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, 2023

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.)*

301 Water Street SE, Washington, DC 20003
(Address of principal executive offices) (Zip code)

(202) 869-9150
(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

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

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

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

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

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

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

As of July 28, 2023, there were 240,828,528 outstanding shares of the registrant’s common stock, par value $0.01 per share.

Xylem Inc.

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PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months		Six Months	
For the period ended June 30,	**2023**	2022	**2023**	2022
Revenue	**$ 1,722**	$ 1,364	**$ 3,170**	$ 2,636
Cost of revenue	**1,071**	844	**1,973**	1,649
Gross profit	**651**	520	**1,197**	987
Selling, general and administrative expenses	**446**	314	**800**	618
Research and development expenses	**58**	53	**111**	105
Restructuring and asset impairment charges	**28**	7	**36**	7
Operating income	**119**	146	**250**	257
Interest expense	**12**	12	**21**	25
Other non-operating income, net	**7**	2	**11**	1
Gain from sale of business	**—**	—	**—**	1
Income before taxes	**114**	136	**240**	234
Income tax expense	**22**	24	**49**	40
Net income	**$ 92**	$ 112	**$ 191**	$ 194
Earnings per share:				
Basic	**$ 0.45**	$ 0.62	**$ 0.99**	$ 1.07
Diluted	**$ 0.45**	$ 0.62	**$ 0.98**	$ 1.07
Weighted average number of shares:				
Basic	**205.5**	180.2	**193.0**	180.2
Diluted	**206.7**	180.6	**194.0**	180.8

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,	**2023**	2022	**2023**	2022
Net income	**$ 92**	$ 112	**$ 191**	$ 194
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustment	**(38)**	(41)	**(16)**	(44)
Net change in derivative hedge agreements:				
Unrealized gain (loss)	**(3)**	(9)	**1**	(15)
Amount of loss reclassified into net income	**(1)**	3	**4**	5
Net change in post-retirement benefit plans:				
Amortization of prior service credit	**(1)**	(1)	**(1)**	(1)
Amortization of actuarial (gain) loss into net income	**—**	4	**(1)**	8
Foreign currency translation adjustment	**(1)**	—	**(1)**	—
Other comprehensive income (loss), before tax	**(44)**	(44)	**(14)**	(47)
Income tax (benefit) expense related to items of other comprehensive income (loss)	**(9)**	27	**(14)**	30
Other comprehensive income (loss), net of tax	**(35)**	(71)	**—**	(77)
Comprehensive income	**$ 57**	$ 41	**$ 191**	$ 117

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, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 708	$ 944
Receivables, less allowances for discounts, returns and credit losses of $45 and $50 in 2023 and 2022, respectively	1,659	1,096
Inventories	1,143	799
Prepaid and other current assets	225	173
Total current assets	3,735	3,012
Property, plant and equipment, net	1,144	630
Goodwill	7,108	2,719
Other intangible assets, net	3,188	930
Other non-current assets	922	661
Total assets	$ 16,097	$ 7,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 968	$ 723
Accrued and other current liabilities	1,074	867
Short-term borrowings and current maturities of long-term debt	240	—
Total current liabilities	2,282	1,590
Long-term debt	2,267	1,880
Accrued post-retirement benefits	293	286
Deferred income tax liabilities	738	222
Other non-current accrued liabilities	607	471
Total liabilities	6,187	4,449
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Common stock – par value $0.01 per share:		
Authorized 750.0 shares, issued 256.6 shares and 196.0 shares in 2023 and 2022, respectively	3	2
Capital in excess of par value	8,495	2,134
Retained earnings	2,344	2,292
Treasury stock – at cost 15.9 shares and 15.8 shares in 2023 and 2022, respectively	(717)	(708)
Accumulated other comprehensive loss	(226)	(226)
Total stockholders' equity	9,899	3,494
Non-controlling interests	11	9
Total equity	9,910	3,503
Total liabilities and stockholders' equity	$ 16,097	$ 7,952

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,	2023	2022
Operating Activities		
Net income	191	194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	69	56
Amortization	83	62
Share-based compensation	27	18
Restructuring and asset impairment charges	36	7
Gain from sale of business	—	(1)
Other, net	(5)	6
Payments for restructuring	(9)	(5)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(122)	(119)
Changes in inventories	(57)	(189)
Changes in accounts payable	36	40
Changes in accrued and deferred taxes	(86)	(2)
Other, net	(154)	(35)
Net Cash – Operating activities	9	32
Investing Activities		
Capital expenditures	(103)	(95)
Acquisitions of businesses, net of cash acquired	(476)	—
Proceeds from sale of business	91	1
Proceeds from the sale of property, plant and equipment	—	3
Cash received from investments	—	4
Cash paid for investments	—	(7)
Cash paid for equity investments	(56)	(1)
Cash received from interest rate swaps	38	—
Cash received from cross-currency swaps	14	11
Other, net	3	—
Net Cash – Investing activities	(489)	(84)
Financing Activities		
Short-term debt issued, net	74	—
Long-term debt issued, net	275	—
Long-term debt repaid	(1)	—
Repurchase of common stock	(9)	(52)
Proceeds from exercise of employee stock options	40	3
Dividends paid	(139)	(110)
Other, net	(5)	1
Net Cash – Financing activities	235	(158)
Effect of exchange rate changes on cash	9	(26)
Net change in cash and cash equivalents	(236)	(236)
Cash and cash equivalents at beginning of year	944	1,349
Cash and cash equivalents at end of period	$ 708	$ 1,113
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 30	$ 40
Income taxes (net of refunds received)	$ 135	$ 42

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 four segments, Water Infrastructure, Applied Water, Measurement & Control Solutions and Integrated Solutions and Services. 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.

Acquisition of Evoqua

On May 24, 2023, Xylem completed the acquisition of Evoqua Water Technologies Corp. (“Evoqua”). Refer to Note 3, "Acquisitions and Divestitures," for additional information.

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, 2022 ("2022 Annual Report") in preparing these unaudited condensed consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes included in our 2022 Annual Report. Certain prior year amounts have been reclassified to conform to the current year presentation.

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, valuation results associated with purchase accounting, post-retirement obligations and assets, revenue recognition, income taxes, valuation of intangible assets, goodwill and indefinite-lived intangible impairment testing and contingent liabilities. Actual results could differ from these estimates.

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 September 2022, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2022-04, "*Liabilities-Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations.*" This guidance requires disclosure of the key terms of outstanding supplier finance programs and a rollforward of the related obligations. The new standard does not affect the recognition, measurement, or financial statement presentation of supplier finance program obligations. The ASU became effective January 1, 2023, except for the rollforward requirement, which becomes effective January 1, 2024. The disclosures related to our adoption of the standard are included below:

The Company facilitates the opportunity for suppliers to participate in voluntary supply chain financing programs with third-party financial institutions. Xylem agrees on commercial terms, including payment terms, with suppliers regardless of program participation. The company does not determine the terms or conditions of the arrangement between suppliers and the third-party financial institutions. Participating suppliers are paid directly by the third-party financial institution. Xylem pays the third-party financial institution the stated amount of confirmed invoices from its designated suppliers at the original invoice amount on the original maturity dates of the invoices, ranging from 45-180 days. Xylem does not pay fees related to these programs. Xylem or the third-party financial institutions may terminate the agreements upon at least 30 days’ notice. As of June 30, 2023, the total outstanding balance under these programs is $178 million presented on our Condensed Consolidated Balance Sheet within "Accounts payable."

In October 2021, the FASB issued ASU No. 2021-08, “*Business Combinations (Topic 805) - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.*” This guidance requires an acquirer to apply the guidance in ASC 606, Revenue from Contracts with Customers, to recognize and measure contract assets and contract liabilities in a business combination, rather than using fair value. The ASU is effective for fiscal years beginning after December 15, 2022 and we adopted this guidance as of January 1, 2023. The guidance will be applied prospectively to business combinations after the adoption. The adoption of this guidance did not have a material impact on our financial condition or results of operations.

Note 3. Acquisitions and Divestitures

Evoqua Water Technologies Corp.

On May 24, 2023, the Company completed the acquisition of 100% of the issued and outstanding shares of Evoqua, a leader in providing water and wastewater treatment solutions, offering a broad portfolio of products and services to support industrial, municipal, and recreational customers, pursuant to the Agreement and Plan of Merger dated January 22, 2023 (the “Merger Agreement”). The Merger Agreement provided that Fore Merger Sub, Inc., a wholly owned subsidiary of the Company, merge with and into Evoqua, with Evoqua surviving as a wholly owned subsidiary of Xylem (the “Merger”). Under the terms and conditions of the Merger Agreement, each share of Evoqua common stock issued and outstanding immediately prior to the effective time of the Merger (other than certain excluded shares as described in the Merger Agreement) was converted into the right to receive 0.48 (the “Exchange Ratio”) of a share of the common stock of Xylem. Upon the effectiveness of the Merger, legacy Evoqua stockholders owned approximately 25% and legacy Xylem shareholders owned approximately 75% of the combined company. The purchase price for purposes of the Merger consisted of an aggregate of $6,121 million of the Company’s common stock, $160 million in replacement equity awards, and $619 million to repay certain indebtedness of Evoqua (refer to Note 12. Credit Facilities and Debt). Acquisition costs for the three months and six months ended June 30, 2023 of $39 million and $55 million, respectively, have been recorded within Selling, general and administrative expense in our Consolidated Income Statement.

The acquisition-date fair value of the consideration totaled $6,900, which consisted of the following:

(in millions)	Fair Value of Purchase Consideration	
Xylem Common Stock issued to Evoqua stockholders (58,779,096 shares)	$	6,121
Estimated replacement equity awards		160
Payment of certain Evoqua indebtedness		619
Total	**$**	**6,900**

The Company has applied the acquisition method of accounting in accordance with ASC 805, Business Combinations ("ASC 805") and recognized assets acquired and liabilities assumed at their fair value as of the date of acquisition, with the excess purchase consideration recorded to goodwill. As the Company finalizes the estimation of the fair value of the assets acquired and liabilities assumed, additional adjustments may be recorded during the measurement period (a period not to exceed 12 months from the acquisition date). The following table summarizes the preliminary acquisition date fair value of net tangible and intangible assets acquired, net of liabilities assumed from Evoqua:

(in millions)	Fair Value	
Cash and cash equivalents	$	143
Receivables		432
Inventories		288
Prepaid and other current assets		75
Assets held for sale		8
Property, plant and equipment, net		511
Goodwill		4,364
Other intangible assets, net		2,307
Other non-current assets		191
Non-current assets held for sale		86
Accounts payable		(207)
Accrued and other current liabilities		(342)
Short-term borrowings and current maturities of long-term debt		(166)
Liabilities held for sale		(1)
Long-term debt		(111)
Other non-current accrued liabilities		(124)
Deferred income tax liabilities		(551)
Non-current liabilities held for sale		(3)
Total	**$**	**6,900**

The preliminary purchase price allocation is subject to further refinement and may require significant adjustments to arrive at the final purchase price allocation. The above fair values of assets acquired and liabilities assumed are preliminary and are based on the information that was available as of the reporting date. The fair values of the assets acquired and liabilities assumed were preliminarily determined using the income and cost approaches. In many cases, the determination of the fair values required estimates about discount rates, future expected cash flows and other future events that are judgmental and subject to change. The final determination of the fair value of certain assets and liabilities will be completed as soon as the necessary information becomes available but no later than one year from the acquisition date.

The fair value of receivables acquired is $322 million, with the gross contractual amount being $329 million. The Company expects $7 million to be uncollectible.

The amounts of sales and net loss from continuing operations before income taxes of Evoqua since the acquisition date included in the Consolidated Income Statement for the three and six months ended June 30, 2023 are $178 million and $49 million, respectively. The $4,364 million of goodwill recognized, which is not deductible for U.S. income tax purposes, is primarily attributable to synergies and economies of scale expected from combining the operations of Evoqua and Xylem as well as the assembled workforce of Evoqua.

Identifiable Intangible Assets Acquired

The following table summarizes key information underlying identifiable intangible assets related to the Evoqua acquisition:

(in millions)	**Useful Life (in years)**	**Fair Value (in millions)**
Trademarks	6	$ 60
Proprietary technology and patents	4 - 9	150
Customer and distributor relationships	7 - 17	1,960
Backlog	1 - 8	110
Software	1 - 3	27
Total		**$ 2,307**

The preliminary estimate of the fair value of Evoqua's identifiable intangible assets was determined primarily using the "income approach," which requires a forecast of all of the expected future cash flows either through the use of the multi-period excess earnings method or the relief-from-royalty method. The fair value measurements were primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement of the fair value hierarchy as defined in ASC 820, Fair Value Measurements ("ASC 820"). Intangible assets consisting of the Evoqua tradename, technology, customer relationships, and backlog were valued using the multi-period excess earnings method ("MEEM"), or the relief from royalty ("RFR") method, both are forms of the income approach.

- Trademarks and proprietary technology intangible assets were valued using the RFR method. The RFR method of valuation suggests that in lieu of ownership, the acquirer can obtain comparable rights to use the subject asset via a license from a hypothetical third-party owner. The asset's Fair Value is the present value of license fees avoided by owning it (i.e., the royalty savings).

- Customer relationship and backlog intangible assets were valued using the MEEM method. The MEEM method of valuation is an approach where the net earnings attributable to the asset being measured are isolated from other "contributory assets" over the intangible asset's remaining economic life.

- Inventory was estimated using the comparative sales method, which quantifies the Fair Value of inventory based on the expected sales price of the subject inventory (when complete), reduced for: (i) all costs expected to be incurred in its completion and disposition efforts and (ii) a profit on those value-added completion and disposition costs.

Stock-Based Compensation

In connection with the Merger, each outstanding and issued option, restricted stock unit ("RSU"), performance stock unit ("PSU") and cash-settled stock appreciation right ("SAR") was converted into the Xylem equivalent, with outstanding PSUs being converted into Xylem RSUs. As a result, Xylem issued 2 million replacement equity options, 330 thousand PSU awards, and 377 thousand RSU awards, respectively. The portion of the fair value related to pre-combination services of $160 million was included in the purchase price, and $56 million will be recognized over the remaining service periods. As of June 30, 2023, the future unrecognized expense related to the outstanding Converted Equity Options, RSU Awards and PSU Awards was approximately $5 million, $21 million, and $10 million, respectively. The future unrecognized expense related to Converted Equity Options, RSU Awards, and PSU Awards will be recognized over a weighted-average service period of 3 years. SAR awards are immaterial.

Pro Forma Financial Information

The following table summarizes, on an unaudited pro forma basis, the condensed combined results of operations of the Company for the three and six months ended June 30, 2023 and 2022, assuming the acquisition had occurred on January 1, 2022.

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
(in millions)	2023	2022	2023	2022
Revenue	$ 2,025	$ 1,803	$ 3,952	$ 3,502
Net income	$ 63	$ 92	$ 170	$ 76

The foregoing unaudited pro forma results are for informational purposes only and are not necessarily indicative of the actual results of operations that might have occurred had the acquisition occurred on January 1, 2022, nor are they necessarily indicative of future results. The unaudited pro-forma information for all periods presented includes the following adjustments, where applicable, for business combination accounting effects resulting from the acquisition: (i) amortization of the fair value step up in inventory, (ii) additional amortization expense related to finite-lived intangible assets acquired, (iii) repayment of Evoqua's term loan and revolver and the settlement of the related interest rate swap, (iv) additional interest expense related to financing for the acquisition (refer to Note 12. Credit Facilities and Debt), (v) depreciation expense on property, plant and equipment, (vi) additional incremental stock-based compensation expense for the replacement of Evoqua's outstanding equity awards with Xylem's replacement equity awards, and (vii) the related tax effects assuming that the business combination occurred on January 1, 2022.

The significant nonrecurring adjustments reflected in the unaudited pro-forma consolidated information above include the reclassification of the transaction costs to the earliest period presented and the reversal of the impacts related to the settlement of the interest rate swap, each net of tax.

Divestitures

On June 15, 2023, Xylem sold the former Evoqua carbon reactivation and slurry operations to Desotec US LLC, a subsidiary of Desotec N.V., for approximately $91 million, a price equal to the fair value less costs to sell the business.

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)	2023	2022	2023	2022
Revenue from contracts with customers	**$ 1,637**	$ 1,312	**$ 3,020**	$ 2,534
Lease Revenue	**85**	52	**150**	102
Total	**$ 1,722**	$ 1,364	**$ 3,170**	$ 2,636

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

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Water Infrastructure				
Transport	**$ 466**	$ 432	**$ 902**	$ 825
Treatment	**168**	104	**256**	194
Applied Water				
Building Solutions	**257**	226	**510**	461
Industrial Water	**221**	204	**421**	394
Measurement & Control Solutions				
Water	**323**	279	**657**	544
Energy	**92**	67	**164**	116
Integrated Solutions & Services	**110**	—	**110**	—
Total	**$ 1,637**	$ 1,312	**$ 3,020**	$ 2,534

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

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Water Infrastructure				
United States	**$ 219**	$ 165	**$ 395**	$ 312
Western Europe	**220**	190	**410**	376
Emerging Markets (a)	**130**	120	**235**	221
Other	**65**	61	**118**	110
Applied Water				
United States	**248**	219	**492**	440
Western Europe	**105**	101	**209**	195
Emerging Markets (a)	**86**	79	**159**	159
Other	**39**	31	**71**	61
Measurement & Control Solutions				
United States	**265**	212	**522**	393
Western Europe	**69**	59	**146**	128
Emerging Markets (a)	**52**	50	**100**	94
Other	**29**	25	**53**	45
Integrated Solutions & Services				
United States	**98**	—	**98**	—
Western Europe	**2**	—	**2**	—
Emerging Markets (a)	**3**	—	**3**	—
Other	**7**	—	**7**	—
Total	**$ 1,637**	$ 1,312	**$ 3,020**	$ 2,534

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

Contract Balances

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

(in millions)	Contract Assets (a)	Contract Liabilities
Balance at January 1, 2022	$ 125	$ 164
Additions, net	63	97
Revenue recognized from opening balance	—	(75)
Billings transferred to accounts receivable	(61)	—
Foreign currency and other	(4)	(3)
Balance at June 30, 2022	$ 123	$ 183
Balance at January 1, 2023	$ 151	$ 183
Opening balance from the acquisition of Evoqua	110	107
Additions, net	85	94
Revenue recognized from opening balance	—	(80)
Billings transferred to accounts receivable	(73)	—
Foreign currency and other	1	(5)
Balance at June 30, 2023	**$ 274**	**$ 299**

(a) Excludes receivable balances, which are disclosed on the Condensed Consolidated Balance Sheets

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, 2023, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied for contracts with performance obligations, amount to $949 million, of which $464 million is contributed by the Evoqua acquisition. 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

During the three and six months ended June 30, 2023 we incurred restructuring costs of $28 million and $34 million, respectively. We incurred these charges primarily as a result of our acquisition of Evoqua. Approximately, $14 million of the charges related to stock based compensation expense due to acceleration clauses in equity compensation agreements and approximately $14 million of the charges represented the reduction of headcount. Additionally, we incurred $6 million of charges related to our efforts to reposition our European and North American businesses to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. The charges were incurred across all of our segments.

During the three and six months ended June 30, 2022 we incurred restructuring charges of $6 million. 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 across the Water Infrastructure, Applied Water and Measurement & Control Solutions segments.

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

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
By component:				
Severance and other charges	**$ 29**	$ 6	**$ 35**	$ 6
Reversal of restructuring accruals	**(1)**	—	**(1)**	—
Total restructuring costs	**$ 28**	$ 6	**$ 34**	$ 6
Asset impairment charges	**—**	1	**2**	1
Total restructuring and asset impairment charges	**$ 28**	$ 7	**$ 36**	$ 7
By segment:				
Water Infrastructure	**$ 1**	$ 2	**$ 3**	$ 2
Applied Water	**—**	1	**1**	1
Measurement & Control Solutions	**1**	4	**6**	4
Integrated Solutions & Services	**4**	—	**4**	—
Corporate and other	**22**	—	**22**	—

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, 2023 and 2022:

(in millions)	2023	2022
Restructuring accruals - January 1	**$ 10**	$ 7
Restructuring costs, net	**34**	6
Cash payments	**(9)**	(5)
Stock based compensation included within AOCL	**(14)**	—
Foreign currency and other	**(1)**	—
Restructuring accruals - June 30	**$ 20**	$ 8
By segment:		
Water Infrastructure	**$ 2**	$ 1
Applied Water	**—**	—
Measurement & Control Solutions	**3**	4
Integrated Solutions & Services	**4**	—
Regional selling locations (a)	**2**	1
Corporate and other	**9**	2

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

The following table presents expected restructuring spend in 2023 and thereafter:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Integrated Solutions & Services	Corporate	Total
Actions Commenced in 2023:						
Total expected costs	$ 4	$ 2	$ 6	$ 7	$ 33	$ 52
Costs incurred during Q1 2023	1	1	3	—	—	5
Costs incurred during Q2 2023	2	—	1	4	22	29
Total expected costs remaining	**$ 1**	**$ 1**	**$ 2**	**$ 3**	**$ 11**	**$ 18**

The Water Infrastructure, Applied Water, Measurement & Control Solutions, Integrated Solutions & Services and Corporate actions commenced in 2023 consist primarily of severance charges. The actions are expected to continue through the end of 2024.

Asset Impairment

During the first quarter of 2023, 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 and we therefore recognized an impairment charge of $2 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, 2023 was $22 million resulting in an effective tax rate of 19.1%, compared to a $24 million expense resulting in an effective tax rate of 17.5% for the same period in 2022. The income tax provision for the six months ended June 30, 2023 was $49 million resulting in an effective tax rate of 20.5%, compared to a $40 million expense resulting in an effective tax rate of 17.0% for the same period in 2022. The effective tax rate for the six month period ended June 30, 2023 was lower than the U.S. federal statutory rate primarily due to the favorable impact of earnings mix partially offset by nondeductible transaction costs.

