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 March 31, 2022

or

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

For the transition period from to

Commission file number: 1-35229

Xylem Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

As of April 29, 2022, there were 180,092,712 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)

For the three months ended March 31,	2022	2021
Revenue	$ 1,272	$ 1,256
Cost of revenue	805	766
Gross profit	467	490
Selling, general and administrative expenses	304	301
Research and development expenses	52	50
Restructuring and asset impairment charges	—	6
Operating income	111	133
Interest expense	13	21
Other non-operating (expense) income, net	(1)	2
Gain from sale of business	1	—
Income before taxes	98	114
Income tax expense	16	27
Net income	$ 82	$ 87
Earnings per share:		
Basic	$ 0.45	$ 0.49
Diluted	$ 0.45	$ 0.48
Weighted average number of shares:		
Basic	180.2	180.3
Diluted	181.0	181.5

See accompanying notes to condensed consolidated financial statements.

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

For the three months ended March 31,	**2022**	2021
Net income	**$ 82**	$ 87
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustment	**(3)**	10
Net change in derivative hedge agreements:		
Unrealized gain (loss)	**(6)**	(11)
Amount of loss (gain) reclassified into net income	**2**	(3)
Net change in post-retirement benefit plans:		
Amortization of prior service credit	**—**	(1)
Amortization of net actuarial loss into net income	**4**	6
Other comprehensive income (loss), before tax	**(3)**	1
Income tax expense (benefit) related to items of other comprehensive income (loss)	**3**	14
Other comprehensive income (loss), net of tax	**(6)**	(13)
Comprehensive income	**$ 76**	$ 74

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,117**	$ 1,349
Receivables, less allowances for discounts, returns and credit losses of $37 and $44 in 2022 and 2021, respectively	**1,011**	953
Inventories	**804**	700
Prepaid and other current assets	**186**	158
Total current assets	**3,118**	3,160
Property, plant and equipment, net	**636**	644
Goodwill	**2,782**	2,792
Other intangible assets, net	**1,002**	1,016
Other non-current assets	**681**	664
Total assets	**$ 8,219**	$ 8,276
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 652**	$ 639
Accrued and other current liabilities	**713**	752
Short-term borrowings and current maturities of long-term debt	**555**	—
Total current liabilities	**1,920**	1,391
Long-term debt	**1,878**	2,440
Accrued post-retirement benefits	**432**	438
Deferred income tax liabilities	**283**	287
Other non-current accrued liabilities	**500**	494
Total liabilities	**5,013**	5,050
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common Stock – par value $0.01 per share:		
Authorized 750.0 shares, issued 195.9 shares and 195.6 shares in 2022 and 2021, respectively	**2**	2
Capital in excess of par value	**2,099**	2,089
Retained earnings	**2,181**	2,154
Treasury stock – at cost 15.8 shares and 15.2 shares in 2022 and 2021, respectively	**(707)**	(656)
Accumulated other comprehensive loss	**(377)**	(371)
Total stockholders' equity	**3,198**	3,218
Non-controlling interests	**8**	8
Total equity	**3,206**	3,226
Total liabilities and stockholders' equity	**$ 8,219**	$ 8,276

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (in millions)

For the three months ended March 31,	2022	2021
Operating Activities		
Net income	$ 82	$ 87
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28	30
Amortization	30	32
Share-based compensation	9	9
Restructuring and asset impairment charges	—	6
Gain from sale of business	(1)	—
Other, net	3	2
Payments for restructuring	(3)	(12)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(64)	(42)
Changes in inventories	(106)	(46)
Changes in accounts payable	20	(29)
Other, net	(79)	(63)
Net Cash – Operating activities	(81)	(26)
Investing Activities		
Capital expenditures	(49)	(39)
Proceeds from sale of business	1	—
Proceeds from the sale of property, plant and equipment	1	1
Cash received from investments	4	—
Cash paid for investments	(6)	—
Other, net	6	7
Net Cash – Investing activities	(43)	(31)
Financing Activities		
Repurchase of common stock	(51)	(67)
Proceeds from exercise of employee stock options	1	3
Dividends paid	(55)	(51)
Other, net	(1)	—
Net Cash – Financing activities	(106)	(115)
Effect of exchange rate changes on cash	(2)	(15)
Net change in cash and cash equivalents	(232)	(187)
Cash and cash equivalents at beginning of year	1,349	1,875
Cash and cash equivalents at end of period	$ 1,117	$ 1,688
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 23	$ 41
Income taxes (net of refunds received)	$ 15	$ 28

See accompanying notes to condensed consolidated financial statements.

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

Note 1. Background and Basis of Presentation

Background

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

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

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

Basis of Presentation

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

The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) considered necessary for a fair statement of the financial position and results of operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 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 2021 Annual Report.

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

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

Note 2. Revenue

Disaggregation of Revenue

The following table illustrates the sources of revenue:

	Three Months Ended March 31,	
(in millions)	2022	2021
Revenue from contracts with customers	**$ 1,222**	$ 1,211
Lease Revenue	**50**	45
Total	**$ 1,272**	$ 1,256

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

	Three Months Ended March 31,	
(in millions)	2022	2021
Water Infrastructure		
Transport	**$ 393**	$ 370
Treatment	**90**	94
*Applied Water**		
Commercial Building Services	**161**	148
Residential Building Services	**73**	64
Industrial Water	**191**	181
Measurement & Control Solutions		
Water	**265**	283
Energy	**49**	71
Total	**$ 1,222**	$ 1,211

*Items in the prior year footnote disclosures for Applied Water were reclassified to conform to the current classification.

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

(in millions)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Water Infrastructure		
United States	**$ 147**	$ 123
Western Europe	**186**	173
Emerging Markets (a)	**101**	122
Other	**49**	46
Applied Water		
United States	**221**	194
Western Europe	**94**	92
Emerging Markets (a)	**80**	78
Other	**30**	29
Measurement & Control Solutions		
United States	**181**	213
Western Europe	**69**	74
Emerging Markets (a)	**44**	46
Other	**20**	21
Total	**$ 1,222**	$ 1,211

(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	**34**	**62**
Revenue recognized from opening balance	**—**	**(50)**
Billings transferred to accounts receivable	**(39)**	
Other	**(2)**	**(1)**
Balance at March 31, 2022	**$ 118**	**$ 175**
Balance at January 1, 2021	$ 117	$ 166
Additions, net	43	67
Revenue recognized from opening balance	—	(71)
Billings transferred to accounts receivable	(50)	—
Other	(1)	—
Balance at March 31, 2021	$ 109	$ 162

(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 March 31, 2022, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied for contracts with performance obligations, amount to $379 million. We expect to recognize the majority of revenue upon the completion of satisfying these performance obligations in the following 60 months. The Company elects to apply the practical expedient to exclude from this disclosure revenue related to performance obligations that are part of a contract whose original expected duration is less than one year.

Note 3. Restructuring and Asset Impairment Charges

Restructuring

From time to time, the Company will incur costs related to restructuring actions in order to optimize our cost base and more strategically position itself. During the three months ended March 31, 2022, we incurred restructuring charges that were less than $1 million.

During the three months ended March 31, 2021, we recognized restructuring charges of $5 million of which $4 million relates to actions previously announced in 2020 arising as a result of the COVID-19 pandemic. These charges included reduction of headcount across all segments and asset impairments within our Measurement & Control Solutions segment.

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

(in millions)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
By component:		
Severance and other charges	**$ —**	$ 4
Asset impairment	**—**	1
Total restructuring charges	**$ —**	$ 5
Asset impairment charges	**—**	1
Total restructuring and asset impairment charges	**$ —**	$ 6
By segment:		
Water Infrastructure	**$ —**	$ 4
Applied Water	**—**	1
Measurement & Control Solutions	**—**	1

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 three months ended March 31, 2022 and 2021:

(in millions)	2022	2021
Restructuring accruals - January 1	**$ 7**	$ 29
Restructuring charges, net	**—**	5
Cash payments	**(3)**	(12)
Asset impairment	**—**	(1)
Restructuring accruals - March 31	**$ 4**	$ 21
By segment:		
Water Infrastructure	**$ —**	$ 2
Applied Water	**—**	1
Measurement & Control Solutions	**3**	14
Regional selling locations (a)	**1**	4
Corporate and other	**—**	—

(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 2022 and thereafter:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2021:					
Total expected costs	$ 4	$ —	$ 1	$ —	$ 5
Costs incurred during 2021	3	—	—	—	3
Costs incurred during Q1 2022	—	—	—	—	—
Total expected costs remaining	**$ 1**	**$ —**	**$ 1**	**$ —**	**$ 2**

The Water Infrastructure and Measurement & Control Solutions actions commenced in 2021 consist primarily of severance charges. These actions are expected to continue through the end of 2022.

