year, partially offset by the repayment of short-term debt during 2020 and an increase in share repurchase activity of $21 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. Additionally, we have committed to reducing our annual capital expenditures. We will continue to evaluate aspects of our spending as the year progresses. We have elected to utilize certain federal, state and foreign tax programs related to timing of tax payments and deductions to further manage our liquidity, and the liabilities associated with these programs are appropriately classified in the applicable accrued and other current liabilities or other non-current accrued liabilities accounts in our Condensed Consolidated Balance Sheets. We will continue to consider available federal, state and foreign tax programs.

Historically, we have generated operating cash flow sufficient to fund our primary cash needs. As the uncertainty and severity associated with the global spread of the COVID-19 pandemic continued to grow during the year, Xylem issued Senior Notes of $1 billion in aggregate principal on June 26, 2020. The primary long-term intention of incurring this debt is to fund green projects across our business segments, as well as manage liquidity risk and increase flexibility, as the duration of the economic effects of the pandemic are uncertain. See Note 12, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt. Xylem's liquidity position has evolved favorably from an operational perspective during the second quarter of 2020, and we will continue to monitor the economic effects of the COVID-19 pandemic and its impact on the Company's future operating cash flows. 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 12, "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, 2020, 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. To ensure that we will continue to have the full capacity of our credit facilities available going forward, Xylem entered into Amendment No. 1 to the 2019 Credit Facility on June 22, 2020 which modified the covenant calculation methodology through the quarter ending September 30, 2021 and restricts 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. See Note 12, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt.

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 addition, 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 $2.4 billion, consisting of $1.6 billion of cash and $800 million of available credit facilities as disclosed in Note 12, "Credit Facilities and Debt", of our condensed consolidated financial statements. Our debt repayment obligations in 2020 consist of $50 million in outstanding commercial paper and $162 million of other borrowings. Our next long term debt maturity is October 2021.

Risk related to these items are described in our risk factor disclosures referenced under “Item 1A. Risk Factors" in our 2019 Annual Report and "Item 1A. Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

Credit Facilities & Long-Term Contractual Commitments

See Note 12, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt.

Non-United States Operations

We generated approximately 51% and 50% of our revenue from non-United States operations for the three and six months ended June 30, 2020, respectively, and approximately 50% for both the three and six month periods ended June 30, 2019. As we continue to grow our operations in the emerging markets and elsewhere outside of the United States, we expect to continue to generate significant revenue from non-United States 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 United States 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 United States operations. As of June 30, 2020, we have provided a deferred tax liability of $8 million for net foreign withholding taxes and state income taxes on $505 million of earnings expected to be repatriated to the United States 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 2019 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 2019 Annual Report.

The carrying value of our Advanced Infrastructure Analytics ("AIA") goodwill reporting unit is $170 million as of June 30, 2020. During the fourth quarter of 2019 we completed our annual goodwill assessment. Our 2019 impairment analysis indicated that the fair value of the AIA reporting unit exceeded its carrying value by less than 20%. We used the income approach to determine the fair value of our goodwill reporting units. Under the income approach, the fair value of the reporting units was based on the present value of the estimated cash flows that the reporting unit is expected to generate over its remaining life. Cash flow projections were based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate was based on the weighted average cost of capital appropriate for the reporting unit.

Given the uncertainty of the future impact of the COVID-19 pandemic, further deterioration of our future cash flows may lead to a charge to earnings. We will continue to evaluate goodwill on an annual basis as of the beginning of our fourth quarter and whenever events and changes in circumstances indicate there may be a potential impairment.

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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2020

New Accounting Pronouncements

See Note 2, "Recently Issued Accounting Pronouncements", to the condensed consolidated financial statements for a complete discussion of recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no other material change in the information concerning market risk as stated in our 2019 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with 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 and personal injury claims, privacy, employment, labor and pension, government contract issues and commercial or contractual disputes. See Note 18, "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 2019 Annual Report and in "Item 1A. Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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, 2020:

(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)
4/1/20 - 4/30/20	—	—	—	**$288**
5/1/20 - 5/31/20	—	—	—	**$288**
6/1/20 - 6/30/20	—	—	—	**$288**

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, 2020. There are up to $288 million in shares that may still be purchased under this plan as of June 30, 2020.

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).
4.11	Fourth Supplemental Indenture, dated June 26, 2020, by and between the Company and Deutsche Bank Trust Company Americas, as trustee	Incorporated by reference to Exhibit 4.1 of Xylem Inc.'s Current Report on Form 8-K filed on June 26, 2020 (CIK No. 1524472, File No. 1-35229
4.12	Form of 1.950% Senior Notes due 2028.	Incorporated by reference to Exhibit 4.1 of Xylem Inc.'s Current Report on Form 8-K filed on June 26, 2020 (CIK 1524472, File No. 1-35229)
4.13	Form of 2.250% Senior Notes due 2031	Incorporated by reference to Exhibit 4.1 of Xylem Inc.'s Current Report on Form 8-K filed on June 26, 2020 (CIK 1524472, File No. 1-35229)
10.34.1	Amendment No. 1, dated June 22, 2020, to the Five-Year Revolving Credit Facility Agreement, dated as of March 5, 2019, each among Xylem Inc. and Citibank, N.A., as administrative agent	Incorporated by reference to Exhibit 10.34.1 of Xylem Inc.'s Current Report on Form 8-K filed on June 23, 2020 (CIK No. 1524472, File No. 1-35229)
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.

Exhibit Number	Description	Location
101.0	The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020, 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, 2020 formatted in Inline XBRL and contained in Exhibit 101.0.	

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

July 30, 2020

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, 2020;
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.

Date: July 30, 2020

/s/ Patrick K. Decker

Patrick K. Decker
President and Chief Executive Officer

EXHIBIT 31.2

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

I, E. Mark Rajkowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended June 30, 2020;
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.

Date: July 30, 2020

/s/ E. Mark Rajkowski

E. Mark Rajkowski
Senior Vice President and Chief Financial Officer

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, 2020 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
July 30, 2020

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, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Mark Rajkowski, 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/ E. Mark Rajkowski

E. Mark Rajkowski
Senior Vice President and Chief Financial Officer
July 30, 2020

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.