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. Xylem filed an appeal with the Administrative Court of Växjö, which rendered a decision adverse to Xylem in June 2022 for SEK806 million (approximately $74 million), consisting of the full tax assessment amount plus penalties and interest. Xylem has appealed this decision with the intermediate appellate court, the Administrative Court of Appeal (the "Court"). At this time, management, in consultation with external legal advisors, continues to believe it is more likely than not that Xylem will prevail on the proposed assessment and will continue to vigorously defend our position through the appellate process. Both parties will have the ability to seek appeal of the Court's decision to the Supreme Administrative Court of Sweden. There can be no assurance that the final determination by the authorities will not be materially different than our position. As of June 30, 2023, we do not have 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,	
	2023	2022	**2023**	2022
Net income (in millions)	**$ 92**	$ 112	**$ 191**	$ 194
Shares (in thousands):				
Weighted average common shares outstanding	**205,505**	180,123	**192,938**	180,164
Add: Participating securities (a)	**34**	33	**29**	29
Weighted average common shares outstanding — Basic	**205,539**	180,156	**192,967**	180,193
Plus incremental shares from assumed conversions: (b)				
Dilutive effect of stock options	**872**	438	**747**	513
Dilutive effect of restricted stock units and performance share units	**329**	56	**315**	129
Weighted average common shares outstanding — Diluted	**206,740**	180,650	**194,029**	180,835
Basic earnings per share	**$ 0.45**	$ 0.62	**$ 0.99**	$ 1.07
Diluted earnings per share	**$ 0.45**	$ 0.62	**$ 0.98**	$ 1.07

(a) Restricted stock units containing rights to non-forfeitable dividends that participate in undistributed earnings with common stockholders 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)	**2023**	2022	**2023**	2022
Stock options	**2,107**	1,647	**1,732**	1,491
Restricted stock units	**606**	362	**469**	346
Performance share units	**318**	270	**279**	252

Note 8. Inventories

The components of total inventories are summarized as follows:

(in millions)	**June 30, 2023**	December 31, 2022
Finished goods	**$ 408**	$ 286
Work in process	**121**	58
Raw materials	**614**	455
Total inventories	**$ 1,143**	$ 799

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, 2023 are as follows:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Integrated Solutions & Services	Total
Balance as of January 1, 2023	$ 638	$ 502	$ 1,579	$ —	$ 2,719
Activity in 2023					
Acquisitions	1,547	241	80	2,496	4,364
Foreign currency and other	6	5	13	1	25
Balance as of June 30, 2023	**$ 2,191**	**$ 748**	**$ 1,672**	**$ 2,497**	**$ 7,108**

The Company has applied the acquisition method of accounting in accordance with ASC 805 and recognized assets acquired and liabilities assumed of Evoqua at their fair value as of the date of acquisition, with the excess purchase consideration recorded to goodwill. We have preliminarily allocated goodwill to segments of the Company that are expected to benefit from the synergies of the acquisition. As the Company finalizes the estimation of the fair value of the assets acquired and liabilities assumed, additional adjustments to the amount of goodwill allocated to each segment may be necessary.

Other Intangible Assets

Information regarding our other intangible assets is as follows:

	June 30, 2023			December 31, 2022		
(in millions)	**Carrying Amount**	**Accumulated Amortization**	**Net Intangibles**	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	**$ 2,749**	**$ (410)**	**$ 2,339**	$ 784	$ (371)	$ 413
Proprietary technology and patents	**294**	**(126)**	**168**	165	(118)	47
Trademarks	**198**	**(87)**	**111**	137	(80)	57
Software	**595**	**(299)**	**296**	514	(268)	246
Other	**115**	**(7)**	**108**	5	(3)	2
Indefinite-lived intangibles	**166**	**—**	**166**	165	—	165
Other Intangibles	**$ 4,117**	**$ (929)**	**$ 3,188**	$ 1,770	$ (840)	$ 930

Amortization expense related to finite-lived intangible assets was $51 million and $83 million for the three and six-month periods ended June 30, 2023, respectively, and $32 million and $62 million for the three and six-month periods ended June 30, 2022, respectively.

During the first quarter of 2023, 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 and we therefore recognized an impairment charge of $2 million.

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 also reduce the volatility in stockholders' equity.

As a result of Evoqua terminating their interest rate swaps prior to the Company completing the acquisition, the Company received $38 million in proceeds during the quarter ended June 30, 2023 from the termination of the interest rate swaps.

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 for which we enter into cash flow hedges 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 $360 million and $255 million as of June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023, 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, sell Canadian Dollar and purchase Euro, purchase Canadian Dollar and Sell U.S. Dollar, and sell Australian Dollar and purchase Euro. The purchased notional amounts associated with these currency derivatives are $144 million, $93 million, $39 million, $18 million, $17 million, $16 million, $16 million and $13 million, respectively. As of December 31, 2022 the purchased notional amounts associated with these currency derivatives were $105 million, $73 million, $29 million, $13 million, $13 million, $13 million, $0 million and $9 million, respectively.

Hedges of Net Investments in Foreign Operations

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

Cross-Currency Swaps

Beginning in 2015, we entered into cross-currency swaps to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate. During the second quarter of 2019, third quarter of 2020, and second quarter of 2022 we entered into additional cross-currency swaps. The total notional amount of derivative instruments designated as net investment hedges was $1,659 million and $1,616 million as of June 30, 2023 and December 31, 2022, respectively.

Foreign Currency Denominated Debt

On March 11, 2016, we issued 2.250% Senior Notes of €500 million aggregate principal amount due March 2023. On December 12th, 2022 our Senior Notes due March 2023 were settled with cash on hand for a total of $527 million.

Previously, the entirety of the outstanding balance was designated as a hedge of a net investment in certain foreign subsidiaries. On June 2, 2022, we de-designated the entirety of the outstanding balance of the €500 million 2.250% Senior Notes, or $533 million from the net investment hedge relationship.

Fair Value Hedges of Foreign Exchange Risk

The de-designation of our 2.250% Senior Notes of €500 million resulted in exposure to fluctuations in the Euro-U.S. Dollar exchange rate. We use currency forward agreements to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate. Currency forward agreements involve fixing the foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date.

On June 2, 2022, we entered into a currency forward agreement with a total notional amount of €500 million, designating the agreement as a fair value hedge of our Euro denominated notes. On December 12, 2022 the currency forward agreement matured.

Effectiveness of derivatives designated as fair value hedges is assessed using the spot method. The changes in the fair value of these derivatives due to movements in spot exchange rates are recorded in Selling, general and administrative Expenses. Changes in the fair value of the 2.250% Senior Notes of €500 million related to spot exchange rates are also recorded in Selling, general and administrative expenses. Changes in the spot-forward differential and counterparty non-performance risk of the derivatives are excluded from the assessment of hedge effectiveness and will be recognized in Accumulated other comprehensive loss ("AOCL"). Amounts in AOCL are recognized in earnings, specifically Interest expense, using a systematic and rational method over the life of the hedging instrument.

The table below presents the effect of our derivative financial instruments on the Condensed Consolidated Income Statements and Statements of Comprehensive Income. Items in the table below reflect changes in "Other comprehensive loss" ("OCL") within the Statements of Comprehensive Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2023**	2022	**2023**	2022
Cash Flow Hedges				
Foreign Exchange Contracts				
Amount of gain (loss) recognized in OCL	**$ (3)**	$ (13)	**$ 1**	$ (19)
Amount of (gain) loss reclassified from OCL into Revenue	**(1)**	2	**2**	4
Amount of loss reclassified from OCL into Cost of revenue	**—**	1	**2**	1
Net Investment Hedges				
Cross-Currency Swaps				
Amount of gain (loss) recognized in OCL	**$ (37)**	$ 93	**$ (59)**	$ 94
Amount of income recognized in Interest expense	**8**	7	**15**	13
Foreign Currency Denominated Debt				
Amount of gain recognized in OCL	**$ —**	$ 23	**$ —**	$ 31
Fair Value Hedges				
Foreign Exchange Contracts				
Amount of gain recognized in OCL	**$ —**	$ 4	**$ —**	$ 4
Amount of (loss) recognized in Selling, general and administrative expenses	**$ —**	$ (11)	**$ —**	$ (11)
Amount recognized in Interest expense	**$ —**	$ (1)	**$ —**	$ (1)

As of June 30, 2023, $1 million of net losses on cash flow hedges are expected to be reclassified into earnings in the next 12 months.

As of June 30, 2023, no gains or losses on the net investment hedges are expected to be reclassified into earnings over their duration.

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

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

(in millions)	**June 30, 2023**	December 31, 2022
Derivatives designated as hedging instruments		
Assets		
Cash Flow Hedges		
Prepaid and other current assets	**$ 5**	$ —
Net Investment Hedges		
Other non-current assets	**$ 40**	$ 79
Liabilities		
Cash Flow Hedges		
Accrued and other current liabilities	**$ (6)**	$ —
Net Investment Hedges		
Other non-current accrued liabilities	**$ (25)**	$ (6)

Note 11. Accrued and Other Current Liabilities

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

(in millions)	**June 30, 2023**	December 31, 2022
Compensation and other employee-benefits	**$ 320**	$ 285
Customer-related liabilities	**333**	210
Accrued taxes	**119**	186
Lease liabilities	**97**	69
Accrued warranty costs	**43**	37
Other accrued liabilities	**162**	80
Total accrued and other current liabilities	**$ 1,074**	$ 867

Note 12. Credit Facilities and Debt

Total debt outstanding is summarized as follows:

(in millions)		**June 30, 2023**		December 31, 2022
3.250% Senior Notes due 2026 (a)		**500**		500
1.950% Senior Notes due 2028 (a)		**500**		500
2.250% Senior Notes due 2031 (a)		**500**		500
4.375% Senior Notes due 2046 (a)		**400**		400
Equipment Financing due 2023 to 2032		**126**		—
Securitization Facility due 2024		**150**		—
Term loan		**275**		—
Commercial Paper		**75**		—
Debt issuance costs and unamortized discount (b)		**(19)**		(20)
Total debt		**2,507**		1,880
Less: short-term borrowings and current maturities of long-term debt		**240**		—
Total long-term debt	**$**	**2,267**	$	1,880

(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 2026 was $471 million and $470 million as of June 30, 2023 and December 31, 2022 respectively. The fair value of our Senior Notes due 2028 was $440 million and $430 million as of June 30, 2023 and December 31, 2022, respectively. The fair value of our Senior Notes due 2031 was $416 million and $406 million as of June 30, 2023 and December 31, 2022, respectively. The fair value of our Senior Notes due 2046 was $339 million and $333 million as of June 30, 2023 and December 31, 2022, respectively.

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

Senior Notes

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

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

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

Interest on the Green Bond is payable on January 30 and July 30 of each year. As of June 30, 2023, we are in compliance with all covenants for the Green Bond.

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”). On December 12th, 2022 our Senior Notes due 2023 were settled with cash on hand for a total of $527 million.

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

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

Interest on the Senior Notes due 2026 and the Senior Notes due 2046 is payable on May 1 and November 1 of each year. As of June 30, 2023, 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 provided 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. On March 1, 2023, Xylem terminated the 2019 Credit Facility among the Company, certain lenders and Citibank, N.A. as Administrative Agent as a result of signing the 2023 Five-Year Revolving Credit Facility.

2023 Five-Year Revolving Credit Facility

On March 1, 2023, Xylem entered into a five year revolving credit facility (the "2023 Credit Facility") with Citibank, N.A., as Administrative Agent, and a syndicate of lenders. The 2023 Credit Facility provides for an aggregate principal amount of up to $1 billion (available in U.S. Dollars and in Euros), with increases of up to $300 million for a maximum aggregate principal amount of $1.3 billion at the request of Xylem and with the consent of the institutions providing such increased commitments.

Interest on all loans under the 2023 Credit Facility is payable either quarterly or at the expiration of any Term SOFR or EURIBOR interest period applicable thereto. Borrowings accrue interest at a rate equal to, at Xylem's election, a base rate or an adjusted Term SOFR or EURIBOR rate plus an applicable margin. The 2023 Credit Facility includes customary provisions for implementation of replacement rates for Term SOFR-based and EURIBOR-based loans. The 2023 Credit Facility also includes a pricing grid that determines the applicable margin based on Xylem's credit rating, with a further adjustment based on Xylem's achievement of certain Environmental, Social and Governance ("ESG") key performance indicators. 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 Xylem's 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 with a further adjustment based on Xylem's achievement of certain ESG key performance indicators.

The 2023 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. In accordance with the terms of the agreement to the 2023 Credit Facility, Xylem may not exceed a maximum leverage ratio of 4.00 to 1.00 for a period of four consecutive fiscal quarters beginning with the fiscal quarter during which a material acquisition is consummated and a maximum leverage ratio of 3.50 to 1.00 thereafter for a minimum of four fiscal quarters before another material acquisition is consummated. In addition, the 2023 Credit Facility contains a number of customary covenants, including limitations on the incurrence of secured debt and debt of subsidiaries, liens, sale and lease-back transactions, mergers, consolidations, liquidations, dissolutions and sales of assets. The 2023 Credit Facility also contains customary events of default. Finally, Xylem has the ability to designate subsidiaries that can borrow under the 2023 Credit Facility, subject to certain requirements and conditions set forth in the 2023 Credit Facility. As of June 30, 2023, the 2023 Credit Facility was undrawn and we are in compliance with all revolver covenants. The 2023 Credit Facility has availability of $925 million, comprised of the $1 billion aggregate principal, less $75 million of U.S. Dollar commercial paper outstanding as of June 30, 2023.

Term Loan Facility

On May 9, 2023, the Company’s subsidiary, Xylem Europe GmbH (the “borrower”) entered into a twenty four-month €250 million (approximately $273 million) term loan facility (the “Term 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 has entered into a parent guarantee in favor of ING Bank also dated May 9, 2023 to secure all present and future obligations of the borrower under the Term Loan Agreement. The net cash proceeds were used to repay a portion of Evoqua's indebtedness pursuant to the Merger Agreement.

Equipment Financing

As a result of the Evoqua acquisition, the Company has secured financing agreements that require providing a security interest in specified equipment and, in some cases, the underlying contract and related receivables. As of June 30, 2023, the gross and net amounts of those assets are included on the Consolidated Balance Sheets as follows:

	June 30, 2023	
(in millions)	Gross	Net
Property, plant, and equipment, net	$ 76	$ 75
Receivables, net	2	2
Prepaid and other current assets	4	4
Other non-current assets	55	54
	$ 137	$ 135

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 $1 billion inclusive of the 2023 Credit Facility. As of June 30, 2023 and December 31, 2022, $75 million and none of the Company's $600 million U.S. Dollar commercial paper program was outstanding, respectively. The net cash proceeds from issuance of commercial paper were used to repay a portion of Evoqua's indebtedness pursuant to the Merger Agreement. 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 $546 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, 2023 and December 31, 2022, none of the Company's Euro commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Receivables Securitization Program

On April 1, 2021, Evoqua Finance LLC ("Evoqua Finance"), now an indirect wholly-owned subsidiary of the Company, entered into an accounts receivable securitization program (the "Receivables Securitization Program") consisting of, among other agreements, (i) a Receivables Financing Agreement (as amended, the "Receivables Financing Agreement") among Evoqua Finance, as the borrower, the lenders from time to time party thereto (the "Receivables Financing Lenders"), PNC Bank, National Association ("PNC"), as administrative agent, EWT LLC, as initial servicer, and PNC Capital Markets LLC, as structuring agent, pursuant to which the lenders have made available to Evoqua Finance a receivables finance facility in an amount up to $150 million, (ii) a Sale and Contribution Agreement (as amended, the "Sale and Contribution Agreement") among Evoqua Finance, as purchaser, EWT LLC, as initial servicer and as an originator, and Neptune Benson, Inc., an indirectly wholly-owned subsidiary of the Company, as an originator (together with EWT LLC, the "Originators"), and (iii) a Performance Guaranty of Xylem Inc. dated as of May 24, 2023 (the "Performance Guaranty") in favor of PNC and for the benefit of PNC and the other secured parties under the Receivables Financing Agreement that replaced the performance guaranty of EWT Holdings II Corp. and EWT Holdings III Corp dated as of April 1, 2021.

The Receivables Securitization Program contains certain customary representations, warranties, affirmative covenants, and negative covenants, subject to certain cure periods in some cases, including the eligibility of the receivables being sold by the Originators and securing the loans made by the Receivables Financing Lenders, as well as customary reserve requirements, events of default, termination events, and servicer defaults.

On July 20, 2023, the Receivables Financing Agreement, the Sale and Contribution Agreement and the Performance Guaranty and the other transaction documents under the Receivables Financing Program were terminated and all outstanding obligations for principal, interest, and fees under the agreement were paid in full.

Note 13. Post-retirement 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, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Domestic defined benefit pension plans:				
Service cost	**$ 1**	$ —	**$ 2**	$ 1
Interest cost	**1**	1	**2**	2
Expected return on plan assets	**(2)**	(1)	**(3)**	(3)
Amortization of net actuarial loss	**—**	—	**—**	1
Net periodic benefit cost	**$ —**	$ —	**$ 1**	$ 1
International defined benefit pension plans:				
Service cost	**$ 1**	$ 4	**$ 3**	$ 7
Interest cost	**4**	3	**8**	7
Expected return on plan assets	**(3)**	(3)	**(6)**	(7)
Amortization of actuarial (gain) loss	**—**	3	**(1)**	6
Net periodic benefit cost	**$ 2**	$ 7	**$ 4**	$ 13
Total net periodic benefit cost	**$ 2**	$ 7	**$ 5**	$ 14

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 post-retirement employee benefit plans was less than $1 million, including net credits recognized into "Other comprehensive income (loss)" of less than $1 million, for both the three and six months ended June 30, 2023 and 2022, respectively.

We contributed $9 million and $10 million to our defined benefit plans for the six months ended June 30, 2023 and 2022, respectively. Additional contributions ranging between approximately $10 million and $14 million are expected to be made during the remainder of 2023.

Note 14. Equity

The following table shows the changes in stockholders' equity for the six months ended June 30, 2023:

(in millions)	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, 2023	$ 2	$ 2,134	$ 2,292	$ (226)	$ (708)	$ 9	$ 3,503
Net income	—	—	99	—	—	—	99
Other comprehensive income, net	—	—	—	35	—	—	35
Other activity	—	—	—	—	—	2	2
Dividends declared ($0.33 per share)	—	—	(60)	—	—	—	(60)
Stock incentive plan activity	—	18	—	—	(8)	—	10
Balance at March 31, 2023	$ 2	$ 2,152	$ 2,331	$ (191)	$ (716)	$ 11	$ 3,589
Net income	—	—	92	—	—	—	92
Other comprehensive income, net	—	—	—	(35)	—	—	(35)
Issuance of common stock	1	6,120	—	—	—	—	6,121
Issuance of replacement equity awards		160	—	—	—	—	160
Dividends declared ($0.33 per share)	—	—	(79)	—	—	—	(79)
Stock incentive plan activity	—	63	—	—	(1)	—	62
Balance at June 30, 2023	$ 3	$ 8,495	$ 2,344	$ (226)	$ (717)	$ 11	$ 9,910

The following table shows the changes in stockholders' equity for the six months ended June 30, 2022:

	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, 2022	$ 2	$ 2,089	$ 2,154	$ (371)	$ (656)	$ 8	$ 3,226
Net income	—	—	82	—	—	—	82
Other comprehensive loss, net	—	—	—	(6)	—	—	(6)
Dividends declared ($0.30 per share)	—	—	(55)	—	—	—	(55)
Stock incentive plan activity	—	10	—	—	(6)	—	4
Repurchase of common stock	—	—	—	—	(45)	—	(45)
Balance at March 31, 2022	$ 2	$ 2,099	$ 2,181	$ (377)	$ (707)	$ 8	$ 3,206
Net income	—	—	112	—	—	—	112
Other comprehensive income, net	—	—	—	(71)	—	—	(71)
Dividends declared ($0.30 per share)	—	—	(55)	—	—	—	(55)
Stock incentive plan activity	—	12	—	—	(1)	—	11
Balance at June 30, 2022	$ 2	$ 2,111	$ 2,238	$ (448)	$ (708)	$ 8	$ 3,203

Note 15. Share-Based Compensation Plans

Share-based compensation expense was $16 million and $27 million during the three and six months ended June 30, 2023, respectively, and $9 million and $18 million during the three and six months ended June 30, 2022, respectively. The unrecognized compensation expense related to our stock options, restricted stock units and performance share units was $13 million, $62 million and $19 million, respectively, at June 30, 2023 and is expected to be recognized over a weighted average period of 1.8, 1.9 and 2.2 years, respectively. The amount of cash received from the exercise of stock options was $40 million and $3 million for the six months ended June 30, 2023 and 2022, respectively.

On May 24, 2023, there were an additional 2.7 million of shares registered for issuance. As of June 30, 2023, there were approximately 5 million shares of common stock available for future awards.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2023:

	Share units (in thousands)	Weighted Average Exercise Price / Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2023	1,935	$ 67.55	5.9	**$ 83**
Granted	2,153	38.13		
Exercised	(1,412)	28.26		
Forfeited and expired	(14)	98.95		
Other	14	73.16		
Outstanding at June 30, 2023	**2,676**	**$ 64.42**	**6.0**	**$ 129**
Options exercisable at June 30, 2023	**1,979**	**$ 58.18**	**5.1**	**$ 108**
Vested and expected to vest as of June 30, 2023	**2,603**	**$ 63.69**	**5.7**	**$ 127**

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, 2023 was $109 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 employee exercise patterns, stock price volatility and changes in dividends. The following are weighted-average assumptions for 2023 grants:

Volatility	**27.30 %**
Risk-free interest rate	**4.25 %**
Dividend yield	**1.31 %**
Expected term (in years)	**5.4**
Weighted-average fair value / share	**$ 29.06**

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

Restricted Stock Unit Grants

The following is a summary of restricted stock unit activity for the six months ended June 30, 2023. 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, 2023	553	$ 88.88
Granted	1,005	103.29
Vested	(264)	101.43
Forfeited	(22)	95.65
Outstanding at June 30, 2023	**1,272**	**$ 96.05**

Adjusted EBITDA Performance Share Unit Grants

As approved by the Leadership Development & Compensation Committee of the Company's Board of Directors, for the 2023-2025 performance period, the completion of the acquisition of Evoqua transitioned one of the performance share unit metrics from a pre-set, three-year adjusted Return on Invested Capital ("ROIC") performance target to a pre-set, third-year adjusted earnings before interest, taxes, depreciation and amortization expense (“EBITDA”) performance target for the combined company.

The following is a summary of our ROIC and EBITDA grants for the six months ended June 30, 2023. The fair value of the adjusted EBITDA 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, 2023	146	$ 88.78
Granted	33	101.11
Forfeited (a)	(66)	81.94
Outstanding at June 30, 2023	**113**	**$ 97.75**

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

TSR Performance Share Unit Grants

The following is a summary of our Total Shareholder Return ("TSR") performance share unit grants for the six months ended June 30, 2023:

	Share units (in thousands)	Weighted Average Grant Date Fair Value / Share
Outstanding at January 1, 2023	178	$ 100.67
Granted	66	109.57
Adjustment for Market Condition Achieved (a)	40	102.55
Vested	(102)	102.55
Forfeited	(4)	114.09
Outstanding at June 30, 2023	**178**	**$ 103.76**

(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 2023 grants:

Volatility	**35.9 %**
Risk-free interest rate	**4.66 %**

Revenue Performance Share Unit Grants

The following is a summary of our Revenue performance share unit grants for the six months ended June 30, 2023:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value / Share**
Outstanding at January 1, 2023	32	86.77
Granted	33	101.11
Forfeited	(1)	88.28
Outstanding at June 30, 2023	**64**	**$ 93.36**

The fair value of the Revenue performance share unit awards is determined using the closing price of our common stock on date of grant. The shares will vest contingent upon the achievement of a pre-set, three-year Revenue target.