Note 4. Income Taxes

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

The income tax provision for the three months ended March 31, 2022 was $16 million resulting in an effective tax rate of 16.4%, compared to a $27 million expense resulting in an effective tax rate of 23.3% for the same period in 2021. The effective tax rate for the three-month period ended March 31, 2022 was lower than the U.S. federal statutory rate primarily due to favorable earnings mix and tax settlement benefits, partially offset by the Global Intangible Low Taxed Income ("GILTI") inclusion.

Unrecognized Tax Benefits

During 2019, Xylem's Swedish subsidiary received a tax assessment for the 2013 tax year related to the tax treatment of an intercompany transfer of certain intellectual property that was made in connection with a reorganization of our European businesses. The assessment asserts an aggregate amount of approximately $80 million for tax, penalties and interest. Xylem filed an appeal with the Administrative Court of Stockholm. Management, in consultation with external legal advisors, believes it is more likely than not that Xylem will prevail on the proposed assessment and is vigorously defending our position through litigation; however, there can be no assurance that any final determination by the authorities will not be materially different than our position. As of March 31, 2022, we have not recorded any unrecognized tax benefits related to this uncertain tax position.

Note 5. Earnings Per Share

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

	Three Months Ended March 31,	
	2022	2021
Net income (in millions)	**$ 82**	$ 87
Shares (in thousands):		
Weighted average common shares outstanding	**180,205**	180,252
Add: Participating securities (a)	**26**	15
Weighted average common shares outstanding — Basic	**180,231**	180,267
Plus incremental shares from assumed conversions: (b)		
Dilutive effect of stock options	**587**	794
Dilutive effect of restricted stock units and performance share units	**203**	413
Weighted average common shares outstanding — Diluted	**181,021**	181,474
Basic earnings per share	**$ 0.45**	$ 0.49
Diluted earnings per share	**$ 0.45**	$ 0.48

(a) Restricted stock unit awards 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 13, "Share-Based Compensation Plans", to the condensed consolidated financial statements for further detail on the performance share units.

	Three Months Ended March 31,	
(in thousands)	**2022**	2021
Stock options	**1,335**	1,249
Restricted stock units	**330**	285
Performance share units	**233**	352

Note 6. Inventories

The components of total inventories are summarized as follows:

(in millions)	**March 31, 2022**	December 31, 2021
Finished goods	**$ 282**	$ 236
Work in process	**71**	58
Raw materials	**451**	406
Total inventories	**$ 804**	$ 700

Note 7. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying value of goodwill by reportable segment for the three months ended March 31, 2022 are as follows:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Balance as of January 1, 2022	$ 656	$ 515	$ 1,621	$ 2,792
Activity in 2022				
Foreign currency and other	(3)	(2)	(5)	(10)
Balance as of March 31, 2022	**$ 653**	**$ 513**	**$ 1,616**	**$ 2,782**

Other Intangible Assets

Information regarding our other intangible assets is as follows:

(in millions)	March 31, 2022 Carrying Amount	March 31, 2022 Accumulated Amortization	March 31, 2022 Net Intangibles	December 31, 2021 Carrying Amount	December 31, 2021 Accumulated Amortization	December 31, 2021 Net Intangibles
Customer and distributor relationships	**$ 927**	**$ (468)**	**$ 459**	$ 929	$ (456)	$ 473
Proprietary technology and patents	**201**	**(144)**	**57**	201	(142)	59
Trademarks	**141**	**(75)**	**66**	141	(72)	69
Software	**564**	**(314)**	**250**	548	(303)	245
Other	**21**	**(18)**	**3**	21	(18)	3
Indefinite-lived intangibles	**167**	**—**	**167**	167	—	167
Other Intangibles	**$ 2,021**	**$ (1,019)**	**$ 1,002**	$ 2,007	$ (991)	$ 1,016

Amortization expense related to finite-lived intangible assets was $30 million and $32 million for the three-month periods ended March 31, 2022 and 2021, respectively.

Note 8. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Foreign Exchange Risk

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

Certain business units with exposure to foreign currency exchange risks have designated certain currency forward agreements as cash flow hedges of forecasted intercompany inventory purchases and sales. Our principal currency exposures relate to the Euro, Swedish Krona, British Pound, Canadian Dollar, Polish Zloty and Australian Dollar. We had foreign exchange contracts with purchased notional amounts totaling $457 million and $301 million as of March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022, 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, sell Canadian Dollar and purchase Euro, purchase U.S. Dollar and sell Canadian Dollar, sell Australian Dollar and purchase Euro, and to purchase Polish Zloty and sell Euro. The purchased notional amounts associated with these currency derivatives are $186 million, $140 million, $49 million, $23 million, $22 million, $20 million and $17 million, respectively. As of December 31, 2021 the purchased notional amounts associated with these currency derivatives are $130 million, $88 million, $31 million, $14 million, $14 million, $13 million and $11 million, respectively.

Hedges of Net Investments in Foreign Operations

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

Cross-Currency Swaps

Beginning in 2015, we entered into cross-currency swaps to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate. During the second quarter of 2019 and third quarter of 2020 we entered into additional cross-currency swaps. The total notional amount of derivative instruments designated as net investment hedges was $1,135 million and $1,151 million as of March 31, 2022 and December 31, 2021, respectively.

Foreign Currency Denominated Debt

On March 11, 2016, we issued 2.250% Senior Notes of €500 million aggregate principal amount due March 2023. We designated the entirety of the outstanding balance, or $556 million and $563 million as of March 31, 2022 and December 31, 2021, respectively, net of unamortized discount, as a hedge of a net investment in certain foreign subsidiaries.

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

(in millions)	Three Months Ended March 31, 2022	2021
Cash Flow Hedges		
Foreign Exchange Contracts		
Amount of (loss) recognized in OCI	**$ (6)**	$ (11)
Amount of loss (gain) reclassified from OCI into revenue	**2**	(2)
Amount of (gain) reclassified from OCI into cost of revenue	**—**	(1)
Net Investment Hedges		
Cross-Currency Swaps		
Amount of gain recognized in OCI	**$ 1**	$ 30
Amount of income recognized in Interest Expense	**6**	5
Foreign Currency Denominated Debt		
Amount of gain recognized in OCI	**$ 8**	$ 26

As of March 31, 2022, $7 million of net losses on cash flow hedges are expected to be reclassified into earnings in the next 12 months.

As of March 31, 2022, 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)	March 31, 2022	December 31, 2021
Derivatives designated as hedging instruments		
Assets		
Cash Flow Hedges		
Other current assets	**$ 1**	$ —
Net Investment Hedges		
Other non-current assets	**$ 5**	$ 8
Liabilities		
Cash Flow Hedges		
Other current liabilities	**$ (6)**	$ (1)
Net Investment Hedges		
Other non-current accrued liabilities	**$ (22)**	$ (26)

The fair value of our long-term debt, due in 2023, designated as a net investment hedge was $564 million and $577 million as of March 31, 2022 and December 31, 2021, respectively.

Note 9. Accrued and Other Current Liabilities

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

(in millions)	March 31, 2022	December 31, 2021
Compensation and other employee-benefits	**$ 216**	$ 273
Customer-related liabilities	**197**	186
Accrued taxes	**89**	86
Lease liabilities	**73**	69
Accrued warranty costs	**38**	40
Other accrued liabilities	**100**	98
Total accrued and other current liabilities	**$ 713**	$ 752

Note 10. Credit Facilities and Debt

Total debt outstanding is summarized as follows:

(in millions)	March 31, 2022	December 31, 2021
2.250% Senior Notes due 2023 (a)	**557**	564
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
Debt issuance costs and unamortized discount (b)	**(24)**	(24)
Total debt	**2,433**	2,440
Less: short-term borrowings and current maturities of long-term debt	**555**	—
Total long-term debt	**$ 1,878**	$ 2,440

(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 2023 was $564 million and $577 million as of March 31, 2022 and December 31, 2021, respectively. The fair value of our Senior Notes due 2026 was $499 million and $537 million as of March 31, 2022 and December 31, 2021 respectively. The fair value of our Senior Notes due 2028 was $463 million and $497 million as of March 31, 2022 and December 31, 2021, respectively. The fair value of our Senior Notes due 2031 was $454 million and $496 million as of March 31, 2022 and December 31, 2021, respectively. The fair value of our Senior Notes due 2046 was $413 million and $481 million as of March 31, 2022 and December 31, 2021, 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 March 31, 2022, 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”).

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

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

Interest on the Senior Notes due 2021 is payable on April 1 and October 1 of each year. Interest on the Senior Notes due 2023 is payable on March 11 of each year. Interest on the Senior Notes due 2026 and the Senior Notes due 2046 is payable on May 1 and November 1 of each year. As of March 31, 2022, we are in compliance with all covenants for the Senior Notes.

Credit Facilities

2019 Five-Year Revolving Credit Facility

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

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

The 2019 Credit Facility requires that Xylem maintain a consolidated total debt to consolidated EBITDA ratio (or maximum leverage ratio), which will be based on the last four fiscal quarters; and in addition contains a number of customary covenants, including limitations on the incurrence of secured debt and debt of subsidiaries, liens, sale and lease-back transactions, mergers, consolidations, liquidations, dissolutions and sales of assets. The 2019 Credit Facility also contains customary events of default. Finally, Xylem has the ability to designate subsidiaries that can borrow under the 2019 Credit Facility, subject to certain requirements and conditions set forth in the 2019 Credit Facility. As of March 31, 2022, the 2019 Credit Facility was undrawn and we are in compliance with all revolver covenants.

Commercial Paper

U.S. Dollar Commercial Paper Program

Our U.S. Dollar commercial paper program generally serves as a means of short-term funding with a $600 million maximum issuing balance and a combined limit of $800 million inclusive of the 2019 Credit Facility. As of March 31, 2022 and December 31, 2021, none of the Company's $600 million U.S. Dollar commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Euro Commercial Paper Program

On June 3, 2019, Xylem entered into a Euro commercial paper program with ING Bank N.V., as administrative agent, and a syndicate of dealers. The Euro commercial paper program provides for a maximum issuing balance of up to €500 million (approximately $557 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 March 31, 2022 and December 31, 2021, none of the Company's Euro commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Note 11. Post-retirement Benefit Plans

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

	Three Months Ended March 31,	
(in millions)	**2022**	2021
Domestic defined benefit pension plans:		
Service cost	**$ 1**	$ 1
Interest cost	**1**	1
Expected return on plan assets	**(2)**	(2)
Amortization of net actuarial loss	**1**	1
Net periodic benefit cost	**$ 1**	$ 1
International defined benefit pension plans:		
Service cost	**$ 3**	$ 4
Interest cost	**4**	3
Expected return on plan assets	**(4)**	(4)
Amortization of net actuarial loss	**3**	4
Net periodic benefit cost	**$ 6**	$ 7
Total net periodic benefit cost	**$ 7**	$ 8

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

The total net periodic benefit cost for other post-retirement employee benefit plans was less than $1 million, including net credits recognized into other comprehensive income of less than $1 million, for both the three months ended March 31, 2022 and 2021, respectively.

We contributed $5 million and $6 million to our defined benefit plans during the three months ended March 31, 2022 and 2021, respectively. Additional contributions ranging between approximately $11 million and $19 million are expected to be made during the remainder of 2022.

During the first quarter of 2020, the Company purchased a bulk annuity policy with an insurance company for its largest defined benefit plan in the U.K., as a plan asset, to facilitate the termination and buy-out of the plan. The bulk annuity fully insures the benefits payable to the participants of the plan until a full buy-out of the plan can be executed, which is expected to occur in mid-2022.

Note 12. Equity

The following table shows the changes in stockholders' equity for the three months ended March 31, 2022:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive 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**

The following table shows the changes in stockholders' equity for the three months ended March 31, 2021:

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

Note 13. Share-Based Compensation Plans

Share-based compensation expense was $9 million during both the three months ended March 31, 2022 and 2021. The unrecognized compensation expense related to our stock options, restricted stock units and performance share units was $10 million, $38 million and $20 million, respectively, at March 31, 2022 and is expected to be recognized over a weighted average period of 2.2, 2.3 and 2.6 years, respectively. The amount of cash received from the exercise of stock options was $1 million and $3 million for the three months ended March 31, 2022 and 2021, respectively.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the three months ended March 31, 2022:

	Share units (in thousands)	Weighted Average Exercise Price / Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2022	1,827	$ 64.12	6.1	102
Granted	306	86.76		
Exercised	(12)	42.35		
Forfeited and expired	(7)	88.93		
Outstanding at March 31, 2022	**2,114**	**$ 67.44**	**6.5**	**$ 44**
Options exercisable at March 31, 2022	**1,425**	**$ 58.69**	**5.2**	**$ 41**
Vested and expected to vest as of March 31, 2022	**2,022**	**$ 66.52**	**6.3**	**$ 44**

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 three months ended March 31, 2022 was $0.6 million.

Stock Option Fair Value

The fair value of each option grant was estimated on the date of grant using the binomial lattice pricing model which incorporates multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The following are weighted-average assumptions for 2022 grants:

Volatility	**26.20 %**
Risk-free interest rate	**1.59 %**
Dividend yield	**1.38 %**
Expected term (in years)	**5.6**
Weighted-average fair value / share	**$ 19.86**

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 three months ended March 31, 2022. 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, 2022	484	$ 88.47
Granted	292	86.76
Vested	(179)	85.77
Forfeited	(12)	90.74
Outstanding at March 31, 2022	**585**	**$ 88.41**

ROIC Performance Share Unit Grants

The following is a summary of Return on Invested Capital ("ROIC") performance share unit grants for the three months ended March 31, 2022. The fair value of the ROIC performance share units is equal to the closing share price on the date of the grant:

	Share units (in thousands)	Weighted Average Grant Date Fair Value / Share
Outstanding at January 1, 2022	177	$ 84.84
Granted	35	86.76
Forfeited (a)	(55)	74.54
Outstanding at March 31, 2022	**157**	**$ 88.90**

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

TSR Performance Share Unit Grants

The following is a summary of our Total Shareholder Return ("TSR") performance share unit grants for the three months ended March 31, 2022:

	Share units (in thousands)	Weighted Average Grant Date Fair Value / Share
Outstanding at January 1, 2022	177	$ 102.96
Granted	70	71.14
Adjustment for Market Condition Achieved (a)	22	89.62
Vested	(75)	89.62
Forfeited	(2)	85.01
Outstanding at March 31, 2022	**192**	**$ 100.73**

(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 2022 grants:

Volatility	**33.3 %**
Risk-free interest rate	**1.44 %**

Revenue Performance Share Unit Grants

The following is a summary of our Revenue performance share unit grants for the three months ended March 31, 2022:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value / Share**
Outstanding at January 1, 2022	—	$ —
Granted	35	86.76
Outstanding at March 31, 2022	**35**	**$ 86.76**

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 14. Capital Stock

For the three months ended March 31, 2022 and March 31, 2021, the Company repurchased less than 0.6 million shares of common stock for $51 million and approximately 0.7 million shares of common stock for $67 million, respectively. Repurchases include both share repurchase programs approved by the Board of Directors and repurchases in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. The details of repurchases by each program are as follows:

On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our stockholders and maintains our focus on growth. There were approximately 0.5 million shares repurchased for $45 million under the program for the three months ended March 31, 2022. For the three months ended March 31, 2021, we repurchased approximately 0.6 million shares for $60 million. There are up to $182 million in shares that may still be purchased under this plan as of March 31, 2022.

Aside from the aforementioned repurchase program, we repurchased approximately 0.1 million shares and approximately 0.1 million shares for $6 million and $7 million for the three months ended March 31, 2022 and 2021, respectively, in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units.