Note 16. Capital Stock

For the three and six months ended June 30, 2023, the Company repurchased less than 0.1 million shares of common stock for approximately $1 million and approximately 0.1 million shares of common stock for $9 million, respectively. For the three and six months ended June 30, 2022, the Company repurchased less than 0.1 million shares of common stock for $0.5 million and approximately 0.6 million shares of common stock for $52 million, respectively. Repurchases include 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 stockholders and maintains our focus on growth. There were no shares repurchased under the program for the three and six months ended June 30, 2023. There were no shares repurchased under the program for the three months ended June 30, 2022. For the six months ended June 30, 2022, we repurchased 0.5 million shares for approximately $46 million. There are up to $182 million in shares that may still be purchased under this plan as of June 30, 2023.

Aside from the aforementioned repurchase program, we repurchased less than 0.1 million shares and approximately 0.1 million shares for $1 million and $9 million for the three and six months ended June 30, 2023, respectively, in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. Likewise, we repurchased less than 0.1 million shares and approximately 0.1 million shares for less than $1 million and approximately $6 million for the three and six months ended June 30, 2022.

Note 17. Accumulated Other Comprehensive Loss

The following table provides the components of AOCL for the six months ended June 30, 2023:

(in millions)	Foreign Currency Translation	Post-retirement Benefit Plans	Derivative Instruments	Total
Balance at January 1, 2023	$ (180)	$ (41)	$ (5)	$ (226)
Foreign currency translation adjustment	22	—	—	22
Tax on foreign currency translation adjustment	5	—	—	5
Amortization of actuarial gain on post-retirement benefit plans into other non-operating income, net	—	(1)	—	(1)
Income tax impact on amortization of post-retirement benefit plan items	—	1	—	1
Unrealized gain on derivative hedge agreements	—	—	4	4
Income tax benefit on unrealized gain on derivative hedge agreements	—	—	(1)	(1)
Reclassification of unrealized loss on foreign exchange agreements into revenue	—	—	3	3
Reclassification of unrealized loss on foreign exchange agreements into cost of revenue	—	—	2	2
Balance at March 31, 2023	$ (153)	$ (41)	$ 3	$ (191)
Foreign currency translation adjustment	(38)	—	—	(38)
Tax on foreign currency translation adjustment	9	—	—	9
Amortization of prior service credit and actuarial gain on post-retirement benefit plans into other non-operating income, net	—	(1)	—	(1)
Foreign currency translation adjustment for post-retirement benefit plans	—	(1)	—	(1)
Unrealized loss on derivative hedge agreements	—	—	(3)	(3)
Reclassification of unrealized gain on foreign exchange agreements into revenue	—	—	(1)	(1)
Balance at June 30, 2023	$ (182)	$ (43)	$ (1)	$ (226)

The following table provides the components of AOCL for the six months ended June 30, 2022:

(in millions)	Foreign Currency Translation	Post-retirement Benefit Plans	Derivative Instruments	Total
Balance at January 1, 2022	$ (101)	$ (268)	$ (2)	$ (371)
Foreign currency translation adjustment	(3)	—	—	(3)
Tax on foreign currency translation adjustment	(2)	—	—	(2)
Amortization of actuarial loss on post-retirement benefit plans into other non-operating income, net	—	4	—	4
Income tax impact on amortization of post-retirement benefit plan items	—	(1)	—	(1)
Unrealized loss on derivative hedge agreements	—	—	(6)	(6)
Reclassification of unrealized loss on foreign exchange agreements into revenue	—	—	2	2
Balance at March 31, 2022	$ (106)	$ (265)	$ (6)	$ (377)
Cumulative effect of change in accounting principle				—
Foreign currency translation adjustment	(41)	—	—	(41)
Tax on foreign currency translation adjustment	(28)	—	—	(28)
Changes in post-retirement benefit plans				—
Amortization of prior service cost and net actuarial loss on post-retirement benefit plans into other non-operating income, net	—	4	—	4
Other non-operating income				—
Income tax impact on amortization of post-retirement benefit plan items	—	(1)	—	(1)
Unrealized gain on derivative hedge agreements	—	—	(9)	(9)
Income tax benefit on unrealized gain on derivative hedge agreements	—	—	1	1
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 June 30, 2022	$ (175)	$ (262)	$ (11)	$ (448)

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, property damage, personal injury, privacy, employment, labor and pension, government contract issues and commercial or contractual disputes.

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 $12 million and $5 million as of June 30, 2023 and December 31, 2022, respectively, for these general legal matters.

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, 2023 and December 31, 2022, the amount of surety bonds, bank guarantees, insurance letters of credit, stand-by letters of credit as well as revenue and customs guarantees was $716 million and $451 million, respectively.

Environmental

In the ordinary course of business, we are subject to federal, state, local, and foreign environmental laws and regulations. We are responsible, or are alleged to be responsible, for ongoing environmental investigation and remediation of sites in various countries. These sites are in various stages of investigation and/or remediation and in many of these proceedings our liability is considered de minimis. We have received notification from the U.S. Environmental Protection Agency, and from similar state and foreign environmental agencies, that a number of sites formerly or currently owned and/or operated by Xylem or for which we are responsible, 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 $4 million as of June 30, 2023 and December 31, 2022 for environmental matters.

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

Warranties

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

(in millions)	**2023**	2022
Warranty accrual – January 1	**$ 54**	$ 57
Net charges for product warranties in the period	**13**	11
Net Evoqua additions	**10**	—
Settlement of warranty claims	**(13)**	(12)
Foreign currency and other	**—**	(2)
Warranty accrual - June 30	**$ 64**	$ 54

Note 19. Segment Information

Our business has four reportable segments: Water Infrastructure, Applied Water, Measurement & Control Solutions and Integrated Solutions & Services. 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 Water Infrastructure segment also includes Applied Product Technologies (APT) from the Evoqua acquisition. APT provides a range of highly differentiated and scalable products and technologies with product offerings in the filtration and separation, disinfection, wastewater solutions, anode and electrochlorination technology, and aquatics technologies and solutions spaces. 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. As a result of the Evoqua acquisition, Xylem has a new segment for Integrated Solutions and Services. This segment provides tailored services and solutions in collaboration with the customers backed by life-cycle services including on-demand water, outsourced water, recycle / reuse, and emergency response service alternatives to improve operational reliability, performance, and environmental compliance. Key offerings within this segment also include equipment systems for industrial needs (influent water, boiler feed water, ultrahigh purity, process water, wastewater treatment, and recycle / reuse), full-scale outsourcing of operations and maintenance, and municipal services, including odor and corrosion control services.

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 section of Note 1 in the 2022 Annual Report. The following table contains financial information for each reportable segment:

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Revenue:				
Water Infrastructure	**$ 704**	$ 589	**$ 1,293**	$ 1,122
Applied Water	**478**	429	**931**	854
Measurement & Control Solutions	**415**	346	**821**	660
Integrated Solutions & Services	**125**	—	**125**	—
Total	**$ 1,722**	$ 1,364	**$ 3,170**	$ 2,636
Operating Income (Loss):				
Water Infrastructure	**$ 106**	$ 108	**$ 176**	$ 182
Applied Water	**84**	61	**167**	120
Measurement & Control Solutions	**26**	(5)	**46**	(15)
Integrated Solutions & Services	**(7)**	—	**(7)**	—
Corporate and other	**(90)**	(18)	**(132)**	(30)
Total operating income	**$ 119**	$ 146	**$ 250**	$ 257
Interest expense	**$ 12**	$ 12	**$ 21**	$ 25
Other non-operating income, net	**7**	2	**11**	1
Gain from sale of business	**—**	—	**—**	1
Income before taxes	**$ 114**	$ 136	**$ 240**	$ 234
Depreciation and Amortization:				
Water Infrastructure	**$ 24**	$ 14	**$ 38**	$ 27
Applied Water	**5**	5	**10**	10
Measurement & Control Solutions	**35**	34	**69**	68
Integrated Solutions & Services	**20**	—	**20**	—
Regional selling locations (a)	**6**	4	**11**	9
Corporate and other	**2**	2	**4**	4
Total	**$ 92**	$ 59	**$ 152**	$ 118
Capital Expenditures:				
Water Infrastructure	**$ 18**	$ 13	**$ 32**	$ 30
Applied Water	**7**	5	**15**	8
Measurement & Control Solutions	**14**	21	**32**	43
Integrated Solutions & Services	**6**	—	**6**	—
Regional selling locations (b)	**5**	5	**11**	10
Corporate and other	**4**	2	**7**	4
Total	**$ 54**	$ 46	**$ 103**	$ 95

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

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

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

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

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

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, many of which are beyond our control. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include, among others, the following: the impact of overall industry and general economic conditions, including industrial, governmental, and public and private sector spending, inflation, interest rates and related monetary policy by governments in response to inflation, and the strength of the residential and commercial real estate markets, on economic activity and our operations; geopolitical events, including the war between Russia and Ukraine, and regulatory, economic and other risks associated with our global sales and operations, including with respect to domestic content requirements applicable to projects with governmental funding; the global impact of the COVID-19 pandemic on the macroeconomy and our business, operations, growth, and financial condition; actual or potential other epidemics, pandemics or global health crises; availability, shortage or delays in receiving electronic components (in particular, semiconductors), parts and raw materials from our supply chain; manufacturing and operating cost increases due to macroeconomic conditions, including inflation, energy supply, supply chain shortages, logistics challenges, tight labor markets, prevailing price changes, tariffs and other factors; demand for our products, disruption, competition or pricing pressures in the markets we serve; cybersecurity incidents or other disruptions of information technology systems on which we rely; or involving our products; disruptions in operations at our facilities or that of third parties upon which we rely; failure to successfully execute large projects, including with respect to meeting performance guarantees and customers’ safety requirements; our ability to retain and attract senior management and other diverse and key talent, as well as competition for overall talent and labor; difficulty predicting our financial results; defects, security, warranty and liability claims, and recalls with respect to products; safe and compliant handling of wastewater and hazardous materials; availability, regulation or interference with radio spectrum used by certain of our products; uncertainty related to restructuring and realignment actions and related costs and savings; our ability to continue strategic investments for growth; our ability to successfully identify, execute and integrate acquisitions; volatility in served markets or impacts on our business and operations due to weather conditions, including the effects of climate change; fluctuations in foreign currency exchange rates; our ability to borrow or refinance our existing indebtedness, and uncertainty around the availability of liquidity sufficient to meet our needs; risk of future impairments to goodwill and other intangible assets; failure to comply with, or changes in, laws or regulations, including those pertaining to anti-corruption, data privacy and security, export and import, our products, competition, and the environment and climate change; changes in our effective tax rates or tax expenses; legal, governmental or regulatory claims, investigations or proceedings and associated contingent liabilities; risks related to our recently completed acquisition of Evoqua, including related to our ability to retain and hire key personnel, the realization of expected benefits and synergies, the need to incur additional or unexpected costs, charges or expenses associated with the integration of the combined companies, delays or challenges with the integration, potential adverse reactions or changes to relationships with customers, suppliers, distributors and other business partners, competitive responses to the acquisition, actual or potential litigation and associated costs and expenses, and impacts to our share price and dilution of shareholders’ ownership; and other factors set forth under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 ("2022 Annual Report") and in subsequent filings we make with the Securities and Exchange Commission (“SEC”).

Forward-looking and other statements in this Report regarding our environmental and other sustainability plans and goals are not an indication that these statements are necessarily material to investors or are required to be disclosed in our filings with the SEC. In addition, historical, current, and forward-looking social, environmental and sustainability-related statements may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. All forward-looking statements made herein are based on information currently available to us as of the date of this Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

Xylem is a leading global water technology company. We design, manufacture and service highly engineered products and solutions ranging across a wide variety of critical applications in utility, industrial, residential and commercial building solutions settings. Our broad portfolio of solutions addresses customer needs of scarcity, resilience, and affordability 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 four reportable segments that are aligned around the critical market applications they provide: Water Infrastructure, Applied Water, Measurement & Control Solutions and Integrated Solutions & Services.

- *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. The Water Infrastructure segment also includes legacy-Evoqua's Applied Product Technologies (APT) segment. APT provides a range of highly differentiated and scalable products and technologies with product offerings in the filtration and separation, disinfection, wastewater solutions, anode and electrochlorination technology, and aquatics technologies and solutions spaces.
- *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 solutions 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 capabilities 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 and outdoor water environments. Additionally, we offer software and services including cloud-based analytics, remote monitoring and data management, leak detection, condition assessment, asset management and pressure monitoring solutions. In the Measurement & Control Solutions segment, we generate our sales through a combination of long-standing relationships with leading distributors and dedicated channel partners, as well as direct sales depending on the regional availability of distribution channels and the type of product.

- *Integrated Solutions & Services* provides tailored services and solutions in collaboration with the customers backed by life-cycle services including on-demand water, outsourced water, recycle / reuse, and emergency response service alternatives to improve operational reliability, performance, and environmental compliance. Key offerings within this segment also include equipment systems for industrial needs (influent water, boiler feed water, ultrahigh purity, process water, wastewater treatment, and recycle / reuse), full-scale outsourcing of operations and maintenance, and municipal services, including odor and corrosion control services.

Evoqua Acquisition

On May 24, 2023, Xylem completed the acquisition of Evoqua. Commencing from the acquisition date, Xylem's financial statements include the assets, liabilities, operating results and cash flows of Evoqua. Refer to Note 3, "Acquisitions and Divestitures," for additional information.

Coinciding with the Evoqua acquisition, Xylem has updated our adjusted operating income and adjusted earnings per share to add back non-cash purchase accounting intangible amortization and recast 2022 amounts to reflect the change on a comparative basis.

Executive Summary

Xylem reported revenue for the second quarter of 2023 of $1,722 million, an increase of 26.2% compared to $1,364 million reported in the second quarter of 2022. The revenue increase consisted of strong organic growth of 14.6%, driven by strong revenue performance across the segments and in all of our major geographic regions, and increased revenue from the Evoqua acquisition of 13.0%, which was marginally offset by currency translation headwinds of 1.4%.

We generated operating income of $119 million (margin of 6.9%) during the second quarter of 2023, as compared to $146 million (margin of 10.7%) in 2022. Operating income in the second quarter of 2023 included an increase in special charges of $66 million and an unfavorable impact from increased restructuring and realignment costs of $29 million and an unfavorable increase to intangible amortization from acquisitions of $18 million as compared to the second quarter of 2022. Excluding the impact of special charges, restructuring and realignment costs and intangible amortization from acquisitions, adjusted operating income was $259 million (adjusted margin of 15.0%) during the second quarter of 2023 as compared to $173 million (adjusted margin of 12.7%) in 2022. The increase in adjusted operating margin was primarily due to price realization, productivity savings and favorable volume. These impacts were partially offset by inflation, spending on strategic investments, unfavorable mix, and inventory management costs.

Additional financial highlights for the quarter ended June 30, 2023 include the following:

- Orders of $1,856 million, up 10.2% from $1,684 million in the prior year period, and down 1.6% on an organic basis.
- Earnings per share of $0.45, down 27.4% compared to prior year ($0.98, up 32.4% versus prior year, on an adjusted basis).
- Net income as a percent of revenue of 5.3%, down 290 basis points compared to 8.2% in the prior year. EBITDA margin of 12.3%, down 280 basis points when compared to 15.1% in the prior year (EBITDA margin of 19.1% on an adjusted basis, up 250 basis points)

Key Performance Indicators and Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income margins, free cash flow, orders growth, working capital and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and to provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures, our ability to generate capital for deployment among competing strategic alternatives and initiatives, including, but not limited to, dividends, acquisitions, share repurchases and debt repayment. Excluding revenue, Xylem provides guidance only on a non-GAAP basis due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as discrete tax items, without unreasonable effort. These adjusted metrics are consistent with how management views our business and are used to make financial, operating and planning decisions. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operating activities as determined in accordance with GAAP. We consider the following non-GAAP measures to be key performance indicators, as well as the related reconciling items to the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP measures may not be comparable to similarly-titled measures reported by other companies.

- "organic revenue" and "organic orders" defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales or discontinuance of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency translation impacts is determined by translating current period and prior period activity using the same currency conversion rate.
- "constant currency" defined as financial results adjusted for foreign currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.
- "adjusted net income" and "adjusted earnings per share" defined as net income and earnings per share, respectively, adjusted to exclude restructuring and realignment costs, amortization of acquired intangible assets, gain or loss from the sale of businesses, special charges and tax-related special items, as applicable. A reconciliation of adjusted net income and adjusted earnings per share is provided below.

	Three Months Ended June 30,					Six Months Ended June 30,				
(in millions, except for per share data)	2023			2022		2023			2022	
Net income & Earnings per share	**$ 92**		**$ 0.45**	$ 112	$ 0.62	**$ 191**		**$ 0.98**	$ 194	$ 1.07
Restructuring and realignment	**37**		**0.18**	8	0.04	**48**		**0.25**	12	0.07
Acquired intangible amortization	**36**		**0.17**	18	0.10	**54**		**0.28**	36	0.20
Special charges	**67**	**(a)**	**0.33**	3	0.02	**92**	**(a)**	**0.47**	5	0.03
Tax-related special items	**—**		**—**	(1)	(0.01)	**—**		**—**	(2)	(0.01)
(Gain) loss from sale of business	**—**		**—**	—	—	**—**		**—**	(1)	(0.01)
Tax effects of adjustments (b)	**(30)**		**(0.15)**	(6)	(0.03)	**(39)**		**(0.20)**	(13)	(0.07)
Adjusted net income & Adjusted earnings per share	**$ 202**		**$ 0.98**	$ 134	$ 0.74	**$ 346**		**$ 1.78**	$ 231	$ 1.28

(a) The special charges primarily relate to acquisition and integration costs related to the Evoqua transaction.

(b) The tax effects of adjustments are calculated using the statutory tax rate, taking into consideration the nature of the item and the relevant taxing jurisdiction.

- "adjusted operating expenses" and "adjusted gross profit" defined as operating expenses and gross profit, respectively, adjusted to exclude amortization of acquired intangible assets, restructuring and realignment costs and special charges.
- "adjusted operating income" defined as operating income, adjusted to exclude restructuring and realignment costs, amortization of acquired intangible assets, gain or loss from the sale of businesses, special charges and special tax related items, as applicable, and "adjusted operating margin" defined as adjusted operating income divided by total revenue.
- "EBITDA" defined as earnings before interest, taxes, depreciation and amortization expense "EBITDA margin" defined as EBITDA divided by total revenue, "adjusted EBITDA" reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, gain or loss from sale of businesses and special charges, and "adjusted EBITDA margin" defined as adjusted EBITDA 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 both operating and non-operating adjustments for costs related to the UK pension plan buyout.
- "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 Condensed Consolidated Statement of Cash Flows, less capital expenditures. Our definition of "free cash flow" does not consider certain non-discretionary cash payments, such as debt. The following table provides a reconciliation of free cash flow.

	Six Months Ended June 30,	
(in millions)	**2023**	2022
Net cash provided by operating activities	**$ 9**	$ 32
Capital expenditures	**(103)**	(95)
Non-discretionary tax payments (R&D tax law adoption)	**33**	—
Free cash flow	**$ (61)**	$ (63)
Net cash used in investing activities	**$ (489)**	$ (84)
Net cash provided (used) by financing activities	**$ 235**	$ (158)

2023 Outlook

We are updating our total revenue growth to approximately 30%, and organic revenue growth to be in the range of 9% to 10% in 2023. The following is a summary of our organic revenue performance and the organic revenue outlook by end market.

- Utilities revenue increased by approximately 20% through the first half of the year on an organic basis driven by strength across all major geographic regions. For the remainder of 2023, we now expect organic revenue growth in the mid teens. On the clean water side, we anticipate growth from the conversion of our resilient backlog due to continued improvement in chip supply. Additionally, we expect strong order momentum from smart water demand. We expect wastewater utilities to remain focused on mission-critical applications in wastewater. Long-term capital expenditure outlook is strong due to aging infrastructure and the emerging markets' continued advancement.
- Industrial revenue increased by approximately 12% through the first half of the year on an organic basis driven by strength across all major geographic regions. For 2023, we continue to expect organic revenue growth in the mid-single-digits. We anticipate resilient demand across most industrials. In light and general industry, we are seeing sustained demand globally, through resilient, recurring service revenue and healthy dewatering demand.
- In the building solutions markets, revenue increased by approximately 13% through the first half of the year on an organic basis driven by strength in the U.S. and western Europe. For the remainder of 2023, we expect organic revenue growth in the mid-single-digits. In the commercial market, we expect resilient demand for energy efficiency related projects, particularly in Europe. We continue to monitor new construction, a smaller portion of our portfolio, for signs of moderation. In the residential market, which are predominantly driven by solid replacement revenue serviced through our distribution network, we are continuing to experience market softness, particularly in the U.S.

We will continue to strategically execute restructuring and realignment actions in an effort to advance our integration of Evoqua, optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. During 2023, we expect to incur approximately $90 million to $95 million in restructuring and realignment costs.

Results of Operations

(in millions)	Three Months Ended June 30, 2023	2022	Change	Six Months Ended June 30, 2023	2022	Change
Revenue	**$ 1,722**	$ 1,364	26.2 %	**$ 3,170**	$ 2,636	20.3 %
Gross profit	**651**	520	25.2 %	**1,197**	987	21.3 %
Gross margin	**37.8 %**	38.1 %	(30) bp	**37.8 %**	37.4 %	40 bp
Total operating expenses	**532**	374	42.2 %	**947**	730	29.7 %
Expense to revenue ratio	**30.9 %**	27.4 %	350 bp	**29.9 %**	27.7 %	220 bp
Restructuring and realignment costs	**37**	8	362.5 %	**48**	12	300.0 %
Purchase accounting intangible amortization	**36**	18	100.0 %	**54**	36	50.0 %
Special charges	**67**	1	6,600.0 %	**92**	2	4,500.0 %
Adjusted operating expenses	**392**	347	13.0 %	**753**	680	10.7 %
Adjusted operating expenses to revenue ratio	**22.8 %**	25.4 %	(260) bp	**23.8 %**	25.8 %	(200) bp
Operating income	**119**	146	(18.5) %	**250**	257	(2.7) %
Operating margin	**6.9 %**	10.7 %	(380) bp	**7.9 %**	9.7 %	(180) bp
Interest and other non-operating expense, net	**5**	10	(50.0) %	**10**	24	(58.3) %
Gain from sale of business	**—**	—	NM	**—**	1	(100.0) %
Income tax expense	**22**	24	(8.3) %	**49**	40	22.5 %
Tax rate	**19.1 %**	17.5 %	160 bp	**20.5 %**	17.0 %	350 bp
Net income	**$ 92**	$ 112	(17.9) %	**$ 191**	$ 194	(1.5) %

NM - Not meaningful change

Revenue

Revenue generated during the three and six months ended June 30, 2023 was $1,722 million and $3,170 million, reflecting increases of $358 million, or 26.2%, and $534 million, or 20.3%, respectively, compared to the same prior year periods. On a constant currency basis, revenue grew 27.6% and 22.7% for the three and six months ended June 30, 2023. Revenue growth contributed by acquisitions was $178 million for the three and six months ended June 30, 2023 and organic revenue increased $199 million and $420 million for the three and six months ended June 30, 2023, respectively, partially offset by negative impacts from foreign currency translation of $19 million and $64 million for the three and six months ended June 30, 2023, respectively. The increases reflect strong organic growth across all of our segments and in all of our major geographic regions for both periods.