Note 15. Accumulated Other Comprehensive Loss

The following table provides the components of accumulated other comprehensive loss for the three months ended March 31, 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 prior service cost and net actuarial loss on post-retirement benefit plans into other non-operating income (expense), net	**—**	**4**	**—**	**4**
Income tax impact on amortization of post-retirement benefit plan items	**—**	**(1)**	**—**	**(1)**
Unrealized loss on derivative hedge agreements	**—**	**—**	**(6)**	**(6)**
Reclassification of unrealized gain on foreign exchange agreements into revenue	**—**	**—**	**2**	**2**
Balance at March 31, 2022	**$ (106)**	**$ (265)**	**$ (6)**	**$ (377)**

The following table provides the components of accumulated other comprehensive loss for the three months ended March 31, 2021:

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

Note 16. Commitments and Contingencies

Legal Proceedings

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

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

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claims, we do not believe it is reasonably possible that any asserted or unasserted legal claims or proceedings, individually or in aggregate, will have a material adverse effect on our results of operations, or financial condition. We have estimated and accrued $4 million as of March 31, 2022 and December 31, 2021 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 March 31, 2022 and December 31, 2021, the amount of surety bonds, bank guarantees, insurance letters of credit, stand-by letters of credit as well as revenue and customs guarantees was $431 million and $415 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 and $3 million as of March 31, 2022 and December 31, 2021 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)	**2022**	2021
Warranty accrual – January 1	**$ 57**	$ 65
Net charges for product warranties in the period	**5**	8
Settlement of warranty claims	**(6)**	(9)
Foreign currency and other	**—**	(2)
Warranty accrual - March 31	**$ 56**	$ 62

Note 17. Segment Information

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

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

The accounting policies of each segment are the same as those described in the Summary of Significant Accounting Policies section of Note 1 in the 2021 Annual Report. The following table contains financial information for each reportable segment:

(in millions)	Three Months Ended March 31, 2022	2021
Revenue:		
Water Infrastructure	**$ 533**	$ 509
Applied Water	**425**	393
Measurement & Control Solutions	**314**	354
Total	**$ 1,272**	$ 1,256
Operating Income (Loss):		
Water Infrastructure	**$ 74**	$ 71
Applied Water	**59**	66
Measurement & Control Solutions	**(10)**	9
Corporate and other	**(12)**	(13)
Total operating income	**$ 111**	$ 133
Interest expense	**$ 13**	$ 21
Other non-operating income, net	**(1)**	2
Gain from sale of business	**1**	—
Income before taxes	**$ 98**	$ 114
Depreciation and Amortization:		
Water Infrastructure	**$ 13**	$ 13
Applied Water	**5**	6
Measurement & Control Solutions	**34**	36
Regional selling locations (a)	**4**	5
Corporate and other	**2**	2
Total	**$ 58**	$ 62
Capital Expenditures:		
Water Infrastructure	**$ 17**	$ 11
Applied Water	**4**	4
Measurement & Control Solutions	**21**	21
Regional selling locations (b)	**5**	3
Corporate and other	**2**	—
Total	**$ 49**	$ 39

(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. Additionally, many of these risks and uncertainties are, and may continue to be, amplified by impacts from Russia's recent invasion of Ukraine, as well as the ongoing coronavirus ("COVID-19") pandemic. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include, among others, the following: overall industry and economic conditions, including industrial, governmental, and public and private sector spending and the strength of the residential and commercial real estate markets; 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; continued uncertainty around the ongoing COVID-19 pandemic's magnitude, duration and impacts on 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, 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; ability to retain and attract senior management and other diverse and key talent, as well as increasing competition for overall talent and labor; difficulty predicting our financial results; defects, security, warranty and liability claims, and recalls with respect to products; availability, regulation or interference with radio spectrum used by certain of our products; uncertainty related to restructuring and realignment actions and related charges and savings; our ability to continue strategic investments for growth; our ability to successfully identify, execute and integrate acquisitions; volatility in served markets or impacts on 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, competition, and the environment and climate change; changes in our effective tax rates or tax expenses; legal, governmental or regulatory claims, investigations or proceedings and associated contingent liabilities; and other factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 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 services settings. Our broad portfolio of solutions addresses customer needs across the water cycle, from the delivery, measurement and use of drinking water to the collection, test, treatment and analysis of wastewater to the return of water to the environment. Our product and service offerings are organized into three reportable segments that are aligned around the critical market applications they provide: Water Infrastructure, Applied Water and Measurement & Control Solutions.

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

COVID-19 Pandemic Update

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

Our markets and operations have largely demonstrated resilience against the effects of the pandemic. However, we have experienced, and expect to continue experiencing shortages in the supply of components, including electronics, particularly semiconductors ("chips"), parts and raw materials. To counteract these impacts, we are taking various actions, including building inventory to support backlog execution and redesigning our products. We expect chip supply to improve in each successive quarter in 2022. We have also experienced, and continue to experience, increased inflation, freight and logistics costs, and are engaging in various mitigation strategies, including enhanced price realization efforts.

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

Risk related to the impact of COVID-19 as well as our supply chain and macroeconomic issues, including inflation, are described in further detail under "Item 1A. Risk Factors" in the Company's 2021 Annual Report.

Executive Summary

Xylem reported revenue for the first quarter of 2022 of $1,272 million, an increase of 1.3% compared to $1,256 million reported in the first quarter of 2021. On a constant currency basis, revenue increased by $49 million, or 3.9%, driven by organic revenue growth in the Applied Water and Water Infrastructure segments, partially offset by organic declines in Measurement & Control Solutions. These results were driven by organic growth in the industrial, commercial and residential end markets, partially offset by organic declines in utilities as expected due to the impact of chip availability.

We generated operating income of $111 million (margin of 8.7%) during the first quarter of 2022, as compared to $133 million (margin of 10.6%) in 2021. Operating income in the first quarter of 2022 benefited from a decrease in restructuring and realignment costs of $4 million as compared to the first quarter of 2021 and a decrease in special charges of $1 million. Excluding the impact of these items, adjusted operating income was $116 million (adjusted margin of 9.1%) during the first quarter of 2022 as compared to $143 million (adjusted margin of 11.4%) in 2021. The decrease in adjusted operating margin was primarily due to cost inflation and increased logistics cost, as well as increased spending on strategic investments. These impacts were partially offset by improved price realization and cost reductions from our productivity and other cost saving initiatives.

Additional financial highlights for the quarter ended March 31, 2022 include the following:

- Orders of $1,715 million, up 11.5% from $1,538 million in the prior year, and up 14.5% on an organic basis.
- Earnings per share of $0.45, down 6.25% when compared to the prior year ($0.47, down 16.1% on an adjusted basis).
- Net income as a percent of revenue of 6.4%, down 50 basis points compared to 6.9% in the prior year. EBITDA margin of 13.1%, down 240 basis points when compared to 15.5% in the prior year (14.2%, down 290 basis points on an adjusted basis)
- Net cash flow used in operating activities of $81 million for the three months ended March 31, 2022, an increase of $55 million of cash used during the same period of the prior year. Negative free cash flow of $130 million, down $65 million from the prior year.

Key Performance Indicators and Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and operating income margins, 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, special charges, gain or loss from sale of businesses and tax-related special items, as applicable. A reconciliation of adjusted net income and adjusted earnings per share is provided below.

	Three Months Ended March 31,			
(In millions, except for per share data)	**2022**		2021	
Net income & Earnings per share	**$ 82**	**$ 0.45**	$ 87	$ 0.48
Restructuring and realignment, net of tax of $1 and $2	**3**	**0.03**	6	0.03
Special charges, net of tax of $1 and $0	**1**	**0.01**	3	0.02
Tax-related special items	**(1)**	**(0.01)**	6	0.03
Gain from sale of business, net of tax of $0	**(1)**	**(0.01)**	—	—
Adjusted net income & Adjusted earnings per share	**$ 84**	**$ 0.47**	$ 102	$ 0.56

- "adjusted operating expenses" and "adjusted gross profit" defined as operating expenses and gross profit, respectively, adjusted to exclude restructuring and realignment costs and special charges.
- "adjusted operating income" defined as operating income, adjusted to exclude restructuring and realignment costs and special charges, and "adjusted operating margin" defined as adjusted operating income divided by total revenue.
- “EBITDA” defined as earnings before interest, taxes, depreciation and amortization expense "EBITDA margin" defined as EBITDA divided by total revenue, "adjusted EBITDA" reflects the adjustment to

EBITDA to exclude share-based compensation charges, restructuring and realignment costs, special charges and gain or loss from sale of businesses, and "adjusted EBITDA margin" defined as adjusted EBITDA divided by total revenue.

- “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 buy-out.
- "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.

	Three Months Ended March 31,	
(In millions)	**2022**	2021
Net cash provided by operating activities	**$ (81)**	$ (26)
Capital expenditures	**(49)**	(39)
Free cash flow	**$ (130)**	$ (65)
Net cash used in investing activities	**$ (43)**	$ (31)
Net cash provided (used) by financing activities	**$ (106)**	$ (115)

2022 Outlook

We anticipate total revenue growth in the range of 1% to 3% in 2022, with organic revenue growth anticipated to be in the range of 4% to 6%. The following is a summary of our organic revenue outlook by end markets:

- Utilities revenue decreased by approximately 3% in the first quarter on an organic basis driven by weakness in the emerging markets and the United States, partially offset by strength in western Europe. For 2022, we expect organic revenue growth in the low-single-digit range, as utilities remain focused on mission-critical applications in wastewater; although we expect uneven growth from China and India as multi-year government funding programs are deployed. On the clean water side, the timing of large project deployments has been impacted by the global shortage of electronic components. We anticipate that these deployments will ramp up when supply constraints gradually ease through 2022 based on our strong backlog position and orders momentum. Additionally, we can expect healthy momentum in the global test and treatment markets and rising demand and focus on pipeline assessment services.
- Industrial revenue increased by approximately 10% in the first quarter on an organic basis driven by strength across all major geographic regions. For 2022, we expect organic revenue growth in the mid-single-digit range on steady global demand. We continue to see healthy growth in our dewatering business, especially in the emerging markets from strong mining demand as well as sustained demand in light industrial activity in the U.S. and western Europe reflecting our strong orders and backlog.
- In the commercial markets, organic revenue in the first quarter increased by approximately 11% driven by the U.S. and western Europe. For 2022, we expect organic revenue growth in the mid-single to high-single digit range. We expect solid replacement business in the U.S. and new production introductions. In Europe we can expect modest share gains, with demand for eco-friendly products supported by increase in funding for green buildings.
- In the residential markets, organic revenue increased by approximately 15% in the first quarter driven by strength in the U.S. with relatively flat growth in western Europe and the emerging markets. This market is primarily driven by replacement revenue serviced through our distribution network. For 2022, we expect organic revenue growth in the mid-single-digit range. We anticipate demand and activity to moderate and remain healthy from increased residential users in the U.S. and western Europe.

We will continue to strategically execute restructuring and realignment actions in an effort to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. During 2022, we expect to incur approximately $25 million and $30 million in restructuring and realignment costs.

Results of Operations

(In millions)	Three Months Ended March 31, 2022	2021	Change
Revenue	**$ 1,272**	$ 1,256	1.3 %
Gross profit	**467**	490	(4.7) %
Gross margin	**36.7 %**	39.0 %	(230) bp
Total operating expenses	**356**	357	(0.3) %
Expense to revenue ratio	**28.0 %**	28.4 %	(40) bp
Restructuring and realignment costs	**4**	8	(50.0) %
Special charges	**1**	2	(50.0) %
Adjusted operating expenses	**351**	347	1.2 %
Adjusted operating expenses to revenue ratio	**27.6 %**	27.6 %	— bp
Operating income	**111**	133	(16.5) %
Operating margin	**8.7 %**	10.6 %	(190) bp
Interest and other non-operating expense, net	**14**	19	(26.3) %
Gain from sale of business	**1**	—	NM
Income tax expense	**16**	27	(40.7) %
Tax rate	**16.4 %**	23.3 %	(690) bp
Net income	**$ 82**	$ 87	(5.7) %

NM - Not meaningful change

Revenue

Revenue generated during the three months ended March 31, 2022 was $1,272 million, reflecting an increase of $16 million, or 1.3%, compared to the same prior year period. On a constant currency basis, revenue grew 3.9% for the three months ended March 31, 2022. The increase on a constant currency basis was driven by organic revenue growth of $51 million during the quarter, reflecting strong organic growth in western Europe and the U.S., partially offset by declines in emerging markets where growth in Latin America and eastern Europe were more than offset from declines in China due to the COVID lockdown mandated by the government in the last two weeks of the quarter.

The following table illustrates the impact from organic growth, recent divestitures, and foreign currency translation in relation to revenue during the three months ended March 31, 2022:

(In millions)	Water Infrastructure $ Change	Water Infrastructure % Change	Applied Water $ Change	Applied Water % Change	Measurement & Control Solutions $ Change	Measurement & Control Solutions % Change	Total Xylem $ Change	Total Xylem % Change
2021 Revenue	$ 509		$ 393		$ 354		$ 1,256	
Organic Growth	43	8.4 %	40	10.2 %	(32)	(9.0)%	51	4.1 %
Divestitures	—	— %	—	— %	(2)	(0.6)%	(2)	(0.2)%
Constant Currency	43	8.4 %	40	10.2 %	(34)	(9.6)%	49	3.9 %
Foreign currency translation (a)	(19)	(3.7)%	(8)	(2.0)%	(6)	(1.7)%	(33)	(2.6)%
Total change in revenue	24	4.7 %	32	8.1 %	(40)	(11.3)%	16	1.3 %
2022 Revenue	**$ 533**		**$ 425**		**$ 314**		**$ 1,272**	

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

Water Infrastructure

Water Infrastructure revenue increased $24 million, or 4.7%, for the first quarter of 2022 (8.4% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $19 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $43 million. Organic growth for the quarter was driven by strength in both the industrial and utility end markets. The industrial end market had organic growth across all major geographies, with particular strength in western Europe and Latin America. The utilities end market also experienced organic growth led by strength in the U.S. and western Europe, bolstered by strong price realization and solid backlog execution; which was partially offset by weakness in the emerging markets, mostly due to the negative impact of COVID lockdowns in China.

From an application perspective, organic revenue growth for the first quarter was attributable to our transport applications reflecting strong revenue growth in western Europe from strong utility projects as well as dewatering growth and strength in the U.S., where we executed on a strong backlog and experienced solid price realization. Dewatering also had organic growth in emerging markets where Latin America and Africa saw robust mining demand for the dewatering business. The treatment application was essentially flat, as revenue growth from project deliveries in the U.S. and western Europe was offset by the negative impact in China as a result of the COVID lockdown in the last two weeks of the quarter.

Applied Water

Applied Water revenue increased $32 million, or 8.1%, for the first quarter of 2022 (10.2% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $8 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $40 million. Organic growth for the quarter included strength across all three of the applications and end markets in the segment. Organic revenue growth in the first quarter was led by strength in the commercial building services application, particularly in the U.S., where we benefited from strong backlog execution coming into the year, traction from new product launches and strong price realization during the quarter. The industrial water business had strong organic growth in the quarter in the U.S., where we benefited from strong backlog execution and price realization, and in western Europe, driven by strength in the specialty flow control applications (marine and food & beverage) and healthy order intake. The residential building services application also grew organically during the quarter, primarily in the U.S. driven by strong backlog execution and price realization.

Measurement & Control Solutions

Measurement & Control Solutions revenue decreased $40 million, or 11.3%, for the first quarter of 2022 (9.6% decrease on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $6 million of foreign currency translation, with the change at constant currency coming from an organic decline of $32 million and reduced revenue related to divestiture impacts of $2 million. Organic weakness in the quarter was driven by declines in the utility end market across all major geographic regions, primarily driven by component shortages affecting metrology sales. The industrial end market was flat for the quarter.

From an application perspective, organic revenue decline during the quarter was driven by declines in both the energy and water applications, primarily in the U.S., as a result of continued electronic component shortages affecting our smart metering business. Declines in the water applications were slightly offset by modest growth in western Europe from both our test and assessment service businesses.

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 first quarter of 2022 were $1,715 million, an increase of $177 million, or 11.5%, over the prior year (14.1% increase on a constant currency basis). Order intake was negatively impacted by $40 million of foreign currency translation during the quarter. The order increase on a constant currency basis was primarily driven by organic order growth of $223 million, or 14.5%.

The following table illustrates the impact from organic growth, recent divestitures, and foreign currency translation in relation to orders during the three months ended March 31, 2022:

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2021 Orders	$ 611		$ 477		$ 450		$ 1,538	
Organic Growth	73	11.9 %	38	8.0 %	112	24.9 %	223	14.5 %
Divestitures	—	— %	—	— %	(6)	(1.3)%	(6)	(0.4)%
Constant Currency	73	11.9 %	38	8.0 %	106	23.6 %	217	14.1 %
Foreign currency translation (a)	(24)	(3.9)%	(10)	(2.1)%	(6)	(1.3)%	(40)	(2.6)%
Total change in orders	49	8.0 %	28	5.9 %	100	22.2 %	177	11.5 %
2022 Orders	**$ 660**		**$ 505**		**$ 550**		**$ 1,715**	

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

Water Infrastructure

Water Infrastructure segment orders increased $49 million, or 8.0%, to $660 million (11.9% on a constant currency basis) for the first quarter of 2022 as compared to the prior year. Order growth for the quarter was negatively impacted by $24 million of foreign currency translation. Organic orders increased during the quarter as strength in the transport application benefited from strong market demand in North America and strong project orders and healthy demand in western Europe. The emerging markets saw strong dewatering orders from mining demand and order growth in Latin America and Africa, which was offset by the lapping of a large prior year order in India and the COVID lockdown in China towards the end of the quarter. Treatment orders were up modestly for the quarter as well.