The following table illustrates the impact from organic growth, recent acquisitions and divestitures, and foreign currency translation in relation to revenue during the three and six months ended June 30, 2023:

(in millions)	Water Infrastructure $ Change	Water Infrastructure % Change	Applied Water $ Change	Applied Water % Change	Measurement & Control Solutions $ Change	Measurement & Control Solutions % Change	Integrated Solutions & Services $ Change	Integrated Solutions & Services % Change	Total Xylem $ Change	Total Xylem % Change
2022 Revenue	589		429		346		—		1,364	
Organic Growth	74	12.6 %	53	12.4 %	72	20.8 %	—	NM	199	14.6 %
Acquisitions/(Divestitures)	53	9.0 %	—	— %	—	— %	125	NM	178	13.0 %
Constant Currency	127	21.6 %	53	12.4 %	72	20.8 %	125	NM	377	27.6 %
Foreign currency translation (a)	(12)	(2.1)%	(4)	(1.0)%	(3)	(0.9)%	—	NM	(19)	(1.4)%
Total change in revenue	115	19.5 %	49	11.4 %	69	19.9 %	$ 125	NM	358	26.2 %
2023 Revenue	**$ 704**		**$ 478**		**$ 415**		**$ 125**		**$ 1,722**	

(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 Chinese Yuan, the Canadian Dollar, the Australian Dollar and the Norwegian Krone.

(In millions)	Water Infrastructure $ Change	Water Infrastructure % Change	Applied Water $ Change	Applied Water % Change	Measurement & Control Solutions $ Change	Measurement & Control Solutions % Change	Integrated Solutions & Services $ Change	Integrated Solutions & Services % Change	Total Xylem $ Change	Total Xylem % Change
2022 Revenue	1,122		854		660		—		2,636	
Organic Growth	155	13.8 %	94	11.0 %	171	25.9 %	—	NM	420	15.9 %
Acquisitions/(Divestitures)	53	4.7 %	—	— %	—	— %	125	NM	178	6.8 %
Constant Currency	208	18.5 %	94	11.0 %	171	25.9 %	125	NM	598	22.7 %
Foreign currency translation (a)	(37)	(3.3)%	(17)	(2.0)%	(10)	(1.5)%	—	NM	(64)	(2.4)%
Total change in revenue	171	15.2 %	77	9.0 %	161	24.4 %	$ 125	NM	534	20.3 %
2023 Revenue	**$ 1,293**		**$ 931**		**$ 821**		**$ 125**		**$ 3,170**	

(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 Chinese Yuan, the British Pound, the Euro, the Canadian Dollar and the Norwegian Krone.

Water Infrastructure

Water Infrastructure revenue increased $115 million, or 19.5%, for the second quarter of 2023 (21.6% increase on a constant currency basis) as compared to the prior year. Revenue growth for the quarter was partially made up of the revenue contributed by acquisitions from the APT business of $53 million, with the remainder of the increase coming from organic revenue growth of $74 million, or 12.6%. Revenue was negatively impacted by $12 million of foreign currency translation, with the change at constant currency of $127 million. Organic growth for the quarter was driven by strength in both the utilities and industrial end markets. The utilities end market experienced organic growth of $43 million across all major geographic regions, particularly in the U.S. driven by strong price realization and higher demand in our rental business. Western Europe also experienced strong organic growth due to robust demand in utilities' capital spending coupled with good price realization. The industrial end market had $31 million of organic growth led by strength in western Europe driven by capital projects and strong price realization and the U.S. due to good price realization.

From an application perspective, excluding the $53 million contributed by acquisitions, organic revenue growth was primarily driven by our transport applications. Transport experienced $60 million of revenue growth, across all three of our major geographic regions. Growth was led by the U.S., driven by strong price realization, increased sales volume and higher demand in our rental business. Western Europe also experienced growth due to utility and other capital projects and price realization. Organic revenue for the treatment application grew by $14 million for the quarter, led by organic revenue growth in the U.S., due to project timing and increases in the emerging markets from project timing due to COVID recovery in China.

For the six months ended June 30, 2023, revenue increased $171 million, or 15.2% (18.5% increase on a constant currency basis) as compared to the prior year. Revenue growth was partially made up of the revenue contributed by acquisitions from the APT business of $53 million. Revenue was negatively impacted by $37 million of foreign currency translation, with the change at constant currency coming from organic growth of $155 million or 13.8%. Organic growth for the period was driven by strength in both the utility and industrial end markets. The utilities end market experienced organic growth across all of our major geographic regions totaling $89 million. Organic growth for the period was driven by the U.S., where we experienced strong price realization, project timing and higher demand in our rental business. Western Europe also experienced strong organic growth due to robust demand in utilities' capital spending coupled with good price realization. The industrial end market had $66 million of organic growth across all major geographies, particularly in western Europe driven by capital projects and strong price realization and growth in the U.S. due to good price realization. The emerging markets also experienced growth due to projects in Latin America.

From an application perspective, excluding the $53 million contributed by acquisitions, organic revenue growth during the six-month period was driven by our transport applications with $139 million of revenue growth. The increase in organic revenue was led by the U.S., where we experienced strong price realization and sales volume, as well as increased rental volumes in the dewatering business when compared to the prior year. Western Europe also experienced increases due to strong price realization along with demand from utility capital projects. The emerging markets also had strong growth primarily due to increased projects in Latin America and China. Organic revenue for the treatment application also contributed $16 million of organic sales growth across all major geographic regions driven by project timing and strong backlog execution.

Applied Water

Applied Water revenue increased $49 million, or 11.4%, for the second quarter of 2023 (12.4% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $4 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $53 million. Organic growth was driven by strength in the commercial and industrial end markets/applications, partially offset by a decline in the residential end market/application versus the comparable period. Organic revenue growth in the second quarter was led by strength in commercial building solutions of $45 million, primarily in the U.S. where we benefited from strong price realization and backlog execution. Industrial water had strong organic growth in the quarter of $20 million, across all three of our major geographic regions, driven primarily by recovery from prior year COVID-19 impacts in the emerging markets. Residential building solutions was down $12 million organically for the quarter, primarily in the U.S. due to healthy order intake in the prior year that did not recur.

For the six months ended June 30, 2023, revenue increased $77 million, or 9.0% (11.0% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $17 million of foreign currency translation during the six month period, with the change at constant currency coming primarily from organic growth of $94 million. Organic growth during the period was driven by all major geographic regions, with particular strength in the U.S. commercial building solutions grew $71 million organically during the period, driven by strong price realization in the U.S. The industrial water application achieved organic growth of $36 million, led by the emerging markets due to recovery from prior year COVID-19 impacts and in western Europe due to strong price realization and healthy demand. The residential building solutions application saw a decline in revenue of $13 million, primarily in the emerging markets and U.S.

Measurement & Control Solutions

Measurement & Control Solutions revenue increased $69 million, or 19.9%, for the second quarter of 2023 (20.8% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $3 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $72 million, or 20.8%. The segment experienced organic revenue growth across all three major geographic regions and in both of the segment's end markets for the quarter, driven by $70 million of organic growth in the utility end market, primarily in the U.S., and to a lesser extent, in western Europe, driven by increased demand, enabled by recovery on prior year component constraints and price realization. The industrial end market saw $2 million organic revenue growth.

From an application perspective, organic revenue growth during the quarter was driven by both the water and energy applications. The water application had strong organic growth of $47 million, primarily in the U.S. and to a lesser extent in western Europe, driven by increased demand, enabled by recovery on prior year component constraints and backlog execution. The energy applications grew $25 million organically, primarily in the U.S. where we saw greater electronic component availability.

For the six months ended June 30, 2023, revenue increased $161 million, or 24.4% (25.9% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $10 million of foreign currency translation, with the change at constant currency coming from an organic increase of $171 million (25.9% increase). The segment experienced organic revenue growth across all three major geographic regions and in both of the segment's end markets for the quarter, driven by $161 million of organic growth in the utility end market, primarily in the U.S., driven by increased demand, enabled by recovery on prior year component constraints and backlog execution. Western Europe also experienced increases driven by backlog execution. The industrial end market grew organically by $10 million across all geographic regions driven by backlog execution in our test business.

From an application perspective, organic revenue growth during the six-month period consisted of growth in the water application of $123 million, primarily in the U.S. and to a lesser extent in western Europe, driven by increased demand, enabled by recovery on prior year component constraints and backlog execution. Energy applications saw organic growth of $48 million, driven by metrology sales in the U.S. due to improved electronic component availability.

Integrated Solutions & Services

Integrated Solutions & Services consists entirely of revenues of $125 million for the three and six months ended June 30, 2023 contributed from the Evoqua acquisition.

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 2023 were $1,856 million, an increase of $172 million, or 10.2%, over the prior year (11.6% increase on a constant currency basis). Orders received during the six months ended June 30, 2023 were $3,426 million, an increase of $27 million, or 0.8%, over the prior year (3.0% increase on a constant currency basis). Orders contributed by acquisitions were $222 million in the three and six months ended June 30, 2023. Order intake was negatively impacted by $23 million and $76 million of foreign currency translation for the three and six months ended June 30, 2023, respectively.

The following table illustrates the impact from organic growth, recent acquisitions or divestitures, and foreign currency translation in relation to orders during the three and six months ended June 30, 2023:

	Water Infrastructure		**Applied Water**		**Measurement & Control Solutions**		**Integrated Solutions & Services**		**Total Xylem**	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2022 Orders	$ 731		$ 480		$ 473		$ —		$ 1,684	
Organic Impact	(26)	(3.6)%	(29)	(6.0)%	28	5.9 %	—	NM	(27)	(1.6)%
Acquisitions/(Divestitures)	59	8.1 %	—	— %	—	— %	163	NM	222	13.2 %
Constant Currency	33	4.5 %	(29)	(6.0)%	28	5.9 %	163	NM	195	11.6 %
Foreign currency translation (a)	(13)	(1.8)%	(6)	(1.3)%	(4)	(0.8)%	—	NM	(23)	(1.4)%
Total change in orders	20	2.7 %	(35)	(7.3)%	24	5.1 %	163	NM	172	10.2 %
2023 Orders	**$ 751**		**$ 445**		**$ 497**		**$ 163**		**$ 1,856**	

(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 Chinese Yuan, the Canadian Dollar, the Australian Dollar and the Norwegian Krone.

(in millions)	Water Infrastructure		Applied Water		Measurement & Control Solutions		Integrated Solutions & Services		Total Xylem	
	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2022 Orders	$ 1,391		$ 985		$ 1,023		$ —		$ 3,399	
Organic Impact	(18)	(1.3)%	(33)	(3.4)%	(68)	(6.6)%	—	NM	(119)	(3.5)%
Acquisitions/(Divestitures)	59	4.2 %	—	— %	—	— %	163	NM	222	6.5 %
Constant Currency	41	2.9 %	(33)	(3.4)%	(68)	(6.6)%	163	NM	103	3.0 %
Foreign currency translation (a)	(42)	(3.0)%	(24)	(2.4)%	(10)	(1.0)%	—	NM	(76)	(2.2)%
Total change in orders	(1)	(0.1)%	(57)	(5.8)%	(78)	(7.6)%	163	NM	27	0.8 %
2023 Orders	**$ 1,390**		**$ 928**		**$ 945**		**$ 163**		**$ 3,426**	

(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 Chinese Yuan, the Canadian Dollar, the Australian Dollar and the Norwegian Krone.

Water Infrastructure

Water Infrastructure segment orders increased $20 million, or 2.7%, to $751 million (4.5% increase on a constant currency basis) for the second quarter of 2023 as compared to the prior year. The order increase included orders from recent acquisitions of $59 million from the APT business partially offset by an organic order decline of $26 million, or 3.6%. Order intake for the period was negatively impacted by $13 million of foreign currency translation. Organic orders decreased during the quarter primarily in the transport applications due to declines in orders in the U.S. driven by large infrastructure projects in the prior period which did not recur in the current period. This decline in order intake was partially offset by order growth in the dewatering business, primarily driven by rental orders and increased activity in the mining industry in Latin America. The treatment application saw a slight decrease in orders driven by western Europe due to project order wins in the prior year. Orders in the treatment application remained relatively flat as compared to the prior year.

For the six months ended June 30, 2023, orders decreased by $1 million, which was partially made up of the orders contributed by acquisitions from the APT business of $59 million, offset by an $18 million, or 1.3%, decrease in organic orders. Order intake for the period was negatively impacted by $42 million of foreign currency translation. Organic orders decreased during the quarter primarily in the transport applications due to declines in orders in the U.S. driven by large infrastructure projects in the prior period which did not recur in the current period. This decline in order intake was partially offset by order strength in the dewatering business, led by rental orders primarily in the emerging markets. The treatment application saw a slight decrease in orders driven by western Europe due to project order wins in the prior year.

Applied Water

Applied Water segment orders decreased $35 million, or 7.3%, to $445 million (6.0% decrease on a constant currency basis) for the second quarter of 2023 as compared to the prior year. Order intake for the quarter was negatively impacted by $6 million of foreign currency translation. The decrease in organic orders was driven by weakness in the U.S. from lower demand and timing of orders, which was partially offset by strength in the emerging markets due to recovery from prior year COVID-19 impacts.

For the six months ended June 30, 2023, orders decreased $57 million, or 5.8%, to $928 million (3.4% decrease on a constant currency basis) as compared to the prior year. Order intake for the period was negatively impacted by $24 million of foreign currency translation. Weakness in the U.S. from lower demand and timing of orders was partially offset by strength in the emerging markets due to recovery from prior year COVID-19 impacts.

Measurement & Control Solutions

Measurement & Control Solutions segment orders increased $24 million, or 5.1%, to $497 million (5.9% increase on a constant currency basis) for the second quarter of 2023 as compared to the prior year. Order growth for the quarter was negatively impacted by $4 million of foreign currency translation. Organic order growth was driven primarily by the water application in the U.S. and emerging markets. Order growth within water applications was due to large project orders in the U.S., which was partially offset by declines across our energy applications in the U.S., due to lower demand.

For the six months ended June 30, 2023, orders decreased $78 million or 7.6%, to $945 million (6.6% decrease on a constant currency basis) as compared to the prior year. Order intake for the period was negatively impacted by $10 million of foreign currency translation. The order decrease on a constant currency basis consisted primarily of organic order declines of $68 million or 6.6%. Organic order intake was negatively impacted by lower demand across the energy application, particularly in the U.S., lapping strong order growth in the second quarter. This decline was partially offset by growth in the U.S., due to increased demand in water applications.

Integrated Solutions & Services

The Integration Solutions & Services segment contributed total orders of $163 million for the three and six months ended June 30, 2023. See Note 3, "Acquisitions and Divestitures," to the condensed consolidated financial statements for further information.

Backlog

Backlog includes orders on hand as well as contractual customer agreements at the end of the period. Delivery schedules vary from customer to customer based on their requirements. Annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. As such, beginning total backlog, plus orders, minus revenues, will not equal ending total backlog due to contract adjustments, foreign currency fluctuations, and other factors. Typically, large projects require longer lead production cycles and deployment schedules and delays occur from time to time. Total backlog was $5,271 million at June 30, 2023, an increase of $1,514 million or 40.3%, as compared to June 30, 2022 backlog of $3,757 million, and an increase of $1,666 million or 46.2%, as compared to December 31, 2022 backlog of $3,605 million, driven by the order intake in the quarter outpacing revenue. We anticipate that approximately 39% of the backlog at June 30, 2023 will be recognized as revenue in the remainder of 2023. There were no significant order cancellations during the quarter.

Gross Margin

Gross margin as a percentage of revenue decreased 30 and increased 40 basis points to 37.8% for both the three and six months ended June 30, 2023, as compared to 38.1% and 37.4% for the comparative 2022 period. The gross margin decrease for the quarter included favorable impacts of price realization offset by negative impacts of inflation and mix. The gross margin increase for the six month period included favorable impacts of price realization and productivity savings offset by negative impacts of inflation and unfavorable mix.

Operating Expenses

The following table presents operating expenses for the three and six months ended June 30, 2023 and 2022:

(in millions)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Change	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change
Selling, general and administrative expenses	**$ 446**	$ 314	42.0 %	**$ 800**	$ 618	29.4 %
SG&A as a % of revenue	**25.9 %**	23.0 %	290 bp	**25.2 %**	23.4 %	180 bp
Research and development expenses	**58**	53	9.4 %	**111**	105	5.7 %
R&D as a % of revenue	**3.4 %**	3.9 %	(50) bp	**3.5 %**	4.0 %	(50) bp
Restructuring and asset impairment charges	**28**	7	300.0	**36**	7	414.3 %
Operating expenses	**$ 532**	$ 374	42.2 %	**$ 947**	$ 730	29.7 %
Expense to revenue ratio	**30.9 %**	27.4 %	350 bp	**29.9 %**	27.7 %	220 bp

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

SG&A expenses increased by $132 million to $446 million, or 25.9% of revenue, in the second quarter of 2023, as compared to $314 million, or 23.0% of revenue, in the comparable 2022 period; and increased by $182 million to $800 million, or 25.2% of revenue, in the six months ended June 30, 2023, as compared to $618 million, or 23.4% of revenue, in the comparable 2022 period. Increases in SG&A in the second quarter of 2023 as compared to the prior year primarily consisted of increased restructuring and realignment costs of $29 million, increased special charges of $51 million, $34 million of additional SG&A from the acquisition and $13 million of inflation. Increases in SG&A in the six months ended June 30, 2023 as compared to the prior year were driven by increased restructuring and realignment costs of $36 million, an increase of $74 million in special charges, $34 million of additional SG&A from the acquisition and $27 million of inflation.

Research and Development ("R&D") Expenses

R&D expense was $58 million, or 3.4% of revenue, in the second quarter of 2023, as compared to $53 million, or 3.9% of revenue in the second quarter of 2022; and was $111 million, or 3.5% of revenue, in the six months ended June 30, 2023, as compared to $105 million, or 4.0% of revenue, in the comparable 2022 period. The R&D spend has remained fairly consistent year over year with a small increase in R&D expense as a result of less R&D being captialized in the current year as compared to prior year.

Restructuring and Asset Impairment Charges

Restructuring

During the three and six months ended June 30, 2023, we incurred restructuring costs of $28 million and $34 million, respectively. We incurred these charges primarily as a result of our acquisition of Evoqua. Approximately, $14 million of the charges related to stock based compensation expense due to acceleration clauses in equity compensation agreements and approximately $14 million of the charges represented the reduction of headcount. Additionally, we incurred $6 million of charges related to our efforts to reposition our European and North American businesses to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. The charges were incurred across all of our segments.

During the three and six months ended June 30, 2022, we incurred restructuring charges of $6 million. 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 across all segments.

The following is a roll-forward for the six months ended June 30, 2023 and 2022 of employee position eliminations associated with restructuring activities:

	2023	2022
Planned reductions - January 1	**102**	60
Additional planned reductions	**106**	69
Actual reductions and reversals	**(132)**	(48)
Planned reductions - June 30	**76**	81

The following table presents expected restructuring spend in 2023 and thereafter relating to actions commenced in 2023:

(in millions)	**Water Infrastructure**	**Applied Water**	**Measurement & Control Solutions**	**Integrated Solutions & Services**	**Corporate**	**Total**
Actions Commenced in 2023:						
Total expected costs	$ 4	$ 2	$ 6	$ 7	$ 33	$ 52
Costs incurred during Q1 2023	1	1	3	—	—	5
Costs incurred during Q2 2023	2	—	1	4	22	29
Total expected costs remaining	**$ 1**	**$ 1**	**$ 2**	**$ 3**	**$ 11**	**$ 18**

The Water Infrastructure, Applied Water, Measurement & Control Solutions, Integrated Solutions Services and Corporate actions commenced in 2023 consist primarily of severance charges. The actions are expected to continue through the end of 2024.

We currently expect to incur between $55 million and $60 million in restructuring costs for the full year. These restructuring costs are primarily a result of our acquisition of Evoqua and are also related to efforts to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers.

Asset Impairment

During the first quarter of 2023, 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 and recognized an impairment charge of $2 million. Refer to Note 8, "Goodwill and Other Intangible Assets," for additional information.

Operating Income and Adjusted EBITDA

Operating income was $119 million (operating margin of 6.9%) during the second quarter of 2023, a decrease of $27 million, or 18.5%, when compared to operating income of $146 million (operating margin of 10.7%) during the prior year. Operating loss contributed by acquisitions was $47 million for the second quarter of 2023. Operating margin decreased 380 basis points and included unfavorable impacts of 610 basis points from increases in special charges, restructuring and realignment costs and acquired intangible asset amortization as compared to the prior year. Additionally, operating margin included 940 basis points of expansion from favorable operating impacts, consisting of a 470 basis point increase from price realization, 300 basis points from productivity savings and 170 basis points from favorable volume. Margin expansion was offset by 710 basis points of unfavorable impacts driven by 350 basis points of inflation,120 basis points of increased spending on strategic investments, 110 basis points of unfavorable mix and 40 basis points related to unfavorable inventory management costs. Excluding special charges, restructuring and realignment costs and acquired intangible asset amortization, adjusted operating income was $259 million (adjusted operating margin of 15.0%) for the second quarter of 2023 as compared to adjusted operating income of $173 million (adjusted operating margin of 12.7%) during the comparable quarter in the prior year.

Adjusted EBITDA was $329 million (adjusted EBITDA margin of 19.1%) during the second quarter of 2023, an increase of $103 million, or 2.5%, when compared to adjusted EBITDA of $226 million (adjusted EBITDA margin of 16.6%) during the comparable quarter in the prior year, an increase to adjusted EBITDA margin of 250 basis points. Adjusted EBITDA margin contributed by acquisitions 50 basis points. Excluding the impact from acquisitions, adjusted EBITDA margin was impacted by the same offsetting factors impacting the adjusted operating margin.

Operating income for the six months ended June 30, 2023 was $250 million (operating margin of 7.9%), reflecting a decrease of $7 million or 2.7% when compared to $257 million (operating margin of 9.7%) in 2022 or a decrease of 180 basis points . Operating loss contributed by acquisitions was $47.4 million for the six months ended June 30, 2023. Operating margin declines included unfavorable impacts of 420 basis points from increases in acquired intangible asset amortization, special charges and restructuring and realignment as compared to the prior year. Additionally, operating margin included unfavorable impacts of 890 basis points, driven by 430 basis points of inflation,130 basis points from increased spending on strategic investments, 130 basis points from unfavorable mix, 50 basis points related to cost of quality and 30 basis points of unfavorable foreign currency impacts. Operating margin declines were offset by 1.130 basis points of favorable impacts, consisting of 570 basis points price realization, 240 basis points for favorable volume and 320 basis points from productivity savings. Excluding special charges, restructuring and realignment costs and acquired intangible asset amortization, adjusted operating income was $444 million with an adjusted operating margin of 14.0% for the six months ended June 30, 2023 as compared to adjusted operating income of $307 million with an adjusted operating margin of 11.6% in 2022.