Applied Water

Applied Water segment orders increased $28 million, or 5.9%, to $505 million (8.0% increase on a constant currency basis) for the first quarter of 2022 as compared to the prior year. Order growth for the quarter was negatively impacted by $10 million of foreign currency translation. The order increase on a constant currency basis was driven by strength across all major geographic regions. This reflects demand and timing of orders to address longer lead times.

Measurement & Control Solutions

Measurement & Control Solutions segment orders increased $100 million, or 22.2%, to $550 million (23.6% increase on a constant currency basis) for the first quarter of 2022 as compared to the prior year. Order growth for the quarter was negatively impacted by $6 million of foreign currency translation and reduced orders related to divestiture impacts of $6 million. The order increase on a constant currency basis consisted of organic order growth of $112 million, or 24.9%. Organic orders grew in both the energy and water applications, primarily driven by early increased demand for smart metering and advanced ordering to address electronic component shortages and longer lead times. Organic orders for test and assessment service offerings were also up substantially for the quarter.

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 $3,552 million at March 31, 2022, an increase of $1,149 million or 47.8%, as compared to March 31, 2021 backlog of $2,403 million, and an increase of $312 million or 9.6%, as compared to December 31, 2021 backlog of $3,240 million driven by the significant increase in orders across all segments. We anticipate that approximately half of the backlog at March 31, 2022 will be recognized as revenue in the remainder of 2022. There were no significant order cancellations during the quarter.

Gross Margin

Gross margin as a percentage of revenue decreased 230 basis points to 36.7% for the three months ended March 31, 2022, as compared to 39.0% for the comparative 2021 period. The gross margin decrease for the quarter was primarily driven by cost inflation, increased logistics costs, unfavorable mix and increased spending on strategic investments. These impacts were partially offset by price realization and cost reductions from our productivity initiatives.

Operating Expenses

The following table presents operating expenses for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		
(In millions)	**2022**	2021	Change
Selling, general and administrative expenses ("SG&A")	**$ 304**	$ 301	1.0 %
SG&A as a % of revenue	**23.9 %**	24.0 %	(10) bp
Research and development expenses ("R&D")	**52**	50	4.0 %
R&D as a % of revenue	**4.1 %**	4.0 %	10 bp
Restructuring and asset impairment charges	**—**	6	— %
Operating expenses	**$ 356**	$ 357	(0.3) %
Expense to revenue ratio	**28.0 %**	28.4 %	(40) bp

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

SG&A expenses increased by $3 million to $304 million, or 23.9% of revenue, in the first quarter of 2022, as compared to $301 million, or 24.0% of revenue, in the comparable 2021 period. Revenue growth driven by favorable price realization was slightly higher than SG&A increases resulting in a slightly lower SG&A as a percentage of sales. Cost increases were driven by cost inflation partially offset by cost reductions from our productivity and other cost saving initiatives.

Research and Development ("R&D") Expenses

R&D expense was $52 million, or 4.1% of revenue, in the first quarter of 2022, as compared to $50 million, or 4.0% of revenue, in the comparable 2021 period. The increase in R&D as a percent of revenue for the quarter was primarily driven by the Company's continued focus on strategic investments during the year.

Restructuring and Asset Impairment Charges

Restructuring

During the three months ended March 31, 2022, we did not incur restructuring charges. During the three months ended March 31, 2021, we recognized restructuring charges of $5 million of which $4 million relates to actions previously announced in 2020 arising as a result of the COVID-19 pandemic.

The following is a roll-forward for the three months ended March 31, 2022 and 2021 of employee position eliminations associated with restructuring activities:

	2022	2021
Planned reductions - January 1	**60**	319
Additional planned reductions	**—**	57
Actual reductions and reversals	**(25)**	(148)
Planned reductions - March 31	**35**	228

The following table presents expected restructuring spend in 2022 and thereafter:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2021:					
Total expected costs	$ 4	$ —	$ 1	$ —	$ 5
Costs incurred during 2021	3	—	—	—	3
Costs incurred during Q1 2022	—	—	—	—	—
Total expected costs remaining	**$ 1**	**$ —**	**$ 1**	**$ —**	**$ 2**

The Water Infrastructure and Measurement & Control Solutions actions commenced in 2021 consist primarily of severance charges. These actions are expected to continue through the end of 2022.

We currently expect to incur between $10 million and $15 million in restructuring costs for the full year. These restructuring charges are primarily related to efforts to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers.

Operating Income and Adjusted EBITDA

Operating income during the first quarter of 2022 was $111 million, reflecting an decrease of 16.5% compared to $133 million in the first quarter of 2021. Operating margin was 8.7% for the first quarter of 2022 versus 10.6% for the comparable period in 2021, a decrease of 190 basis points. Operating margin benefited from a decrease in restructuring and realignment costs of $4 million as compared to the first quarter of 2021 and a decrease in special charges of $1 million. Excluding the impact of these items, adjusted operating income was $116 million with an adjusted operating margin of 9.1% in the first quarter of 2022 as compared to adjusted operating income of $143 million with an adjusted operating margin of 11.4% in the first quarter of 2021. The decrease in adjusted operating margin was primarily due to cost inflation and increased logistics cost, as well as increased spending on strategic investments. These impacts were partially offset by improved price realization and cost reductions from our productivity and other cost saving initiatives.

Adjusted EBITDA was $181 million (Adjusted EBITDA margin of 14.2%) during the first quarter of 2022, a decrease of $34 million, or 15.8%, when compared to Adjusted EBITDA of $215 million (Adjusted EBITDA margin of 17.1%) during the comparable quarter in prior year. The increase in Adjusted EBITDA margin was primarily due to the same factors impacting operating margin noted above; however, Adjusted EBITDA margin did not benefit from the year over year reduction in depreciation and amortization expense. Additionally, the decline in EBITDA margin reflects a decrease in equity investment earnings.

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

(In millions)	Three Months Ended March 31, 2022	2021	Change
Water Infrastructure			
Operating income	**$ 74**	$ 71	4.2 %
Operating margin	***13.9 %***	*13.9 %*	*— bp*
Restructuring and realignment costs	**1**	5	(80.0) %
Adjusted operating income	**$ 75**	$ 76	(1.3) %
Adjusted operating margin	***14.1 %***	*14.9 %*	*(80) bp*
Applied Water			
Operating income	**$ 59**	$ 66	(10.6) %
Operating margin	***13.9 %***	*16.8 %*	*(290) bp*
Restructuring and realignment costs	**1**	1	— %
Special charges	**—**	1	— %
Adjusted operating income	**$ 60**	$ 68	(11.8) %
Adjusted operating margin	***14.1 %***	*17.3 %*	*(320) bp*
Measurement & Control Solutions			
Operating income (loss)	**$ (10)**	$ 9	(211.1) %
Operating margin	***(3.2)%***	*2.5 %*	*(570) bp*
Restructuring and realignment costs	**2**	2	— %
Special charges	**—**	—	NM
Adjusted operating income (loss)	**$ (8)**	$ 11	(172.7) %
Adjusted operating margin	***(2.5)%***	*3.1 %*	*(560) bp*
Corporate and other			
Operating loss	**$ (12)**	$ (13)	7.7 %
Special charges	**1**	1	— %
Adjusted operating loss	**$ (11)**	$ (12)	(8.3) %
Total Xylem			
Operating income	**$ 111**	$ 133	(16.5) %
Operating margin	***8.7 %***	*10.6 %*	*(190) bp*
Restructuring and realignment costs	**4**	8	(50.0) %
Special charges	**1**	2	(50.0) %
Adjusted operating income	**$ 116**	$ 143	(18.9) %
Adjusted operating margin	***9.1 %***	*11.4 %*	*(230) bp*

NM - Not meaningful percentage change

The table below provides a reconciliation of total and each segment's adjusted EBITDA to Consolidated EBITDA and net income:

	Three Months Ended March 31, 2022
Net Income	**$ 82**
Net Income margin	**6.4 %**
Depreciation	28
Amortization	30
Interest expense, net	11
Income tax expense	16
EBITDA	**$167**

	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$83**	**$63**	**$25**	**$(4)**	**$167**
Restructuring and realignment	1	1	2	0	4
Share-based compensation	1	1	1	6	9
Special charges	0	0	0	2	2
(Gain) loss from sale of business	0	0	(1)	0	(1)
Adjusted EBITDA	**$85**	**$65**	**$27**	**$4**	**$181**
Adjusted EBITDA margin	***15.9 %***	***15.3 %***	***8.6 %***	***NM***	***14.2 %***

* Other includes Regional selling locations, corporate and other items.

	Three Months Ended March 31, 2021
Net Income	**$87**
Net Income margin	**6.9 %**
Depreciation	30
Amortization	32
Interest expense, net	19
Income tax expense	27
EBITDA	**$195**

	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$82**	**$72**	**$44**	**$(3)**	**$195**
Restructuring and realignment	5	1	2	0	8
Share-based compensation	1	1	1	6	9
Special charges	0	1	0	2	3
(Gain) loss from sale of business	0	0	0	0	0
Adjusted EBITDA	**$88**	**$75**	**$47**	**$5**	**$215**
Adjusted EBITDA margin	***17.3 %***	***19.1 %***	***13.3 %***	***NM***	***17.1 %***

* Other includes Regional selling locations, corporate and other items.

2022 versus 2021	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$1**	**$(9)**	**$(19)**	**$(1)**	**$(28)**
Restructuring and realignment	(4)	0	0	0	(4)
Share-based compensation	0	0	0	0	0
Special charges	0	(1)	0	0	(1)
(Gain) loss from sale of business	0	0	(1)	0	(1)
Adjusted EBITDA	**$(3)**	**$(10)**	**$(20)**	**$(1)**	**$(34)**
Adjusted EBITDA margin	***(1.4)%***	***(3.8)%***	***(4.7)%***	***NM***	***(2.9)%***

* Other includes Regional selling locations, corporate and other items.

Water Infrastructure

Operating income for our Water Infrastructure segment increased $3 million, or 4.2%, for the first quarter of 2022 compared to the prior year, with operating margin remaining flat at 13.9%. Operating margin benefited from a decrease in restructuring and realignment costs of $4 million during the quarter. Excluding these restructuring and realignment costs, adjusted operating income decreased $1 million, or 1.3%, with adjusted operating margin decreasing from 14.9% to 14.1%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation, increased spending on strategic investments and unfavorable mix. These items were partially offset by price realization, cost reductions from our productivity initiatives and favorable volume.

Adjusted EBITDA was $85 million (Adjusted EBITDA margin of 15.9%) or the first quarter of 2022, a decrease of $3 million, or 3.4%, when compared to Adjusted EBITDA of $88 million (Adjusted EBITDA margin of 17.3%) during the prior year. The decrease in Adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin.

Applied Water

Operating income for our Applied Water segment decreased $7 million, or 10.6%, for the first quarter of 2022 compared to the prior year, with operating margin decreasing from 16.8% to 13.9%. Operating margin was impacted by restructuring and realignment costs of $1 million in both years and a decrease of special charges of $1 million in the first quarter of 2022. Excluding these items, adjusted operating income decreased $8 million, or 11.8%, with adjusted operating margin decreasing from 17.3% to 14.1%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation and increased logistics costs, as well as spending on strategic investments. These impacts were partially offset by price realization and cost reductions from our productivity initiatives.

Adjusted EBITDA was $65 million (Adjusted EBITDA margin of 15.3%) for the first quarter of 2022, a decrease of $10 million, or 13.3%, when compared to Adjusted EBITDA of $75 million (Adjusted EBITDA margin of 19.1%) during the prior year. The decrease in Adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin; however, adjusted EBITDA margin did not benefit from the year over year reduction in depreciation and amortization expense.

Measurement & Control Solutions

Operating income for our Measurement & Control Solutions segment decreased $19 million, or 211.1%, for the first quarter of 2022 compared to the prior year, with operating margin decreasing from 2.5% to (3.2)%. Operating margin was negatively impacted by restructuring and realignment costs of $2 million in both years. Excluding these items, adjusted operating income decreased $19 million, or 172.8%, with adjusted operating margin decreasing from 3.1% to (2.5)%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation, unfavorable volume and unfavorable mix. These impacts were partially offset by price realization and increased cost reductions from our restructuring, productivity and other cost saving initiatives.

Adjusted EBITDA was $27 million (Adjusted EBITDA margin of 8.6%) for the first quarter of 2022, a decrease of $20 million, or 42.6%, when compared to Adjusted EBITDA of $47 million (Adjusted EBITDA margin of 13.3%) during the prior year. The decrease in Adjusted EBITDA margin was due to the same factors as those impacting the increase in adjusted operating margin; however, Adjusted EBITDA margin was not as negatively impacted as adjusted operating margin from the year over year increase in depreciation and amortization expense as a percentage of revenue.

Corporate and other

Operating loss for corporate and other decreased $1 million, or 7.7%, during the first quarter of 2022 compared to the prior year period primarily due to timing of employee related costs.

Interest Expense

Interest expense was $13 million and $21 million for the three months ended March 31, 2022 and 2021, respectively. The decrease in interest expense is primarily driven by interest expense that was incurred in the first quarter of 2021 related to our senior note that was fully paid off in October 2021. See Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt and related interest.

Income Tax Expense

The income tax provision for the three months ended March 31, 2022 was $16 million resulting in an effective tax rate of 16.4%, compared to a $27 million expense resulting in an effective tax rate of 23.3% for the same period in 2021. The effective tax rate for the three-month period ended March 31, 2022 differs from the same period in 2021 due to the impact of tax settlement benefits in the current period as compared to tax settlement expenses in the prior year.

Liquidity and Capital Resources

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

	Three Months Ended March 31,		
(In millions)	**2022**	2021	Change
Operating activities	**$ (81)**	$ (26)	$ (55)
Investing activities	**(43)**	(31)	(12)
Financing activities	**(106)**	(115)	9
Foreign exchange (a)	**(2)**	(15)	13
Total	**$ (232)**	$ (187)	$ (45)

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

Sources and Uses of Liquidity

Operating Activities

Net cash used by operating activities was $81 million for the three months ended March 31, 2022 as compared to $26 million in the comparable prior year period. The increase in usage was primarily driven by higher working capital levels, reflecting increased safety stock and higher advanced payments to suppliers to mitigate supply chain volatility, and increased employee benefit payments. The items were partially offset by lower tax and interest payments.

Investing Activities

Cash used in investing activities was $43 million for the three months ended March 31, 2022 as compared to $31 million in the comparable prior year period. This increase in cash used of $12 million was mainly driven by higher spending on capital expenditures compared to the prior year.

Financing Activities

Cash used by financing activities during the three months ended March 31, 2022 and 2021 was $106 million and $115 million, respectively. This decrease in cash used was primarily driven by a decrease in share repurchase activity partially offset by higher dividend payments in the first quarter of 2022.

Funding and Liquidity Strategy

Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations and access to bank financing and the capital markets. As a result of uncertainties caused both directly and indirectly by the COVID-19 pandemic, we continue to evaluate aspects of our spending, including capital expenditures, strategic investments and dividends.

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

We monitor our global funding requirements and seek to meet our liquidity needs on a cost-effective basis.

Based on our current global cash positions, cash flows from operations and access to the capital markets, we believe there is sufficient liquidity to meet our funding requirements and service debt and other obligations in both the U.S. and outside of the U.S. during the year. In addition, we believe our existing committed credit facilities and access to the public debt markets would provide further liquidity if required. Currently, we have available liquidity of approximately $1.9 billion, consisting of $1.1 billion of cash and $800 million of available credit facilities as disclosed in Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements. On

October 1, 2021 our Senior Notes due 2021 were settled with cash on hand for a total of $600 million. Our next long-term debt maturity is March 2023.

Risks related to these items are described in our risk factor disclosures referenced under “Item 1A. Risk Factors" in our 2021 Annual Report.

Credit Facilities & Long-Term Contractual Commitments

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

Non-U.S. Operations

We generated approximately 55% and 56% of our revenue from non-U.S. operations for the three months ended March 31, 2022 and 2021, respectively. As we continue to grow our operations in the emerging markets and elsewhere outside of the U.S., we expect to continue to generate significant revenue from non-U.S. operations and expect that a substantial portion of our cash will be predominately held by our foreign subsidiaries. We expect to manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the U.S. and other international subsidiaries when we believe it is cost-effective to do so. We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities, and reassess whether there is a need to repatriate funds held internationally to support our U.S. operations. As of March 31, 2022, we have provided a deferred tax liability of $5 million for net foreign withholding taxes and state income taxes on $475 million of earnings expected to be repatriated to the U.S. parent as deemed necessary in the future.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and capital resources are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain, particularly at this time and moving forward given the uncertainty around the magnitude and duration of the COVID-19 pandemic. Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 2021 Annual Report describes the critical accounting estimates used in preparation of the condensed consolidated financial statements. Actual results in these areas could differ from management’s estimates. Other than as discussed below, there have been no significant changes in the information concerning our critical accounting estimates as stated in our 2021 Annual Report.