Adjusted EBITDA for the six months ended June 30, 2023 was $565 million (adjusted EBITDA margin of 17.8%), an increase of $158 million, or 38.8%, when compared to adjusted EBITDA of $407 million (adjusted EBITDA margin of 15.4%) during the comparable period in prior year. Adjusted EBITDA margin contributed by acquisitions was 40 basis points for the six months ended June 30, 2023. The adjusted EBITDA margin was impacted by the same offsetting factors impacting the adjusted operating margin.

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)	**2023**	2022	Change	**2023**	2022	Change
Water Infrastructure						
Operating income	**$ 106**	$ 108	(1.9) %	**$ 176**	$ 182	(3.3) %
Operating margin	***15.1 %***	*18.3 %*	*(320) bp*	***13.6 %***	*16.2 %*	*(260) bp*
Restructuring and realignment costs	**3**	3	— %	**6**	4	50.0 %
Purchase accounting intangible amortization	**8**	1	700.0 %	**9**	2	350.0 %
Special charges	**12**	—	NM	**12**	—	NM
Adjusted operating income	**$ 129**	$ 112	15.2 %	**$ 203**	$ 188	8.0 %
Adjusted operating margin	***18.3 %***	*19.0 %*	*(70) bp*	***15.7 %***	*16.8 %*	*(110) bp*
Applied Water						
Operating income	**$ 84**	$ 61	37.7 %	**$ 167**	$ 120	39.2 %
Operating margin	***17.6 %***	*14.2 %*	*340 bp*	***17.9 %***	*14.1 %*	*380 bp*
Restructuring and realignment costs	**2**	2	— %	**5**	3	66.7 %
Purchase accounting intangible amortization	**—**	—	NM	**—**	—	NM
Special charges	**—**	—	NM	**—**	—	NM
Adjusted operating income	**$ 86**	$ 63	36.5 %	**$ 172**	$ 123	39.8 %
Adjusted operating margin	***18.0 %***	*14.7 %*	*330 bp*	***18.5 %***	*14.4 %*	*410 bp*
Measurement & Control Solutions						
Operating income (loss)	**$ 26**	$ (5)	620.0 %	**$ 46**	$ (15)	406.7 %
Operating margin	***6.3 %***	*(1.4)%*	*770 bp*	***5.6 %***	*(2.3)%*	*790 bp*
Restructuring and realignment costs	**3**	3	— %	**8**	5	60.0 %
Purchase accounting intangible amortization	**17**	17	— %	**34**	34	— %
Special charges	**—**	1	(100.0) %	**2**	1	100.0 %
Adjusted operating income	**$ 46**	$ 16	(187.5) %	**$ 90**	$ 25	(260.0) %
Adjusted operating margin	***11.1 %***	*4.6 %*	*650 bp*	***11.0 %***	*3.8 %*	*720 bp*
Integrated Solutions & Services						
Operating loss	**$ (7)**	$ —	NM	**$ (7)**	$ —	NM
Operating margin	***(5.6)%***	*— %*	NM	***(5.6)%***	*— %*	NM
Restructuring and realignment costs	**7**	—	NM	**7**	—	NM
Purchase accounting intangible amortization	**11**	—	NM	**11**	—	NM
Special charges	**7**	—	NM	**7**	—	NM
Adjusted operating income	**$ 18**	$ —	NM	**$ 18**	$ —	100.0 %
Adjusted operating margin	***14.4 %***	*— %*	NM	***14.4 %***	*— %*	NM
Corporate and other						
Operating loss	**$ (90)**	$ (18)	400.0 %	**$ (132)**	$ (30)	340.0 %
Restructuring and realignment costs	**22**	—	NM	**22**	—	NM
Special charges	**48**	—	NM	**71**	1	(7,000.0) %
Adjusted operating loss	**$ (20)**	$ (18)	11.1 %	**$ (39)**	$ (29)	34.5 %
Total Xylem						
Operating income	**$ 119**	$ 146	(18.5) %	**$ 250**	$ 257	(2.7) %
Operating margin	***6.9 %***	*10.7 %*	*(380) bp*	***7.9 %***	*9.7 %*	*(180) bp*
Restructuring and realignment costs	**37**	8	362.5 %	**48**	12	300.0 %
Purchase accounting intangible amortization	**36**	18	100.0 %	**54**	36	50.0 %
Special charges	**67**	1	6,600.0 %	**92**	2	4,500.0 %
Adjusted operating income	**$ 259**	$ 173	49.7 %	**$ 444**	$ 307	44.6 %
Adjusted operating margin	***15.0 %***	*12.7 %*	*230 bp*	***14.0 %***	*11.6 %*	*240 bp*

NM - Not meaningful percentage change

The table below provides a reconciliation of net income to consolidated EBITDA and adjusted EBITDA:

(in millions)	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	2023	2022	Change	**2023**	2022	Change
Net Income	92	112	(18) %	191	194	(2) %
Net Income margin	5.3 %	8.2 %	(290) *bp*	6.0 %	7.4 %	(140) *bp*
Depreciation	41	28	46 %	69	56	23 %
Amortization	51	32	59 %	83	62	34 %
Interest expense, net	5	10	(50) %	7	21	(67) %
Income tax expense	22	24	(8) %	49	40	23 %
EBITDA	**$ 211**	**206**	2 %	**$ 399**	**373**	7 %
Share-based compensation	15	9	67 %	27	18	50 %
Restructuring & realignment	36	8	350 %	47	12	292 %
Special charges	67	3	2133 %	92	5	1740 %
Gain from sale of business	—	—	NM %	—	(1)	(100) %
Adjusted EBITDA	**$ 329**	$ 226	46 %	**$ 565**	$ 407	39 %
Adjusted EBITDA margin	**19.1%**	**16.6%**	250 *bp*	**17.8%**	**15.4%**	240 *bp*

The tables below provide a reconciliation of each segment's operating income (loss) to EBITDA and adjusted EBITDA:

(in millions)	Three Months Ended June 30, 2023			
	Water Infrastructure	**Applied Water Systems**	**Measurement & Control Solutions**	**Integrated Solutions & Services**
Operating Income	**$ 106**	**$ 84**	**$ 26**	**$ (7)**
Operating margin	**15.1 %**	**17.6 %**	**6.3 %**	**(5.6)%**
Depreciation	**14**	**4**	**9**	**8**
Amortization	**10**	**1**	**26**	**12**
Other non-operating expense	**1**	**—**	**—**	**—**
EBITDA	**$ 131**	**$ 89**	**$ 61**	**$ 13**
Share-based compensation	**5**		**2**	**3**
Restructuring & realignment	**3**	**2**	**2**	**7**
Special charges	**12**	**—**	**—**	**7**
Adjusted EBITDA	**$ 151**	**$ 91**	**$ 65**	**$ 30**
Adjusted EBITDA margin	***21.4 %***	***19.0 %***	***15.7 %***	***24.0 %***

(in millions)	Three Months Ended June 30, 2022 Water Infrastructure	Applied Water Systems	Measurement & Control Solutions	Integrated Solutions & Services
Operating Income	**$ 108**	**$ 61**	**$ (5)**	**$ —**
Operating margin	**18.3 %**	**14.2 %**	**(1.4)%**	**— %**
Depreciation	11	4	8	—
Amortization	3	1	26	—
Other non-operating expense	1	—	(1)	—
EBITDA	**$ 123**	**$ 66**	**$ 28**	**$ —**
Share-based compensation	—	1	2	—
Restructuring & realignment	3	2	3	—
Special Charges	—	—	1	
Adjusted EBITDA	**$ 126**	**$ 69**	**$ 34**	**$ —**
Adjusted EBITDA margin	***21.4 %***	***16.1 %***	***9.8 %***	***— %***

(in millions)	Three Months Ended 2023 versus 2022 Water Infrastructure	Applied Water Systems	Measurement & Control Solutions	Integrated Solutions & Services
Operating Income (Loss)	**$ (2)**	**$ 84**	**$ 31**	**$ (7)**
Operating margin	**(3.2)%**	**3.4 %**	**7.7 %**	**(5.6)%**
Depreciation	3	—	1	8
Amortization	7	—	—	12
Other non-operating expense	—	—	1	—
EBITDA	**$ 8**	**$ 23**	**$ 33**	**$ 13**
Share-based compensation	5	(1)	—	3
Restructuring & realignment	—	—	(1)	7
Special charges	12	—	(1)	7
Adjusted EBITDA	**$ 25**	**$ 22**	**$ 31**	**$ 30**
Adjusted EBITDA margin	***19.8 %***	***31.9 %***	***91.2 %***	***NM***

(in millions)	Six Months Ended June 30, 2023 Water Infrastructure	Applied Water Systems	Measurement & Control Solutions	Integrated Solutions & Services
Operating Income	**$ 176**	**$ 167**	**$ 46**	**$ (7)**
Operating margin	**13.6 %**	**17.9 %**	**5.6 %**	**(5.6)%**
Depreciation	26	9	16	8
Amortization	12	1	53	12
Other non-operating expense	1	(1)	—	—
EBITDA	**$ 215**	**$ 176**	**$ 115**	**$ 13**
Share-based compensation	7	1	4	3
Restructuring & realignment	6	5	7	7
Special charges	12	—	2	7
Adjusted EBITDA	**$ 240**	**$ 182**	**$ 128**	**$ 30**
Adjusted EBITDA margin	***18.6 %***	***19.5 %***	***15.6 %***	***24.0 %***

(in millions)	Six Months Ended June 30, 2022 Water Infrastructure	Applied Water Systems	Measurement & Control Solutions	Integrated Solutions & Services
Operating Income	**$ 182**	**$ 120**	**$ (15)**	**$ —**
Operating margin	**16.2 %**	**14.1 %**	**(2.3)%**	**— %**
Gain from sale of business	$ —	—	1	—
Depreciation	$ 22	9	17	—
Amortization	$ 5	1	51	—
Other non-operating expense	$ (3)	(1)	(1)	—
EBITDA	**$ 206**	**$ 129**	**$ 53**	**$ —**
Share-based compensation	$ 1	2	3	—
Restructuring & realignment	$ 4	3	5	—
Special charges	$ —	—	1	—
Gain from sale of business	$ —	—	(1)	—
Adjusted EBITDA	**$ 211**	**$ 134**	**$ 61**	**$ —**
Adjusted EBITDA margin	***18.8 %***	***15.7 %***	***9.2 %***	***— %***

	Six Months Ended 2023 versus 2022					
(in millions)	Water Infrastructure	Applied Water Systems		Measurement & Control Solutions		Integrated Solutions & Services
Operating Income (Loss)	**(6)**	**47**	**$**	**61**	**$**	**(7)**
Operating margin	**(2.6)%**	**3.8 %**		**7.9 %**		**— %**
Gain from sale of business	—	—	$	(1)	$	—
Depreciation	4	—	$	(1)	$	8
Amortization	7	—	$	2	$	12
Other non-operating expense	4	—	$	1	$	—
EBITDA	**9**	**47**	**$**	**62**	**$**	**13**
Share-based compensation	6	(1)	$	1	$	3
Restructuring & realignment	2	2	$	2	$	7
Special charges	12	—	$	1	$	7
Gain from sale of business	—	—	$	1	$	—
Adjusted EBITDA	**29**	**48**	**$**	**67**	**$**	**30**
Adjusted EBITDA margin	***(0.2)%***	***3.8 %***		***6.4 %***		***NM***

Water Infrastructure

Operating income for our Water Infrastructure segment was $106 million (operating margin of 15.1%) during the second quarter of 2023, a decrease of $2 million, or 1.9%, when compared to operating income of $108 million (operating margin of 18.3%) during the prior year, or a total decrease of 320 basis points. Operating margin declines included unfavorable impacts of 250 basis points from increases in special charges, amortization of acquired intangible assets and restructuring and realignment costs as compared to the prior year. Additionally, operating margin declines included 930 basis points of unfavorable operating impacts, driven by 350 basis points of inflation, 200 basis points of unfavorable mix,180 basis points of increased spending on strategic investments, 60 basis points related to unfavorable inventory management impacts and . Margin declines were offset by 860 basis points from favorable operating impacts driven by 500 basis points of price realization, 240 basis points of productivity savings and 90 basis points of favorable volume and 40 basis of negative impact from the Evoqua acquisition. Excluding amortization of purchased intangibles, special charges and restructuring and realignment costs, adjusted operating income was $129 million (adjusted operating margin of 18.3%) for the second quarter of 2023 as compared to adjusted operating income of $112 million (adjusted operating margin of 19.0%) for the second quarter of 2022.

Adjusted EBITDA was $151 million (adjusted EBITDA margin of 21.4%) for the second quarter of 2023, an increase of $25 million, when compared to adjusted EBITDA of $126 million (adjusted EBITDA margin of 21.4%) during the prior year. The acquisition impacted the adjusted EBITDA margin negatively by 20 basis points. was impacted by the same offsetting factors impacting the adjusted operating margin; however, adjusted EBITDA margin was not negatively impacted by increased stock based compensation expense.

Operating income was $176 million for our Water Infrastructure segment (operating margin of 13.6%) for the six months ended June 30, 2023, an decrease of $6 million, or 3.3%, when compared to operating income of $182 million (operating margin of 16.2%) during the prior year, or a total decrease of 260 basis points. Operating margin declines included unfavorable impacts of 150 basis points from increases in acquired intangible asset amortization, special charges and restructuring and realignment costs as compared to the prior year. Additionally, operating margin declines included 1,100 basis points of unfavorable operating impacts, driven by 420 basis points of inflation, 240 basis points of unfavorable mix, 180 basis points of increased spending on strategic investments, 90 basis points related to inventory management costs and 40 basis points related to increased employee costs. Margin declines were offset by 990 basis points from favorable operating impacts consisting of 620 basis points of price realization, 240 basis points of productivity savings and 130 basis points of favorable volume. Excluding amortization of acquired intangible assets, special charges and restructuring and realignment costs, adjusted operating income was $203 million (adjusted operating margin of 15.7%) for the six months ended

June 30, 2023 as compared to adjusted operating income of $188 million (adjusted operating margin of 16.8%) for the six months ended June 30, 2023.

Adjusted EBITDA for the six months ended June 30, 2023 was $240 million (adjusted EBITDA margin of 18.6%), an increase of $29 million, or 0.2%, when compared to adjusted EBITDA of $211 million (adjusted EBITDA margin of 18.8%) during the comparable period in prior year. The decrease in adjusted EBITDA margin was primarily due to the same factors impacting operating margin noted above, however, adjusted EBITDA margin was not negatively impacted by increased stock based compensation expense and also benefited from a decrease in other non-operating expense as compared to the prior year.

Applied Water

Operating income for our Applied Water segment was $84 million (operating margin of 17.6%) during the second quarter of 2023, an increase of $23 million, or 37.7%, when compared to operating income of $61 million (operating margin of 14.2%) during the prior year, or a total increase of 340 basis points. Operating margin expansion included an unfavorable impact of 10 basis points from an increase in restructuring and realignment costs as compared to the prior year. Additionally, operating margin expansion included 940 basis points from favorable operating impacts, consisting of 600 basis points of price realization and 340 basis points of productivity savings. Margin expansion was offset by negative operating impacts of 610 basis points driven by 350 basis points of inflation,70 basis points related to unfavorable currency impacts, 60 basis points of increased spending on strategic investments, 60 basis points of unfavorable volume, and 60 basis points of unfavorable mix. Excluding restructuring and realignment costs, adjusted operating income was $86 million (adjusted operating margin of 18.0%) for the first quarter of 2023 as compared to adjusted operating income of $63 million (adjusted operating margin of 14.7%) for the second quarter of 2022.

Adjusted EBITDA was $91 million (adjusted EBITDA margin of 19.0%) for the second quarter of 2023, an increase of $22 million, or 2.9%, when compared to adjusted EBITDA of $69 million (adjusted EBITDA margin of 16.1%) during the prior year. The increase in adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin.

Operating income for our Applied Water segment was $167 million (operating margin of 17.9%) during the six months ended June 30, 2023, an increase of $47 million or 39.2%, when compared to operating income of $120 million (operating margin of 14.1%) during the prior year, or a total increase of 380 basis points. Operating margin expansion included unfavorable impacts of 30 basis points from increases in restructuring and realignment costs as compared to the prior year. Operating margin increases included 1,090 basis points of favorable operating impacts, driven by 700 basis points from price realization and 360 basis points from productivity savings. Margin expansion was offset by negative operating impacts of 690 basis points consisting of 460 basis points of inflation, 70 basis points of increased spending on strategic investments and 60 basis points of unfavorable mix. Excluding restructuring and realignment costs, adjusted operating income was $172 million (adjusted operating margin of 18.5%) for the six months ended June 30, 2023 as compared to adjusted operating income of $123 million (adjusted operating margin of 14.4%) for the six months ended June 30, 2023.

Adjusted EBITDA was $182 million (adjusted EBITDA margin of 19.5%) for the six months ended June 30, 2023, a increase of $48 million, or 3.8%, when compared to adjusted EBITDA of $134 million (adjusted EBITDA margin of 15.7%) during the prior year. The increase in adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin.

Measurement & Control Solutions

Operating income for our Measurement & Control Solutions segment was $26 million (operating margin of 6.3%) during the second quarter of 2023, an increase of $31 million, or 620.0%, when compared to operating loss of $5 million (operating margin of (1.4)%) during the prior year, or a total increase of 770 basis points. Operating margin expansion included favorable impacts of 120 basis points from acquired intangible asset amortization, restructuring and realignment costs and special charges as compared to the prior year. Additionally, operating margin expansion included 1,470 basis points of favorable operating impacts,consisting of 730 basis points of favorable volume, 380 basis points of productivity savings and 360 basis points of price realization. Margin expansion was offset by negative operating impacts of 820 basis points driven by 400 basis points of inflation, 130 basis points from a decrease in capitalized R&D, 70 basis points of increased spending on strategic investments, 60 basis points of unfavorable mix and 50 basis points from increased employee costs . Excluding acquired intangible asset amortization, restructuring and realignment costs and special charges, adjusted operating income was $46 million (adjusted operating margin of 11.1%) for the second quarter of 2023 as compared to adjusted operating income of $16 million (adjusted operating margin of 4.6%) for the second quarter of 2022.

Adjusted EBITDA was $65 million (adjusted EBITDA margin of 15.7%) for the second quarter of 2023, an increase of $31 million, or 5.9%, when compared to adjusted EBITDA of $34 million (adjusted EBITDA margin of 9.8%) during the prior year. The increase in adjusted EBITDA margin was due to the same factors as those impacting the increase in adjusted operating margin; however, adjusted EBITDA margin did not benefit from the relative impact of depreciation and software amortization expense.

Operating income for our Measurement & Control Solutions segment was $46 million (operating margin of 5.6%) during the six months ended June 30, 2023, an increase of $61 million, or 406.7%, when compared to operating loss of $15 million (operating margin of (2.3)%) during the prior year, or a total increase of 790 basis points. Operating margin expansion included favorable impacts of 70 basis points from the net changes to acquired intangible asset amortization, restructuring and realignment costs and special charges as compared to the prior year. Additionally, operating margin expansion included 1,680 basis points of favorable operating impacts, driven by 920 basis points of favorable volume, 400 basis points of price realization and 350 basis points of productivity savings. Margin expansion was offset by negative operating impacts of 960 basis points driven by 410 basis points of inflation, 160 basis points due to unfavorable mix, 100 basis points related to a decrease in capitalized R&D, 90 basis points of increased spending on strategic investments and 50 basis points related to increased employee costs,. Excluding acquired intangible asset amortization, special charges and restructuring and realignment costs, adjusted operating income was $90 million (adjusted operating margin of 11.0%) for the second quarter of 2023 as compared to adjusted operating income of $25 million (adjusted operating margin of 3.8%) for the second quarter of 2022.

Adjusted EBITDA was $128 million (adjusted EBITDA margin of 15.6%) for the six months ended June 30, 2023, an increase of $67 million, or 6.4%, when compared to adjusted EBITDA of $61 million (adjusted EBITDA margin of 9.2%) during the prior year. The increase in adjusted EBITDA margin was due to the same factors as those impacting the increase in adjusted operating margin; however, adjusted EBITDA margin did not benefit from the relative impact of depreciation and software amortization expense.

Integrated Solutions & Services

Operating loss for our Integrated Solutions & Services segment for the three and six months ended was $7 million (operating margin of negative 5.6%) . Excluding amortization of acquired intangible asset amortization, special charges and restructuring and realignment costs, adjusted operating income was $18 million (adjusted operating margin of 14.4%).

Adjusted EBITDA for our Integrated Solutions & Services segment for the three and six months ended was $30 million (adjusted EBITDA margin of 24.0%).

Corporate and Other

Operating loss for corporate and other increased $72 million, or 400%, during the second quarter of 2023 compared to the prior year period. For the six months ended June 30, 2023, operating loss for corporate and other increased $102 million, or 340%, compared to the same prior period. The increase in operating loss for the three months ended June 30,2023 was primarily due to special charges related to acquisition and integration costs resulting from the acquisition of Evoqua and increased restructuring and realignment costs. Additional corporate costs driven by the Evoqua acquisition also contributed to the increase in operating loss for the quarter. The increase in operating loss for the six months ended June 30, 2023 was primarily driven by special charges related to acquisition and integration costs resulting from the acquisition of Evoqua and increased restructuring and realignment costs, The timing of corporate initiatives, higher employee benefit costs, increased strategic initiatives and additional corporate costs driven by the acquisition of Evoqua also contributed to the higher operating loss. Excluding special charges and restructuring and realignment costs, adjusted operating loss for corporate and other increased $2 million and $10 million for the three months and six months ended June 30, 2023, respectively driven by the factors previously noted.

Interest Expense

Interest expense was $12 million for the three months ended June 30, 2023, flat with the comparable prior year period. For the six months ended June 30, 2023 interest expense was $21 million compared to $25 million for the six months ended June 30, 2022. The decrease in interest expense was primarily driven by interest expense incurred during 2022 related to our 2.250% Senior Notes due 2023 that were paid off in December 2022 and reduced expense generated by cross currency swaps. Partially offsetting these items was interest expense on several debt facilities including, a term loan entered into in May 2023 for use in funding the acquisition of Evoqua, securitization and equipment financing facilities assumed as part of our acquisition of Evoqua and commercial paper. See Note 9, “Derivative Financial Instruments” and Note 12, "Credit Facilities and Debt," of our condensed consolidated financial statements for a description of our net investment hedges and credit facilities and long-term debt, respectively.

Income Tax Expense

The income tax provision for the three months ended June 30, 2023 was $22 million resulting in an effective tax rate of 19.1%, compared to a $24 million expense resulting in an effective tax rate of 17.5% for the same period in 2022. The effective tax rate for the three months ended June 30, 2023 differs from the same period in 2022 due to the impact of earnings mix and nondeductible transaction costs recorded.

Liquidity and Capital Resources

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

	Six Months Ended June 30,		
(in millions)	**2023**	2022	Change
Operating activities	**$ 9**	$ 32	$ (23)
Investing activities	**(489)**	(84)	(405)
Financing activities	**235**	(158)	393
Foreign exchange (a)	**9**	(26)	35
Total	**$ (236)**	$ (236)	$ —

(a) The impact is primarily due to strengthening of the Euro, Polish Zloty and Chinese Yuan.

Sources and Uses of Liquidity

Operating Activities

Cash generated by operating activities was $9 million for the six months ended June 30, 2023 as compared to $32 million in the comparable prior year period. The reduction in cash provided was primarily driven by higher tax payments, the investment in a distribution agreement of select technology and the payment of transaction costs associated with the acquisition of Evoqua. Reductions in inventory levels and higher cash earnings partially offset these items.

Investing Activities

Cash used in investing activities was $489 million for the six months ended June 30, 2023 as compared to $84 million in the comparable prior year period. The increase in cash used reflects payments related to the acquisition of Evoqua, cash paid for equity investments and increased capital expenditures. The sale of a business and cash received from the termination of acquired interest rate swaps partially offset these items.

Financing Activities

Cash generated by financing activities was $235 million for the six months ended June 30, 2023 as compared to cash used of $158 million in the comparable prior year period. The increase in cash provided was primarily driven by cash received from a new term loan facility, the issuance of commercial paper, a reduction in stock repurchases and proceeds for the exercise of employee stock options. Higher dividend payments partially offset these cash inflows.

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. We continually evaluate aspects of our spending, including capital expenditures, strategic investments and dividends.

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. In addition, our existing committed credit facilities and access to the public debt markets would provide further liquidity if required.

Based on our current global cash positions, cash flows from operations and access to the capital markets, we believe there is sufficient liquidity to meet our funding requirements and service debt and other obligations in both the U.S. and outside of the U.S. during the year. As of June 30, 2023, we have $925 million available under our 2023 Credit Facility and $708 million of cash and cash equivalents, resulting in available liquidity of $1.6 billion.

Risks related to these items are described in our risk factor disclosures referenced under “Item 1A. Risk Factors" in our 2022 Annual Report.

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-U.S. Operations

We generated approximately 49% and 54% of our revenue from non-U.S. operations for the three and six months ended June 30, 2023 and 2022, respectively. As we continue to grow our operations in the emerging markets and elsewhere outside of the U.S., we expect to continue to generate significant revenue from non-U.S. operations and expect that a substantial portion of our cash will be held by our foreign subsidiaries. We expect to manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the U.S. and other international subsidiaries when we believe it is cost-effective to do so. We continually review our domestic and foreign cash profile and our, expected future cash generation and investment opportunities, and reassess whether there is a need to repatriate funds held internationally to support our U.S. operations. As of June 30, 2023, we have provided a deferred tax liability of $22 million for net foreign withholding taxes and state income taxes on $650 million of earnings expected to be repatriated to the U.S. parent as deemed necessary in the future.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and capital resources are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 2022 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. There have been no significant changes in the information concerning our critical accounting estimates as stated in our 2022 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the information concerning market risk as stated in our 2022 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal and regulatory proceedings that are incidental to the operation of our businesses (or the business operations of previously-owned entities). These proceedings may seek remedies relating to matters including environmental, tax, intellectual property, acquisitions or divestitures, product liability, property damage, personal injury, privacy, employment, labor and pension, government contract issues and commercial or contractual disputes. See Note 18, "Commitments and Contingencies," to the condensed consolidated financial statements for further information and any updates.

ITEM 1A. RISK FACTORS

Information regarding our risk factors appears in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on February 24, 2023 (“Annual Report”). These risk factors describe some of the assumptions, risks, uncertainties and other factors that could materially and adversely affect our business, financial condition or operating results. In addition, the following risk factors represent material changes in our risk factors from those disclosed in Item 1A. of our Annual Report.

Wastewater treatment operations and the handling, storage, release or disposal of hazardous materials may result in contamination, environmental or other liabilities or pose other significant risks that could cause us to incur significant costs and reputational harm.

Wastewater treatment involves various unique risks. If our treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby bodies of water and groundwater, causing various damages and injuries, including environmental. Liabilities resulting from such events, damages and injuries could materially adversely affect our business, financial condition, results of operations or prospects.

Furthermore, certain of our business activities, including those of our ISS segment, include manufacturing processes and waste recycling and treatment processes that currently involve the use, treatment, storage, transfer, handling and/or disposal of hazardous materials, chemicals, and wastes. These business activities create a risk of accidental contamination or injury to our employees, customers and other third parties, the general public (as end-users of our industrial and municipal customers’ products and services), and the environment. As such, these activities create a risk of significant legal and environmental liabilities and reputational damage. For example, under applicable environmental laws and regulations, including RCRA and CERCLA, we could be strictly, jointly, and severally liable for releases of regulated substances by us at our current or former properties or the properties of others or by other businesses that previously owned or used our current or former properties. We could also be liable or incur reputational damage if we merely generate hazardous materials or wastes, or arrange for their transportation, disposal, or treatment, or we transport such materials, and they are subsequently released or cause harm.

In the event that our business activities and wastewater treatment operations result in legal or environmental claims, damage or liabilities, including those described above, we could incur significant costs or reputational damage in connection with legal defense, investigation and remediation of environmental contamination, and damages related to property damage, personal injuries and natural resources. Such costs and liabilities could exceed any applicable insurance coverage we may have.

Additionally, we are subject to, on an ongoing basis, federal, state, and local laws and regulations governing the use, storage, handling and disposal of hazardous materials and specified waste products. The cost of compliance with these laws and regulations may become significant and could have a material adverse effect on our business, financial condition, results of operations or prospects.

If we are unable to successfully execute large projects and meet customers’ timelines and performance and safety requirements, this could have a material adverse effect on our sales and profitability.

A portion of our revenue is derived from large projects that are technically complex and may occur over multiple years. These projects are subject to a number of significant risks, including project delays, cost overruns, changes in scope, unanticipated site conditions, design and engineering issues, incorrect cost assumptions, increases in the cost of materials and labor, health and safety hazards, subcontractor performance issues, weather issues and changes in laws or permitting requirements. If we are unable to manage these risks, we may incur higher costs, liquidated damages, and other liabilities to our customers, which may decrease our profitability and harm our reputation.

Furthermore, our project-based customers typically require performance guarantees as to the effluent water produced by our water treatment equipment and services. Failure of our products and services to meet our performance guarantees may increase costs by requiring additional engineering, replacement of parts and equipment and frequent replacement of consumables, or monetary reimbursement to a customer, and could otherwise result in liability to our customers. There are significant uncertainties and judgments involved in estimating performance guarantee obligations, including changing product designs, differences in customer installation processes and failure to identify or disclaim certain variables in a customer's influent. To the extent that we incur substantial performance guarantee claims in any period, our reputation, earnings, and ability to obtain future business could be materially adversely affected.

Many of our customers also have safety performance requirements that we must meet in order to be allowed access to their sites to perform our services, install our products and execute projects. Risks arising from unsafe products or performance by our employees include, among other things, delays in or suspension of site access to service or timely deliver our products. Workplace accidents or near-accidents, product-related accidents, or the failure to follow our own or our customers' safety policies could also damage our reputation or our customers' perception of our safety record, which could have a material adverse impact on demand for our products and services, result in additional costs to our business or the loss of customers, result in litigation against us or increase government or regulatory oversight over us.

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, 2023:

(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)
4/1/23 - 4/30/23	—	—	—	**$182**
5/1/23 - 5/31/23	—	—	—	**$182**
6/1/23 - 6/30/23	—	—	—	**$182**

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 stockholders and maintains our focus on growth. There were no shares repurchased under this program for the three months ended June 30, 2023. There are up to $182 million in shares that may still be purchased under this plan as of June 30, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(c) Trading Plans

During the quarter ended June 30, 2023, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

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
2.1		Agreement and Plan of Merger, dated as of January 22, 2023, among Xylem Inc., Fore Merger Sub, Inc. and Evoqua Water Technologies Corp.	Incorporated by reference to Exhibit 2.1 of Xylem Inc.'s Form 8-K filed on January 23, 2023 (CIK No. 1524472, File No. 1-24339)
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		Fifth Amended and Restated By-laws of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K filed on November 15, 2022 (CIK No. 1524472, File No. 1-35229).
10.1		Term Loan Agreement dated as of May 9, 2023 among Xylem Europe GmbH, as borrower, Xylem Inc. as parent guarantor and ING Bank, N.V. as lender (including Form of Parent Guarantee)	Filed herewith.
10.2	#	EWT Holdings I Corp. Stock Option Plan	Incorporated by reference to Exhibit 10.17 to Amendment No. 2 to EWT Holdings I Corp's Evoqua's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)
10.3	#	Form of EWT Holdings I Corp. Nonqualified Stock Option Agreement	Incorporated by reference to Exhibit 10.29 to Amendment No. 2 to EWT Holdings I Corp's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785))
10.4	#	Form of EWT Holdings I Corp. 2017 Annual Incentive Plan	Incorporated by reference to Exhibit 10.31 to Amendment No. 2 to EWT Holdings I Corp's Registration Statement on Form S-1 filed on October 17, 2017 (File No. 333-220785)
10.5	#	Form of Nonqualified Stock Option Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on April 4, 2018 (File No. 001-38272
10.6	#	Form of Restricted Stock Unit Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (Employee Form)	Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on April 4, 2018 (File No. 001-38272)
10.7	#	Form of Nonqualified Stock Option Award Agreement under Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on May 10, 2019 (File No. 001-38272)
10.8	#	Form of Restricted Stock Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed on May 10, 2019 (File No. 001-38272)
10.9	#	Form of Restricted Stock Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (RSUs Received in Connection with AIP Payment)	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on August 6, 2019 (File No. 001-38272)
10.10	#	Amended and Restated Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on May 6, 2020 (File No. 001-38272)
10.11	#	Form of Non-Employee Director Restricted Stock Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.33 to the Registrant's Form 10-K filed on November 17, 2021 (File No. 001-38272)
10.12	#	Form of Special Restricted Stock Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 19, 2021 (File No. 001-38272)

Exhibit Number		Description	Location
10.13	#	Form of Special Performance Share Unit Award Agreement under the Evoqua Water Technologies Corp. 2017 Equity Incentive Plan	Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on May 19, 2021 (File No. 001-38272)
10.14	#	Form of Restricted Stock Unit Award-Notice of Grant under the Amended and Restated Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (for awards made after fiscal 2021)	Incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed on February 1, 2022 (File No. 001-38272)
10.15	#	Form of Performance Share Unit Award-Notice of Grant under the Amended and Restated Evoqua Water Technologies Corp. 2017 Equity Incentive Plan (for awards made after fiscal 2021)	Incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q filed on February 1, 2022 (File No. 001-38272)
31.1		Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2		Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1		Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
32.2		Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
101.0		The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023, 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, 2023 formatted in Inline XBRL and contained in Exhibit 101.0.	
		# Management contract or compensatory plan or arrangement	

SIGNATURES

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

XYLEM INC.
(Registrant)

/s/ Geri McShane

Geri McShane
Vice President, Controller and Chief Accounting Officer

August 4, 2023

EUR 250,000,000 TERM LOAN AGREEMENT

This Agreement is dated ___ May 2023 and is made between:

(1) **Xylem Europe GmbH**, a company incorporated under the laws of Switzerland, having its registered address at Bleicheplatz 6, 8200 Schaffhausen, Switzerland, registration number CH-287.650.247 (**the Borrower**);

(2) **Xylem Inc.**, an Indiana company incorporated under the laws of United States of America, having its registered address at 1 International Drive, Rye Brook, NY 10573, United States of America, registration number 201 105 050 0560 (**the Parent Guarantor**); and

(3) **ING Bank, N.V., Dublin Branch**, having its place of business a, a branch of ING Bank N.V. whose registered office is in Amsterdam, The Netherlands (**the Bank**).

IT IS AGREED AS FOLLOWS:

1. DEFINITIONS

Terms used in this Agreement have the following meaning:

Affiliate means in relation to any Person, a Subsidiary of that Person, or a Holding Company of that Person or any other Subsidiary of that Holding Company.

Agreement means this agreement (including the attached schedules) as amended from time to time.

Authorisation means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation, or registration.

Availability Period means the period from and including the date of this Agreement to and including the date falling three months after the date of this Agreement.

Bail-In Action means the exercise of any Write-down and Conversion Powers.

Bail-In Legislation means:

(a) in relation to an EEA Member Country which has implemented, or which at any time implements, Article 55 of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, the relevant implementing law or regulation as described in the EU Bail-In Legislation Schedule from time to time; and

(b) in relation to any other state, any analogous law or regulation from time to time which requires contractual recognition of any Write-down and Conversion Powers contained in that law or regulation.

Base Rate means for any Loan or Unpaid Sum in EUR the EURIBOR Screen Rate as at 11.00 a.m. (Brussels time), on the relevant Rate Fixing Day for such currency for a period equal in length to the Interest Period of that Loan or Unpaid Sum or if a Replacement Base Rate has been agreed in accordance with Clause 5.8 **Replacement of Screen Rate** such Replacement Base Rate and, if any such rate is below zero, the Base Rate will be deemed to be zero.

Break Funding Costs means the amount reasonably determined by the Bank to be the costs incurred as a result of the Borrower repaying a Loan on another date than the last day of an Interest Period.

Business Day means a day (other than a Saturday or a Sunday) on which banks are open for general business in Dublin, Ireland and (in relation to any date for payment or purchase of euro) which is a TARGET Day.

Change of Control means (i) the current parent or controlling shareholder ceasing to Control the Borrower or (ii) the obtaining of Control over the Borrower and/or Parent Guarantor by a Person or a group of Persons who acted jointly on the basis of an arrangement or understanding between themselves or (iii) if any Person or group of Persons shall have acquired beneficial ownership of more than 30% of the outstanding shares of the Parent Guarantor.

Commitment means the amount specified in Clause 2 **Facility** to the extent not cancelled, increased or reduced under this Agreement.

Compliance Certificate means a Compliance Certificate provided in accordance with Clause 8.3 of this Agreement.

Control means (i) the direct or indirect ownership of more than 50% of the shares, voting capital or similar rights of ownership of a Person, or (ii) the power to directly or indirectly, on the basis of an agreement, through the exercise of voting rights or otherwise, appoint or dismiss the majority of the members of the board of directors or supervisory board or give instructions regarding the policy of the Person with which such members are obliged to comply.

Cost of Funds means the interest rate per annum which the Bank determines in its sole discretion is the cost it will incur in order to fund a Loan in the public or private markets.

Default means an Event of Default or any event or circumstance which would become an Event of Default with the lapse of time, giving of notice, expiry of a grace period or the making of any determination of an Event of Default.

EEA Member Country means any member state of the European Union, Iceland, Liechtenstein and Norway.

EU Bail-In Legislation Schedule means the document described as such and published by the Loan Market Association (or any successor person) from time to time.

Euro, **euro, €** and **EUR** means the currency that, at the date of this Agreement, has been adopted by some of the member states of the European Community as their lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

Event of Default means an event or circumstance specified as such in Clause 12 **Events of Default**. **Facility** means the

term loan facility made available pursuant to this Agreement.

Fee Letter means the letter dated on or about the date of this Agreement between the Bank and the Borrower setting out the upfront fee payable by the Borrower in connection with this Agreement.

Finance Document means this Agreement, any Compliance Certificate, Parent Guarantee, Utilisation Request, Revolving Facility (only for the purpose of calculation of the Financial Covenants and Compliance Certificate), Fee Letter, and any other document designated as such by the Bank and the Borrower, all as may be amended from time to time.

Financial Covenants means the financial covenants set out in Clause 9 **Financial Covenants**. **Financial Indebtedness**

means any indebtedness for or in respect of:

a) moneys borrowed;
b) any acceptance credit;
c) any bond, note, debenture or other similar instrument;
d) any lease or hire purchase contract or a liability which would in accordance with IFRS, (local) GAAP (General Accepted Accounting Principles) or (other) local accounting standards be treated as a balance sheet liability;
e) receivables sold or discounted (otherwise than on a non-recourse basis);
f) any derivative transaction entered into to protect against or benefit from fluctuations in any interest, rate or price (and the then marked to market value of the derivative transaction will be used to calculate its amount);
g) any other transaction which has the commercial effect of a borrowing;
h) any counter-indemnity obligation or other recourse commitment in respect of any guarantee, indemnity, bond, letter of credit, or other similar instrument issued by a bank or financial institution; or
i) any guarantee, indemnity, surety-ship or similar assurance against financial loss in respect of any liability referred to in the above paragraphs (a) up to and including (h).

Group means the Borrower, the Parent Guarantor and its Subsidiaries from time to time.

Holding Company means, in relation to a Person, any other Person in respect of which it is a Subsidiary.

Increased Cost means:
(a) an additional or increased cost (including, but not limited to, any cost incurred by the Bank or any of its Affiliates as a result of the compliance with the minimum reserve requirements or other requirements imposed by any relevant central bank, by law or regulation);
(b) a reduction in the rate of return from the Facility or on the Bank's or any of its Affiliates invested overall capital; or
(c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by the Bank or any of its Affiliates to the extent attributable (directly or indirectly) to the Bank having entered into any Finance Document or funding or performing its obligations under any Finance Document.

Interest Period means, in relation to a Loan or Unpaid Sum, the period determined in accordance with Clause 5 **Interest and Fees**.

Loan means a loan made or to be made available under the Facility or the principal amount outstanding for the time being of that loan.

Long Term Credit Rating means the credit rating or ratings (as the case may be) from time to time assigned by Moody's and/or Standard & Poor's to the long term senior unsecured debt of the Parent Guarantor.

Margin means the rate set out in Clause 5.3 **Margin**. **Market Disruption Event**

means:

(a) at or about 11:00 a.m. (Brussels time) on a Rate Fixing Day the relevant Screen Rate is not available for the relevant Interest Period or a Screen Rate Replacement Event has occurred and this Agreement has not been amended pursuant to Clause 5.8 **Replacement of Screen Rate**; or
(b) before close of business in Dublin (Ireland) on a Rate Fixing Day, the cost to the Bank of funding the relevant Loan in the European interbank market for the relevant Interest Period would be in excess of the Base Rate.

Material Adverse Effect means any material adverse effect on:
(a) the financial condition, business or assets of the Borrower and/or the Parent Guarantor;
(b) the ability of the Borrower and/or the Parent Guarantor to perform its obligations under any Finance Document; or
(c) the validity, enforceability, effectiveness or ranking of any Finance Document or of a right of the Bank thereunder.

Original Financial Statements means the audited financial statements of the Borrower and the audited consolidated financial statements of the Parent Guarantor for the financial year ended 31 December 2022 (or, if unavailable, for the year ended 31 December 2021 each).

Parent Guarantee means the document set out in Schedule **Parent Guarantee**. **Party** means a party to

this Agreement.

Person means any natural person, legal entity, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality).

Rate Fixing Day means, for any period for which an interest rate is to be determined, two Target Days before the first day of that period.

Repayment Instalment means each repayment instalment as specified in Clause 6 **Repayment**. **Replacement Base Rate**

means a benchmark rate which is:

(a) implemented, designated or recommended as a replacement by the administrator of the Screen Rate or a central bank or any other supervisory or regulatory authority; or
(b) agreed by the Borrower and the Bank as, generally accepted in the international or domestic loan markets as the appropriate successor to a Screen Rate or otherwise an appropriate successor to a Screen Rate.

Resolution Authority means any body which has authority to exercise any Write-down and Conversion Powers.

Revolving Facility means the five-year revolving credit facility agreement dated as of March 1, 2023 with, *inter alios*, Xylem Inc as borrower, Citibank, N.A., BNP Paribas Securities Corp., ING Bank N.V., Dublin Branch, JPMorgan Chase Bank, N.A., and Wells Fargo Securities, LLC, as lead arrangers, Citibank, N.A.as administrative agent and the persons set out therein as lenders, as amended from time to time.

Screen Rate means the percentage rate per annum administered by the European Money Markets Institute (in respect of EURIBOR), or any other Person which takes over the administration of that rate, for the relevant period displayed on the appropriate page of the Reuters screen. If the relevant page is replaced or the service ceases to be available, the Bank (after consultation with the Borrower) may specify another page or service displaying the appropriate rate.

Screen Rate Replacement Event means (i) in the reasonable opinion of the Bank, the methodology, formula or other means of determining the Screen Rate has materially changed or (ii) the administrator of a Screen Rate announces that (a) it is insolvent or that it shall cease to provide the Screen Rate (and there is no successor administrator) or (b) such Screen Rate may no longer be used or shall be indefinitely or permanently discontinued.

Security Interest means (the creation of) a pledge, charge, hypothecation, mortgage, lien or any other security interest securing any obligation of any Person or any other agreement or arrangement having a similar effect in the relevant jurisdiction.

Swiss 10 Non-Bank Rule means the rule that the aggregate number of creditors under this Agreement which are not Swiss Qualifying Banks must not at any time exceed ten (10), if and as long as a violation of this rule may result in Swiss withholding tax consequences, all in accordance with the applicable legislation, circulars, and guidelines as in force from time to time.

Swiss 20 Non-Bank Rule means the rule that the aggregate number of creditors, other than Swiss Qualifying Banks, of the Borrower under all outstanding debts relevant for classification as debenture (*Kassenobligation*), facilities, and/or private placements (including under the Finance Documents) must not at any time exceed 20 (twenty), if and as long as a violation of this rule may result in Swiss withholding tax consequences, all in accordance with the applicable legislation, circulars, and guidelines as in force from time to time.

Swiss Qualifying Bank means a Person (including any commercial bank or financial institution (irrespective of its jurisdiction of organization)) which effectively conducts banking activities with its own infrastructure and staff as its principal business purpose and which has a banking license in full force and effect issued in accordance with the banking laws in force in its jurisdiction of incorporation, or if acting through a branch, issued in accordance with the banking laws in the jurisdiction of such branch, all in accordance with the applicable legislation, circulars, and guidelines as in force from time to time.

Subsidiary means in relation to a specified Person any Person over which it has Control.

TARGET2 means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

TARGET Day means any day on which TARGET2 is open for the settlement of payments in euro.

Unpaid Sum means any sum due and payable but unpaid by the Borrower under the Finance Documents.

Utilisation Date means the date on which a Loan is made or to be made.

Utilisation Request means a request for a Loan in writing substantially in the form of Schedule **Utilisation Request** or in any other manner or form as accepted by the Bank.

Write-down and Conversion Powers means:

(a) in relation to any Bail-In Legislation described in the EU Bail-In Legislation Schedule from time to time, the powers described as such in relation to that Bail-In Legislation in the EU Bail-In Legislation Schedule; and

(b) in relation to any other applicable Bail-In Legislation:

(i) any powers under that Bail-In Legislation to cancel, transfer or dilute shares issued by a person that is a bank or investment firm or other financial institution or affiliate of a bank, investment firm or other financial institution, to cancel, reduce, modify or change the form of a liability of such a person or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability or any of the powers under that Bail-In Legislation that are related to or ancillary to any of those powers; and

(ii) any similar or analogous powers under that Bail-In Legislation.

2. FACILITY

2.1 Availability

Subject to the terms of this Agreement, the Bank makes available to the Borrower a committed term loan facility in an aggregate amount of EUR 250,000,000.

The aggregate amount of the outstanding Loans may not exceed the Commitment at any moment in time.

3. PURPOSE

The Borrower shall apply all amounts borrowed by it under the Facility towards refinancing of Evoqua Water Technologies Corp. debt. The Bank is not obligated to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. CONDITIONS

4.1 Conditions precedent

The first Loan may be requested by the Borrower only after the Bank has received all of the documents and evidence set out in Schedule **Conditions Precedent** in form and substance satisfactory to the Bank.

4.2 Utilisation Request

The Borrower may request a Loan by giving the Bank, via a method as approved by the Bank, a duly completed and duly executed Utilisation Request substantially in the form of Schedule **Utilisation Request**. A Utilisation Request must be given to the Bank no later than 15:30 Brussels on the first Business Day after the Rate Fixing Day of the relevant Loan. A Utilisation Request is irrevocable.

4.3 Utilisation

The Bank is not obliged to make a Loan available if:

(a) on the date of the Utilisation Request or on the Utilisation Date an Event of Default or Default is continuing or would result from that Loan;

(b) the Borrower has issued a notice pursuant to Clause 6 **Notification of Default**;

(c) the Utilisation Date is not a Business Day within the Availability Period;

(d) the amount of the Loan is not at least EUR 25,000,000 or a higher multiple of EUR 1,000,000 and the currency of the Loan does not comply with Clause 2 **Facility**;

(e) the Interest Period does not comply with Clause 5.1 **Interest Periods**;

(f) as a result of the proposed utilisation more than four (4) Loans would be outstanding; and

(g) as a result of the proposed utilisation the aggregate amount of the outstanding Loans would exceed the Commitment.

4.4 Guarantee

For the purpose of securing all present and future obligations at any time due, owing or incurred by the Borrower to the Bank under the Finance Documents, the Parent Guarantor shall create in favour of the Bank a Parent Guarantee. For the avoidance of doubt, this shall not prejudice the right of the Bank to proceed in accordance with Clause 13 **Acceleration.**

4.5 Cancellation of Commitment

The Commitment which, at that time, is unutilised shall be cancelled immediately at the end of the Availability Period.

5. INTEREST AND FEES

5.1 Interest Periods

(a) Each Loan has successive Interest Periods. The Borrower selects an Interest Period of six (6) months in the Utilisation Request for that Loan and for each subsequent Interest Period in an irrevocable notice received by the Bank not later than 15:30 Brussels time on the last Business Day before the start of that Interest Period. Each Interest Period for a Loan will start on its Utilisation Date or (if applicable) on the first day after the expiry of its preceding Interest Period. The Bank will determine the appropriate Interest Period for any Unpaid Sum.

(b) No Loans may be outstanding after the date on which the final Repayment Instalment must be repaid. If an Interest Period for a Loan exceeds the date on which the last Repayment Instalment must be repaid it will be shortened in order for the Interest Period to expire on that date.

5.1 Obligation to pay interest

(a) The Borrower must pay interest on each Loan made available to it and on any Unpaid Sum on the last day of each Interest Period.

(b) Except where it is provided to the contrary in this Agreement, the rate of interest for each Loan is the percentage rate per annum equal to the aggregate of the applicable Base Rate and Margin.

5.1 Margin

The Margin shall be the percentage rate per annum adjusted from time to time in accordance with the Long Term Credit Rating as set out in the table below:

Long Term Credit Rating	Margin (per cent p.a.)
Baa2/BBB (or higher)	1.05
Baa3/BBB- (or lower)	1.25

provided that:
(i) the initial Margin as at the date of this Agreement is 1.05 per cent. per annum;
(ii) in the event that the Long Term Credit Ratings of Moody's and Standard & Poor's differ by one notch the margin will be the one associated with the higher rating. In the event that the Long Term Credit Ratings of Moody's and Standard & Poor's will differ by more than one notch the margin will be the one associated with the lower rating;
(iii) in the event that only one of the two above Long Term Credit Ratings is available the remaining one shall determine the Margin;
(iv) if both Long Term Credit Ratings are withdrawn or no Long Term Credit Rating is assigned, the Margin shall be the highest percentage rate per annum set out above; and
(v) a change in the Margin will take effect from and including the fifth Business Day following the publication of the relevant assignment of or change in the Long Term Credit Rating or other event set out in sub-paragraph (iv) above with respect to all Advances then outstanding or made after that date.

5.2 Default interest

Upon the occurrence of an Event of Default, the rate of interest referred to in Clause 5.2 **Obligation to pay interest** will be equal to the aggregate of:
(a) the Base Rate for whatever Interest Period the Bank may deem appropriate;
(b) the Margin; and
(c) 2.00% per annum.

5.1 Market disruption

If a Market Disruption Event occurs in relation to a Loan for any Interest Period, then the rate of interest for the Interest Period shall be the percentage rate per annum which is the sum of the Margin and the Cost of Funds.

5.2 Commitment Fee

The Borrower must pay to the Bank a commitment fee computed at a daily basis at the rate of 0.125% per annum on the undrawn and uncancelled portion of the Commitment during the Availability Period. The Commitment Fee shall not be payable during the period of 15 Business Days from and including the date of this Agreement. Accrued commitment fees are payable in arrears on the last day of each calendar quarter and, if the whole Commitment is cancelled, on the date that the cancellation is effective.

5.3 Debiting of interest, costs and fees

Unless otherwise agreed in this Agreement, principal, interest, costs and fees payable by the Borrower may and will be debited by the Bank from any account of the Borrower with the Bank. In case an account will be designated by the Borrower in this respect, the Bank will debit the designated account if possible.

5.4 Replacement of Screen Rate

If a Screen Rate Replacement Event occurs the Bank and the Borrower may agree such amendments to the Finance Documents as may be required to (i) provide for and align the Finance Documents to the use of a Replacement Base Rate for the calculation of interest under this Agreement, (ii) provide for appropriate fall-back provisions for the Replacement Base Rate and (iii) adjust the pricing to reduce or mitigate the transfer of economic value from one party to another as a result of the application of the Replacement Base Rate.

6. REPAYMENT

(a) The Borrower must repay each Loan made to it in one amount 24 (twenty four) months after the date of this Agreement.
(b) No amount of a Loan repaid may subsequently be re-borrowed.

7. PREPAYMENT AND CANCELLATION

7.1 Mandatory prepayment – Illegality, Change of Control

(a) If it becomes unlawful for the Bank or any of its Affiliates to perform any of its obligations, to fund, issue or maintain any Loan or to receive interest under any Finance Document, the Bank may immediately cancel the Commitment and/or declare all outstanding Loans, together with accrued interest and all other amounts accrued under the Finance Documents, to be immediately due and payable.
(b) The Borrower must promptly notify the Bank if it becomes aware of any Change of Control or intended Change of Control. After a Change of Control, the Bank may by not less than 5 days' notice to the Borrower cancel the Commitment and/or declare all outstanding Loans, together with accrued interest and all other amounts accrued under the Finance Documents, to be immediately due and payable.

7.2 Voluntary prepayment

(a) Without prejudice to Clause 17.6 **Break Funding Costs**, the Borrower may, by giving not less than 10 Business Days prior notice to the Bank, prepay any Loan in whole or in part. Each prepayment notice is irrevocable and must specify the relevant date(s) and the amount of the relevant Loan to be prepaid.

(b) No amount of a Loan prepaid under this Agreement may subsequently be re-borrowed.

8. INFORMATION COVENANTS

8.1 Financial statements

(a) The Borrower must supply to the Bank:

(i) its audited financial statements prepared in accordance with IFRS and/or local GAAP for each financial year;

(b) The Borrower shall supply the financial statements specified above as soon as the same become available but in any event:

(i) in case of the annual audited financial statements of the Borrower, within 180 days after the end of each relevant financial period;

(c) The Parent Guarantor must supply to the Bank:

(i) its audited consolidated financial statements prepared in accordance with local GAAP for each financial year; and

(ii) its interim consolidated financial statements for each quarter of each financial year.

(d) The Parent Guarantor shall supply the financial statements specified above as soon as the same become available but in any event:

(i) in case of the annual audited consolidated financial statements of the Parent Guarantor, within 180 days after the end of each relevant financial period; and

(ii) in case of the quarterly interim consolidated financial statements of the Parent Guarantor, within 45 days after the end of each relevant financial period.

(e) The Borrower and the Parent Guarantor must inform the Bank as soon as reasonably possible in case its auditor does not issue an audit report for the Borrower in respect of the financial statements.

8.2 Changes of financial year or in the method of financial reporting

(a) The Borrower and the Parent Guarantor must notify the Bank of any proposed change of its financial year or to the manner in which its financial statements are prepared.

(b) If requested by the Bank, the Borrower and the Parent Guarantor must supply to the Bank:

(i) a full description of any change notified under paragraph (a) above;

(ii) sufficient information to enable the Bank to make a proper comparison between the financial position shown by the set of financial statements prepared on the changed basis and its most recent audited consolidated financial statements delivered to the Bank under this Agreement prior to the implementation of the change; and

(iii) positive sign -off by the Borrower's auditor regarding the change.

Any reference in this Agreement to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.

8.3 Compliance Certificate

The Parent Guarantor agrees to be bound by and shall comply with Section 5.03 (c) (ii) of the Revolving Facility which shall apply *mutatis mutandis* in this Agreement as if, without limitation: (A) references to "the Agreement" (referencing the Revolving Facility) were references to this Agreement; (B) references to "the Administrative Agent" were references to the Bank; (C) references to "each Lender" were references to the Bank; (D) references to "the Company" were references to the Parent Guarantor; (E) references to "Chief Financial Officer" were to the Parent Guarantor's chief financial officer; and (F) references to "paragraph (a) or (b)" above were references to Clause 8.1 (c) of this Agreement. The Compliance Certificate must be duly signed by two authorised signatories of the Parent Guarantor, of whom one must be the Parent Guarantor's chief financial officer. A Compliance Certificate supplied with the Parent Guarantor's audited financial statements, must also be signed by its auditor.

8.4 Information - miscellaneous

The Borrower must supply to the Bank:

(a) copies of all material documents dispatched by the Borrower to its shareholders (or any class of them) and/or its creditors generally or any class of them, at the same time as they are dispatched to such shareholders and/or creditors by the Borrower;

(b) all information on changes in the legal or organisational structure of the Borrower, its constitutional documents, the Persons that are authorised to sign on behalf of the Borrowers documents and notices in connection with this Agreement and/or Persons that are authorised to sign payment orders on behalf of the Borrowers, promptly following the relevant change;

(c) promptly on request of the Bank, such information as the Bank requires to fulfil its know your customer requirements; and

(d) promptly on request of the Bank, any further information regarding the financial condition and operations of the Borrower as the Bank may reasonably request.

8.5 Notification of Default

The Borrower must notify the Bank of the occurrence of any Default (and the steps being taken to remedy it) promptly upon becoming aware of its occurrence. The Parent Guarantor must promptly upon becoming aware thereof, notify the Bank of the expectation that the Parent Guarantor will not be able to comply with its obligations under Clause 9 **Financial Covenants**.

9. FINANCIAL COVENANTS

The Parent Guarantor agrees to be bound by and shall comply with all provisions under Section 6.05 (Leverage Ratio) of the Revolving Facility which shall apply *mutatis mutandis* in this Agreement as if, without limitation: (A) references to "the Agreement" (referencing the Revolving Facility) were references to this Agreement; (B) references to "the Administrative Agent" were references to the Bank; (C) references to each of "the Lenders" and "the Required Lenders" were references to the Bank; and (D) references to "each Borrower" and "the Company" were references to the Parent Guarantor. The Parent Guarantor shall comply with this Clause 9 regardless of whether the Revolving Facility is cancelled or otherwise ceases to be valid.

10. GENERAL COVENANTS

10.1 General

The Borrower agrees to be bound by the covenants set out in this Clause 10 **General Covenants** relating to it.

10.2 Borrowing for own account/no trustee

The Borrower declares that all Loans will be drawn by the Borrower for its own account.

10.3 Compliance with laws, constitutional documents and agreements

The Borrower must comply in all material respects with all relevant provisions of all laws and regulations, any court or administrative order and its constitutional documents.

10.4 Negative pledge

(a) Except as provided in paragraph (b) below, the Borrower may not create or allow to exist any Security Interest on any of its present or future assets.

(b) Paragraph (a) does not apply to:

(i) any Security Interest constituted by or entered into pursuant to a Finance Document;

(ii) any Security Interest comprising a netting or set-off arrangement (including cash pooling) entered into by the Borrower in the ordinary course of its banking arrangements;

(iii) any Security Interest or other lien arising by operation of law and in the ordinary course of trading of the Borrower; or

(iv) any Security Interest securing indebtedness the amount of which (when aggregated with the amounts of any other indebtedness which has the benefit of a Security Interest given by the Borrower, other than any permitted security under (i), (ii) or (iii), does not exceed 10% of the total assets (or its equivalent in any other currency) of the Borrower at any time.

10.5 Disposals

(a) Except as provided below in paragraph (b), the Borrower may not, either in a single transaction or in a series of transactions whether related or not, dispose of all or any material part of its assets.

(b) Paragraph (a) does not apply to any disposal:

(i) from a member of the Group (including the Borrower) to another member of the Group (other than the Borrower);

(ii) made in the ordinary course of business of the disposing entity; or

(iii) other than under (i) or (ii) where the aggregate amount of those disposals does not exceed €50,000,000 (or its equivalent in any other currency) at any time in any financial year of the Borrower.

10.6 Financial Indebtedness

(a) Except as provided below in paragraph (b), the Borrower may not incur any Financial Indebtedness.

(b) Paragraph (a) does not apply to any Financial Indebtedness:

(i) incurred by the Borrower from another member of the Group;

(ii) incurred under or in relation to the Finance Documents and/or incurred under any other finance document as agreed between a member of the Group and (an Affiliate of) the Bank;

(iii) subordinated to the satisfaction of the Bank; or

(iv) other than under (i), (ii) or (iii) which in aggregate does not exceed €300,000,000 (or its equivalent in any other currency) at any time.

10.7 Loans out

(a) Except as provided in paragraph (b) below, the Borrower may not extend loans or be a creditor in respect of any Financial Indebtedness.

(b) Paragraph (a) does not apply to any loan or trade credit:

(i) from a member of the Group (including the Borrower) to another member of the Group (other than the Borrower);

(ii) extended on arm's length terms and in the ordinary course of business of the relevant member of the Group; or

(iii) other than under (i) or (ii), provided that the aggregate amount thereof does not exceed €75,000,000 (or its equivalent in any other currency) at any time.

10.8 No Guarantees or indemnities

(a) Except as provided in paragraph (b) below, the Borrower may not guarantee the obligations of any other Person or assume joint and several liability for or commit itself as surety for those obligations.

(b) Paragraph (a) does not apply to:

(i) guarantees on arm's length terms and given in the ordinary course of business of the relevant member of the Group;

(ii) any obligation under the Finance Documents or under any other finance document as agreed between a member of the Group and (an Affiliate of) the Bank; or

(iii) other guarantees than under (i) or (ii), provided that the aggregate amount thereof does not exceed €50,000,000 (or its equivalent in any other currency) at any time.

10.9 Acquisitions

The Borrower may not make any acquisition to the extent that the consideration (when aggregated with the consideration of all other acquisitions by members of the Group in any financial year of the Borrower) exceeds €200,000,000 (or its equivalent in any other currency) at any time.

10.10 Pari Passu

The Borrower shall ensure that at all times any unsecured and unsubordinated claims of the Bank against it under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors except those creditors whose claims are mandatorily preferred by laws of general application to companies.

11. REPRESENTATIONS

The Borrower makes the representations and warranties set out in this Clause 11 **Representations** to the Bank on the date of this Agreement. The representations are deemed to be made by the Borrower by reference to the facts and circumstances then existing on the date of each Utilisation Request and the first day of each Interest Period.

11.1 Status

It is a limited liability company, duly incorporated and validly existing under the law of its jurisdiction of incorporation. It has the power to own its assets and carry on its business as it is being conducted.

11.2 Binding obligations

Subject to applicable insolvency and other laws generally affecting the rights or remedies of creditors the obligations expressed to be assumed by it in each Finance Document are legal, valid, binding and enforceable obligations.

11.3 Non-conflict with other obligations
The entry into and performance by it of, and the transaction contemplated by, the Finance Documents do not and will not conflict in any material respect with (i) any law or regulation applicable to it, (ii) any constitutional documents of the Borrower or
(iii) any agreement or instrument binding upon it or any member of the Group or any of its or any member of the Group assets.

11.4 Power and authority
It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents and the transactions contemplated by those Finance Documents.

11.5 Validity and admissibility in evidence
All Authorisations required (i) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents, and (ii) to make the Finance Documents admissible in evidence in its jurisdiction of incorporation, have been obtained or effected and are in full force and effect.

11.6 Governing law and enforcement
The choice of governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation. Any judgment obtained in relation to a Finance Document in the jurisdiction of the governing law of that Finance Document will be recognised and enforced in its jurisdiction of incorporation.

11.7 No Default
No Event of Default is continuing or is reasonably likely to result from the utilisation of the Facility or the entry into, the performance of, or any transaction contemplated by, any Finance Document.

11.8 No Misleading Information
All the information supplied to the Bank were and continue to be true and accurate in any material respect; in particular, the financial statements furnished to the Bank fairly and completely reflect the financial status of the Borrower as on the date of and for the period to which they refer and are not affected by any material change since the date these accounts were drawn up.

11.9 No Litigation
No litigation, attachment, arbitration, administrative procedure, which has or might have an adverse effect on the financial condition of the Borrower or on the ability of the Borrower to perform its obligations under the Finance Documents, or a reorganization or bankruptcy procedure, is pending or resolved save for those disclosed upon the signing of this Agreement.

12. EVENTS OF DEFAULT

Each of the events set out in this Clause 12 **Events of Default** is an Event of Default.

12.1 Non-payment
The Borrower does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment is caused by a technical or administrative error and is remedied within three (3) Business Days of the due date.

12.2 Breach of other obligations
(a) The Parent Guarantor does not comply with any term of Clause 9 **Financial Covenants**; or
(b) The Borrower does not comply with any term of the Finance Documents (other than those referred to in Clause 12.1 **Non–payment** or under paragraph (b) above) provided that no Event of Default under this paragraph (b) will occur if the non-compliance is capable of remedy and is remedied within 14 days of the earlier of (i) the Bank giving notice or (ii) the Borrower becoming aware of the non-compliance.

12.3 Misrepresentation
Any representation or statement made or deemed to be made by the Borrower in the Finance Documents or any other document delivered by or on behalf of the Borrower under or in connection with any Finance Document is or proves to have been incorrect or misleading when made or deemed to be made provided that no Event of Default under this Clause 12.3 will occur if the circumstances giving rise to the misrepresentation are capable of remedy and are remedied within 14 days of the earlier of (i) the Bank giving notice or (ii) the Borrower becoming aware of the misrepresentation.

12.4 Cross-default
(a) Any Financial Indebtedness of the Parent Guarantor and/or the Borrower is not paid when due (after the expiry of any originally applicable grace period);
(b) Any Financial Indebtedness of the Parent Guarantor and/or the Borrower is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described);
(c) Any commitment for any Financial Indebtedness to the Parent Guarantor and/or the Borrower is reduced, cancelled or suspended as a result of the occurrence of an event of default (however described), or
(d) Any creditor of the Parent Guarantor and/or the Borrower becomes entitled to declare any Financial Indebtedness of the Parent Guarantor and/or the Borrower, respectively, due and payable prior to its specified maturity as a result of an event of default (however described); unless the aggregate amount of Financial Indebtedness indicated in paragraphs (a), (b), (c) and (d) above is less than EUR 50,000,000 (or its equivalent in any other currency)
(e) Any event of default (however described) under any agreement or document entered into or issued by a Person to secure the obligations of the Borrower under this Agreement.

12.5 Insolvency, dissolution or attachment
(a) The Parent Guarantor and/or the Borrower or any of their creditors applies for moratorium or files for bankruptcy or any other equivalent that materially qualifies as insolvency of the Parent Guarantor and/or the Borrower, or the Parent Guarantor and/or the Borrower is declared bankrupt or insolvent by a competent authority, a petition is presented for its winding-up or liquidation, is subject to a moratorium or any other equivalent that materially qualifies as insolvency, is

unable or admits its inability to pay its debts as they fall due, suspends making payments on any of its debts (or announces an intention to do so), begins negotiations with its creditors for the rescheduling of any of its indebtedness, offers a composition, compromise, concordat, assignment or arrangement to its creditors, is being dissolved or decides (or another corporate body of such Person decides or consents to such a decision) to carry out any of the above mentioned actions. If a moratorium occurs, the ending of the moratorium will not remedy any Event of Default caused by that moratorium.

(b) The appointment of a liquidator, receiver, administrator or other similar officer in respect of the Parent Guarantor and/or the Borrower or any of its assets.

(c) The enforcement of any Security Interest over any assets of the Parent Guarantor and/or the Borrower .

(d) Any asset(s) of the Parent Guarantor and/or the Borrower is affected by an expropriation, executorial attachment, sequestration, distress or execution or a provisional attachment which is not discharged or set aside within 30 days.

(e) The Parent Guarantor and/or the Borrower acts or decides, or is the subject of an act or decision, in a foreign jurisdiction which is comparable with an act or decision described in the paragraphs (a), (b), (c) or (d) above.

12.6 Changes within the Borrower

The Borrower's articles of association or internal rules or regulations are, in the opinion of the Bank, materially amended or the corporate structure of the Group is, in the opinion of the Bank, changed significantly, by a merger, demerger, winding up, conversion, takeover or otherwise,other than with the prior written consent of the Bank.

12.7 Cessation of business

The Borrower ceases, or threatens to cease, to carry on all, or a material part of its business.

12.8 Qualified audit report

The Borrower's auditor issues a qualified audit report in respect of the audited financial statements which the Bank considers material (acting reasonably).

12.9 Material adverse change

Any (series of) event(s) (which specifically includes a change in law or regulation) which have or, in the opinion of the Bank, are reasonably likely to have a Material Adverse Effect.

12.10 Invalidity and unenforceability of the Finance Documents

(a) It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents.

(b) Any Finance Document is not effective or enforceable in accordance with its terms or is alleged by the Borrower to be ineffective and/or unenforceable in accordance with its terms for any reason.

(c) The Borrower repudiates or rescinds a Finance Document or evidences an intention to repudiate or rescind a Finance Document.

(d) No Event of Default under paragraphs (a) or (b) will occur if the unlawfulness or (alleged or actual) ineffectiveness or unenforceability individually or cumulatively is remedied within 14 days of the earlier of (i) the Bank giving notice or (ii) the Borrower becoming aware of the non-compliance.

13. ACCELERATION

Without prejudice to any other rights it may have under this Agreement, if an Event of Default occurs or is continuing, the Bank may, by notice to the Borrower:

(a) cancel the Commitment in whole or in part;

(b) declare that any and all amounts outstanding under the Finance Documents are:

- i) immediately (without a default notice being required) due and payable (as a result of which all outstanding Loans including accrued interest and any other amounts due by the Borrowers under the Finance Documents (including Break Funding Costs) are immediately due and payable), or
- ii) payable on first demand by the Bank (as a result of which all outstanding Loans including accrued interest and any other amounts due by the Borrowers under the Finance Documents (including Break Funding Costs) will become payable on first demand by the Bank;

14. PAYMENTS AND SET-OFF

14.1 Currency of account

(a) Each (re)payment in respect of Loans, Unpaid Sums, interest, costs, expenses or taxes shall be made in the currency in which such amounts are denominated or, if applicable, incurred.

(b) Any amount expressed to be payable in a specific currency shall be paid in that currency.

14.2 Place of payment

Without prejudice to Clause 5.7 **Debiting of Interest, Cost and Fees**, all payments to the Bank under the Finance Documents shall be made into the account specified by the Bank.

14.3 No set-off

All payments made by the Borrower under the Finance Documents must be made without set-off or counterclaim.

14.4 Set-off by the Bank

The Bank is at all times entitled to set off any debt receivable by it from the Borrower under or in connection with the Finance Documents (each a **claim**) against any debt owed by the Bank to the Borrower (each a **debt**) regardless of the currency in which the relevant claim and the relevant debt are denominated.

14.5 Business Days

If a payment under a Finance Document is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month or if there is no such day in that calendar month the preceding Business Day.

14.6 Priority of payments

If the funds provided by the Borrower for the payment of amounts due under the Finance Documents are insufficient, the priority of payments shall be determined by the Bank irrespective of the due date of the particular amounts or any instruction of the Borrower.

15. INCREASED COST

The Borrower shall, within three Business Days of a written demand from the Bank, pay to the Bank the amount equal to any Increased Cost incurred by the Bank or any of its Affiliates as a result of:
(a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation (with or without having the force of law) made after the date of this Agreement;
(b) compliance with any law or regulation (with or without having the force of law) made after the date of this Agreement; or
(c) the implementation or application of or compliance with Basel III or any law or regulation that implements, applies or amends Basel III, in each case to the extent not reasonably known to the Bank or its relevant Affiliates at the date of this Agreement.
This Clause 15 does not apply to the extent any Increased Cost is (i) attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) ("**Basel II**") or any other law or regulation that implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
(ii) attributable to the willful breach by the Bank or its Affiliates of any law or regulation.

For this Clause **Basel III** means:
(a) Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and 2006/49/EC (*CRD IV*);
(b) Regulation (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No. 648/2012 (*CRR*); and
(c) any and all other agreements, rules, guidance, regulations and/or standards published by the Basel Committee on Banking Supervision relating to "*Basel III*".

16. EVIDENCE AND CALCULATIONS

16.1 Evidence
In the absence of manifest error:
(a) accounts maintained by the Bank will be conclusive evidence of the existence and the amount of the obligations of the Borrower under any Finance Document; and
(b) a determination by the Bank of a fee, an interest rate or amount under any Finance Document will be conclusive evidence.

16.2 Calculations
Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

17. INDEMNITY AND GROSS UP

17.1 Indemnity
The Borrower must indemnify the Bank promptly upon demand against any costs, loss or expenses (including notarial and legal fees) which the Bank incurs in connection with (i) the occurrence of, or investigating any event or circumstances which the Bank reasonably believes to be a Default or an Event of Default, (ii) the enforcement of the performance by the **Borrower** of its obligations, or the preservation of any rights, under or in connection with the Finance Documents and (iii) the creation, execution, modification and termination of or the Parent Guarantee.

17.2 Currency indemnity
If any sum due from the Borrower under the Finance Documents has to be converted into another currency, that Borrower shall as an independent obligation within 3 Business Days of a written demand: (i) indemnify the Bank against any loss, cost or liability; and (ii) make such additional payment to the Bank necessary to enable it to exchange the sum received against the exchange rate available to it at the time it is received, into the sum and currency originally expressed to be due under the Finance Documents. The Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than the currency in which it is expressed to be payable.

17.3 Gross up
The Borrower must make all payments to be made under the Finance Documents without any tax deduction, unless a tax deduction is required by law. If a tax deduction is required by law to be made by the Borrower or the Bank, the amount of the payment due from the Borrower will be increased to an amount which (after making the tax payment) leaves an amount equal to the payment which would have been due if no tax payment had been required. Following a transfer or assignment by the Bank pursuant to Clause 18.3 below, the relevant transferee or assignee and/or the Bank is only entitled to receive payment under this Clause 17.3 to the same extent as the Bank would have been if the assignment or transfer had not occurred.

17.4 Stamp duty
The Borrower shall pay and indemnify the Bank against any cost, loss or liability that the Bank incurs in relation to all stamp duty, registration and other similar taxes payable in respect of any Finance Document.

17.5 Value added tax
All amounts payable under a Finance Document to the Bank shall be deemed to be exclusive of any value added tax (VAT). If VAT is chargeable, the Borrower shall, pay to the Bank (in addition to and at the same time as paying the original amount) an amount equal to the amount of the VAT. Where a Finance Document requires the Borrower to reimburse or indemnify the Bank for any costs or expenses, the Borrower shall, at the same time reimburse and indemnify the Bank against all VAT incurred by the Bank in respect of the costs or expenses save to the extent that the Bank is entitled to repayment or credit in respect of such VAT.

17.6 Break Funding Costs

If a Loan is repaid prior to the end of its Interest Period, the relevant Borrower must pay to the Bank the Break Funding Costs attributable to that Loan.

18. CHANGES TO THE DOCUMENTS AND PARTIES

18.1 Amendments, waivers and consents

Any waiver, amendment and consent in relation to or under the Finance Documents must be agreed upon in writing.

18.2 Transfers by the Borrower

The Borrower may not assign or transfer any of its rights or obligations under any Finance Document without the prior written consent of the Bank.

18.3 Transfers by the Bank

(a) The Bank may freely assign or transfer any or all of its rights and/or any or all of its obligations under any Finance Document to any other bank, financial institution, trust, fund or other entity that is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (but excluding any distressed investments), provided the assignee or transferee is a Swiss Qualifying Bank or, subject to paragraph (b) below, an Affiliate of the Bank. For the avoidance of doubt, the Bank may not make any transfer or assignment to any Person that is a trade competitor of a member of the Group in any of the activities of that member of the Group or to any Person that is not a Swiss Qualifying Bank (other than, subject to paragraph (b) below, any Affiliate of the Bank) without the prior written consent of the Borrower. It shall not be unreasonable for the Borrower to withhold its consent if a transfer or assignment would result in a breach of the Swiss 10 Non-Bank Rule and/or of the Swiss 20 Non-Bank Rule.

(b) The Bank shall notify the Borrower in writing of any intended assignment or transfer of any or all of its rights and/or any or all of its obligations under any Finance Document to any of its Affiliates with not less than 5 Business Days prior notice. The Company may prohibit, by notification to the Bank in writing, such assignment or transfer, and the Bank shall refrain from so assigning or transferring any of its rights and/or obligations under any Finance Document, if it would result in a breach of the Swiss 10 Non-Bank Rule and/or of the Swiss 20 Non-Bank Rule.

(c) The Bank may also freely create a Security Interest over any or all of its rights and/or any or all of its obligations under any Finance Document provided that no such Security Interest shall release the Bank from any of its obligations under the Finance Documents.

(d) To the extent necessary, the Borrower hereby unconditionally and irrevocably agrees in advance to cooperate with and in advance approves any assignment, transfer or the creation of any Security Interest in accordance with this Clause.

19. NOTICES

19.1 Manner of giving notices

(a) Any communication in connection with a Finance Document must be in writing, or, if agreed or indicated by the Bank, electronically (including, but not limited to, e-mail), and must be duly signed and, unless stated otherwise, may be made by letter, sent by post, attached to an e-mail or by fax.

(b) The Bank may rely on the literal wording of any notice (purporting to be) from the Borrower and is not obliged to verify the contents thereof. Incompleteness or distortion of a notice is for the risk of the sender thereof.

(c) The Bank will not be liable for any loss and/or damage resulting from the use of fax or electronic means of communication, including, but not limited to, loss or damage resulting from failure or delay in delivery, interception or manipulation by third parties or computer programs used for electronic communications and transmission of viruses (other than in the case of gross negligence and/or wilful misconduct).

19.2 Contact details

(a) Subject to the provisions of this Clause and unless expressly agreed otherwise in writing between the Bank and the Borrower, the contact details of each Party for all communications are those notified by that Party on or before the date it becomes a Party to this Agreement.

(b) The contact details of the Borrower are:

Xylem Europe GmbH
attn: Mr. Stephan Ludescher Bleicheplatz 6
8200 Schaffhausen, Switzerland

(c) The contact details of the Bank are:

ING Bank, N.V., Dublin Branch
attn. Corporate Sector Lending, Chris Gleeson
E-mail: chris.gleeson@ing.com and execution.lending.ams.team6@ing.com.

A Party may change its contact details by giving 5 Business Days' notice to the Bank (or in the case of the Bank, to the other Parties). Any communication or document to be made or delivered to the Bank will only be effective if and when actually received by the Bank. Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

20. DISCLOSURE OF CONFIDENTIAL INFORMATION

The Borrower irrevocably consents to the disclosure by the Bank, to the extent allowed by applicable law, of any (confidential) information, including personal data, regarding the Borrower and the Finance Documents including information which is, if

applicable, subject to bank secrecy rules, to:

(a) the Bank's Affiliates, professional advisers, auditors, representatives and service providers;

(b) any Person with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly any transaction under which payments are to be made or may be made by reference to one or more Finance Documents and/or the Borrower

(c) any Person to whom the Bank (intends to) assign(s) or transfer(s) or create(s) a Security Interest over all or a part of its rights or obligations under the Finance Documents, and to any of that entity's Affiliates and other entities, including professional advisers, to the extent necessary or desired to conclude and perform such assignment, transfer or Security Interest; and

(d) any Person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority, the rules of any stock exchange or pursuant to any applicable law or regulation.

21. CONTRACTUAL RECOGNITION OF BAIL-IN

Notwithstanding any other term of any Finance Document or any other agreement, arrangement or understanding between the Parties, each Party acknowledges and accepts that any liability of any Party to any other Party under or in connection with the Finance Documents may be subject to Bail-In Action by the relevant Resolution Authority and acknowledges and accepts to be bound by the effect of:

(a) any Bail-In Action in relation to any such liability, including (without limitation):

(i) a reduction, in full or in part, in the principal amount, or outstanding amount due (including any accrued but unpaid interest) in respect of any such liability;

(ii) a conversion of all, or part of, any such liability into shares or other instruments of ownership that may be issued to, or conferred on, it; and

(iii) a cancellation of any such liability; and

(b) a variation of any term of any Finance Document to the extent necessary to give effect to any Bail-In Action in relation to any such liability.

22. MISCELLANEOUS

(a) No failure or delay by the Bank in exercising any right or remedy under the Finance Documents shall operate as a waiver thereof, no single or partial exercise of any such right or remedy shall prevent any other or further exercise thereof or the exercise of any other right or remedy, and the rights and remedies provided in the Finance Documents are cumulative and not exclusive of any rights or remedies provided by law.

(b) If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable, it shall not affect or impair the legality, validity or enforceability of any other provisions of the Finance Documents.

(c) The Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

23. RIGHTS OF THIRD PARTIES

A person who is not a party to this Agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

24. PROCESS AGENT

Without prejudice to any other mode of service allowed under relevant law, each of the Borrower and the Parent Guarantor:

(a) irrevocably appoints {……….} located at {……….} as its agent for service of process in connection with any proceedings in the English courts in connection with any Finance Document;

(b) agrees that any such process will be sufficiently and effectively served on it if delivered to that agent at that address, or in any other manner permitted by law; and

(c) agrees that failure by a process agent to notify the Borrower and/or the Parent Guarantor (as the case may be) of the process will not invalidate the proceedings concerned

25. GOVERNING LAW AND JURISDICTION

(a) This Agreement and any non-contractual obligations arising out of or in connection with it are governed by the laws of England & Wales.

(b) The courts of London in England, in first instance, have jurisdiction to settle any dispute in connection with this Agreement. This submission shall not limit the rights of the Bank to take proceedings in any other court which may exercise jurisdiction over the Borrower or any of its assets.

CONDITIONS PRECEDENT PART 1
TO BE DELIVERED BEFORE THE FIRST UTILISATION

(1) A certified copy of the articles of association or constitutional documents of the Borrower and the Parent Guarantor.

(2) Certified copies of up-to-date excerpts from the commercial register, a signature-card with a specimen of the signature, copies of the identity cards/passports and, if applicable, all additional documentation evidencing that the Person(s) executing a document or notice on behalf of the Borrower are entitled to represent the Borrower and the Parent Guarantor.

(3) All information that the Bank needs to fulfil its know your customer requirements and comply with applicable anti money- laundering legislation.

(4) A copy of the Group structure chart, including the ultimate parent of the Borrower.

(5) A copy of the most recent audited financial statements of the Borrower.

(6) A copy of the most recent audited consolidated financial statements of the Parent Guarantor.

(7) Legal opinions: legal opinion from external US counsel in relation to the executed Parent Guarantee.

(8) A copy of the duly executed Parent Guarantee and relevant Finance Documents.

(9) A copy of the resolution of the board of directors of the Borrower and the Parent Guarantor approving the transaction and the execution of the Finance Documents.

PARENT GUARANTEE

Xylem Inc. Parent Guarantee dated May___, 2023

The undersigned, Xylem Inc., incorporated in Indiana, U.S.A. and having its registered office and principal place of business at 1 International Drive, Rye Brook, NY 10573 U.S.A., hereinafter referred to as the "**Guarantor**", **hereby unconditionally and irrevocably guarantees** as an independent obligation to and in favor of **ING Bank, N.V., Dublin Branch**, having its place of business at Block 4, Dundrum Town Centre, Sandyford Road, Dundrum, Dublin 16, Ireland, a branch of ING Bank N.V. whose registered office is in Amsterdam, The Netherlands, for itself, its branches and all of its direct and indirect holding companies, subsidiaries and/or any of its or their affiliates, branches and offices (hereinafter collectively referred to as the "**Bank**"), the correct and prompt fulfilment of any and all debt and liabilities, actual or contingent, present or future of Xylem Europe GmbH, incorporated in Switzerland and having its registered address at Schaffhausen, Switzerland (hereinafter referred to as the "**Borrower**") under or in connection with the Euro 250,000,000 Term Loan Agreement dated May , 2023, entered into with the Bank, as amended and supplemented from time to time (hereinafter referred to as the "**Agreement**") including without limitation any debts or liabilities under the Agreement (hereinafter collectively referred to as the "**Obligations**").

Capitalized terms used herein and not otherwise defined herein shall have the same meaning as given those terms in the Agreement, unless the context requires otherwise.

The Guarantor represents and warrants to the Bank that:

(a) it is duly organized and validly existing under the laws of the state of its incorporation and is in good standing under the aforesaid laws and it has full corporate power and authority to enter into this Guarantee;

(b) the execution, delivery and performance of this Guarantee and the performance of the obligations of the Guarantor hereunder have been duly authorized by all necessary corporate action and other actions required on the part of the Guarantor

(c) this Guarantee constitutes legal, valid and binding obligations of the Guarantor, subject to the laws of bankruptcy and other laws affecting the rights of creditors generally;

(d) neither the execution, delivery and performance by the Guarantor of this Guarantee nor the payment of any or all amounts due hereunder nor the compliance with the terms and conditions hereof will:

   (i) violate any law, administrative regulation or court judgement or decree; or

   (ii) conflict with the certificate of incorporation of the Guarantor;

(e) all provisions of the Agreement are, and all provisions of the Transactions are or will be, fully known to and approved by the Guarantor.

The Guarantor therefore undertakes upon first written demand of the Bank to pay – without set-off or counterclaim – as its own debt to the Bank the amount of the Obligations demanded by the Bank within ten (10) Business Days following the day on which the demand is received by the Guarantor. The determination by the Bank of the amount shall, in the absence of manifest error, be conclusive and binding on the Guarantor.

The Bank shall be entitled to make more than one demand against the Guarantor, and each written demand of the Bank shall contain a declaration that the Borrower has failed to fulfil its Obligations in whole or in part.

All sums payable by the Guarantor under this Guarantee, whether in respect of principal, interest, fees or otherwise, shall be paid free and clear of and without any deduction or withholding or payment for or on account of any present or future tax (other than any income tax on overall net income of the Bank) levied or imposed. If any such deduction or withholding shall be required to be made by any competent authority, the Guarantor shall forthwith pay to the Bank such additional sums as shall result in the Bank receiving the same net amount as it would have received in the absence of such deduction or withholding.

The Guarantor's liability under this Guarantee is irrevocable, absolute and unconditional, and shall not be impaired, affected or discharged by reason of (and the Guarantor hereby irrevocably waives any defenses it may now have or hereafter acquire in any way relating to):

(a) any variation in the terms or provisions of the Agreement or the Transactions;

(b) any time or other indulgence granted by the Bank to the Borrower or any other person or any forbearance (whether as to payment, time, performance or otherwise howsoever) or absence of any action to enforce the Agreement or the Transactions which might but for this provision have any such effect;

(c) unenforceability, invalidity or termination of, or any irregularity in the Agreement or the Transactions or the execution of either by the Borrower or any other person or any deficiency in the power of the Borrower or any other person to enter into and perform its obligations under the Agreement or the Transactions (whether or not known to the Bank);

(d) the recovery of any judgment against the Borrower or any action to enforce the same, or any other circumstances which may otherwise constitute a legal or equitable discharge or defense of a guarantor, except in each case for satisfaction in full of the Obligations.

The Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and notice of dishonor.

The Guarantor’s liability shall include an obligation to compensate the Bank for any reasonable out-of-pocket costs and expenses, including without limitation reasonable legal fees, incurred in enforcing this Guarantee (collectively, “**Bank Expenses**”).

This Guarantee shall be binding upon and shall inure to the benefit of the Bank and its respective successors and assigns and references in this Guarantee shall be construed accordingly.

This Guarantee is a continuing guarantee and shall remain in full force and effect and be binding upon Guarantor until the Borrower is no longer entitled to incur additional Obligations and all Obligations have been satisfied in full, at which time this Guarantee shall automatically be cancelled; provided that this Guaranty shall continue to be effective or be reinstated (as the case may be) in the event the payment or collateralization of any of the Obligations or any part thereof is rescinded or must be otherwise restored or returned by the Bank upon a bankruptcy of the Borrower or otherwise.

This Guarantee and all rights and obligations hereunder or in connection herewith shall be governed by and construed in accordance with the laws of the State of New York. The Guarantor hereby irrevocably and unconditionally consents to submit to the jurisdiction of the courts of the State of New York and of the United States of America located in the borough of Manhattan or in the United States District Court for the Southern District of New York for any action, suit, or proceeding arising out of or relating to this Guarantee and the transactions contemplated hereby. The Guarantor hereby irrevocably and unconditionally waives any objection to the laying of venue of any action, suit, or proceeding arising out of this letter agreement in the courts of the State of New York or the United States of America located in the borough of Manhattan or the United States District Court located in the Southern District of New York, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit, or proceeding brought in any such court has been brought in an inconvenient forum.

Each of Guarantor and Bank hereby waives its respective rights to a jury trial of any claim or cause of action based upon or arising out of this guarantee, including contract claims, tort claims, breach of duty claims, and all other common law or statutory claims. Each of Guarantor and Bank hereby states that it knowingly and voluntarily waives its rights to a jury trial. In the event of litigation, a copy of this guarantee may be filed as a written consent to a trial by the court.

Notwithstanding anything to the contrary contained herein, in no event shall Guarantor’s payment obligations under this Guarantee exceed the sum of (a) any unpaid Obligations and (b) Bank Expenses.

IN WITNESS WHEREOF, the undersigned has executed this Guarantee as of the date first above written.

XYLEM INC.
By:…………………………………………………. Name:…………………….........................
Title:………………………………………………

Acknowledged

ING BANK, N.V., DUBLIN BRANCH
By:………………………………………………….
Name:…………………….........................
Title:………………………………………………

By:………………………………………………….
Name:…………………….........................
Title:………………………………………………

UTILISATION REQUEST

To: [ING ENTITY] From: [BORROWER]
Date: [DATE]

Xylem Europe GmbH – EUR 250,000,000 Term Loan Agreement dated [___] (the **"Agreement")**

1. We refer to the Agreement. This is a Utilisation Request. Capitalised terms used herein have the meaning given to those terms in the Agreement unless defined otherwise herein.
2. We wish to borrow a Loan on the following terms:
   (a) Utilisation Date: [__];
   (b) Amount: €[__];
   (c) Interest Period: 6 months.
3. The bank account to which the Loan should be paid is: bank account [] in the name of [] held at [].
4. We confirm that each condition precedent under Clause 4.1 **Conditions precedent** of the Agreement which must be satisfied on the date of this Utilisation Request is so satisfied and that there are no circumstances as described in Clause 4.3 **Utilisation** of the Agreement on the basis of which the Bank would not be obliged to extend the Loan.
5. This Utilisation Request is irrevocable. [BORROWER]

By: [__]

Title: [_

SIGNATORIES

XYLEM EUROPE GMBH

By: Title:

XYLEM INC.

By:

Title:

ING BANK, N.V., DUBLIN BRANCH

By: By:

Title: Title:

[Xylem- Signature Page to Term Loan Agreement]

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, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Patrick K. Decker

Patrick K. Decker
President and Chief Executive Officer

Date: August 4, 2023

EXHIBIT 31.2

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

I, Sandra E. Rowland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended June 30, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Sandra E. Rowland

Sandra E. Rowland
Senior Vice President and Chief Financial Officer

Date: August 4, 2023

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, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick K. Decker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Patrick K. Decker

Patrick K. Decker
President and Chief Executive Officer
August 4, 2023

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, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sandra E. Rowland, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Sandra E. Rowland

Sandra E. Rowland
Senior Vice President and Chief Financial Officer
August 4, 2023

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.