The risks and potential impacts of COVID-19 on the fair value of our assets are included in our risk factor disclosures referenced under “Item 1A. Risk Factors" in the Company's 2021 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 2021 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in "Item 1A. Risk Factors" of our 2021 Annual Report.

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

The following table presents information with respect to purchases of the Company's common stock by the Company during the three months ended March 31, 2022:

(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)
1/1/22 - 1/31/22	—	—	—	**$228**
2/1/22 - 2/28/22	0.5	91.23	0.5	**$182**
3/1/22 - 3/31/22	—	—	—	**$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. For the three months ended March 31, 2022, we repurchased 0.5 million shares for $45 million. There are up to $182 million in shares that may still be purchased under this plan as of March 31, 2022.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

XYLEM INC.
EXHIBIT INDEX

Exhibit Number	Description	Location
3.1	Fourth Amended and Restated Articles of Incorporation of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
3.2	Fourth Amended and Restated By-laws of Xylem Inc.	Incorporated by reference to Exhibit 3.2 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
10.1	Form of 2011 Omnibus Incentive Plan Performance Share Unit Agreement (2022).	Filed herewith.
10.2	Form of 2011 Omnibus Incentive Plan Restricted Stock Unit Agreement (2022).	Filed herewith.
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
101.0	The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022, 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 March 31, 2022 formatted in Inline XBRL and contained in Exhibit 101.0.	

SIGNATURES

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

XYLEM INC.
(Registrant)

/s/ Geri McShane

Geri McShane
Vice President, Controller and Chief Accounting Officer

May 4, 2022

XYLEM
2011 OMNIBUS INCENTIVE PLAN

2022 PERFORMANCE SHARE UNIT AGREEMENT

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

1. **Grant of Performance Share Units**. The Company confirms the grant on **###GRANT_DATE###** (the "**Grant Date**") to the Participant, the target number of **###TOTAL_AWARDS###** Performance Share Units ("**PSUs**"). All PSUs granted under this agreement are intended to be Performance Based Awards. The PSUs are notional units of measurement denominated in shares of common stock (*i.e.*, one Performance Share Unit is equivalent in value to one share of common stock of the Company).

   The PSUs represent an unfunded, unsecured right to receive shares and dividend equivalent payments in the future if the conditions in the Plan and this Agreement are satisfied.

   Nature of the Grant:

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

   b. The Participant is voluntarily participating in the Plan;

   c. The PSUs and the shares subject to the PSUs, are not part of normal or expected compensation for any purpose, including for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, pension or retirement or welfare benefits or similar payments;

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

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

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

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

   a. **Restrictions**. Except as otherwise provided in the Plan and this Agreement, the PSUs cannot be sold, assigned, pledged, exchanged, transferred, hypothecated or encumbered, other than to the Company as a result of forfeiture.

   b. **Voting and Dividend Equivalent Rights**. The Participant will not have any privileges of a stockholder of the Company with respect to the PSUs, including without limitation any right to vote such shares or to receive dividends, unless and until shares are delivered to the Participant on the vesting of the PSUs. Dividend equivalents will be earned for each PSU that vests and the amount will equal the total dividends declared on a share, where the record date of the dividend is between the Grant Date of this Award and the date a share is issued on vesting of the PSU. Any dividend equivalents earned will be paid in cash to the Participant as and when the shares subject to the vested PSUs are issued. No dividend equivalents will be earned or paid with respect to any portion of the PSUs that are not earned and/or do not vest. Dividend equivalents will not accrue interest.

c. **Earning of PSUs.** The Participant can earn between 0% and 175% of the target number of PSUs granted under this Agreement, with vesting to be based on the achievement of a 3-year average Xylem adjusted operational Return on Invested Capital ("**ROIC**") performance target, a 3-year Xylem Revenue performance target, and a 3-year Xylem Total Shareholder Return ("**TSR**") relative to companies in the S&P 500 index (excluding Financial Services companies) pursuant to the performance scales set forth on Exhibit A, by the end of the 3-year performance period covering fiscal years 2022-2024 (the **"Performance Period"**). The Committee will determine and certify the results of the level of achievement against such targets and the associated number of PSUs earned as described in Exhibit A.

Vesting and Payment. Any earned PSUs will vest on **March 1, 2025** (the **"Vesting Date"**) so long as the Participant has been actively employed by the Company or an Affiliate from the Grant Date through the Vesting Date. Active employment does not include any potential severance period.

Except as provided in subsection 2(h), on vesting of the PSUs, including vesting pursuant to subsections 2(d) or 2(e), the Company will deliver to the Participant (i) one share for each vested PSU, with any fractional shares resulting from proration pursuant to subsection 2(d) and 2(e) to be rounded to the nearest whole share, and (ii) an amount in cash attributable to dividend equivalents earned in accordance with subsection 2(b), less shares withheld in accordance with subsection 2(f).

d. **Effect of Change in Control.** In the event of a Change in Control prior to the end of the Performance Period, if the acquiring or surviving company in the transaction assumes or continues any then-outstanding PSUs, any unvested PSUs will be deemed to have satisfied all applicable performance targets at the target level (i.e. 100%), and will be converted to service-based restricted stock units, which will continue to vest based on the PSUs' service-based vesting criteria until the Vesting Date.

If the Participant's active employment with the Company or an Affiliate is terminated by the Company or an Affiliate without Cause or by the Participant for Good Reason (for applicable Participants only) within 2 years of a Change in Control, any converted and any unvested PSUs will become 100% vested on the termination date.

If the acquiring or surviving company in the transaction does not assume or continue outstanding awards under the Plan, immediately prior to the Change in Control, any unvested PSUs will become 100% vested based on deemed performance at the target level (i.e. 100%).

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

"**Good Reason**" means, without the Participant's express written consent (i) a reduction in annual target total cash compensation (base salary and target bonus), (ii) the assignment of any duties inconsistent in any material adverse respect with the Participant's position, authority, duties or responsibilities, (iii) any other action by the Company or an Affiliate which results in a material diminution in such position, authority, duties or responsibilities; or (iv) the Company or an Affiliate requiring the Participant to relocate to a work location 50 miles or more from the location where the Participant was principally working immediately prior to the Change in Control. The Participant must give notice within 90 days of any Good Reason event.

Good Reason only applies to Company or Affiliate employees who are at the time of termination of employment, or were at any time during the 2 year period immediately preceding the Change in Control, covered by the Xylem Special Senior Executive Severance Pay Plan or the Xylem Enhanced Severance Pay Plan and will exclude an isolated, insubstantial and inadvertent action not taken in bad faith that is resolved by the Company or an Affiliate within 30 days of receiving notice.

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

   i. Termination due to Death, Disability, or Retirement. A prorated portion (as described below) of the unvested PSUs will remain outstanding and therefore continue to be eligible to vest based on actual Company performance during the Performance Period. A prorated portion (as described below) of the earned PSUs will be paid out on the Vesting Date.

   ii. Termination other than for Death, Disability, or Retirement. All PSUs will automatically be forfeited.

"**Disability**" means the complete and permanent inability of the Participant to perform all duties under the terms of his, her or their employment, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

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

Prorated Vesting. The prorated portion of the PSUs that vests on the Vesting Date following the Participant's Death, Disability or Retirement (or while Retirement Eligible) will be determined by multiplying the total number of PSUs the Participant would have earned based on actual performance by a fraction, of which the numerator is the number of months (not to exceed 36) the Participant had been continually employed since the beginning of the Performance Period until his, her or their Death, Disability or Retirement and the denominator is 36.

f. **Tax Withholding.** The Company may make such provisions and take such actions as it may deem necessary for the withholding of all applicable taxes attributable to the PSUs and any related dividend equivalents. Unless the Committee determines otherwise, the minimum statutory tax withholding required to be withheld on delivery of the shares (or such other amount that will not cause an adverse accounting consequence or cost) and payment of dividend equivalents will be satisfied by withholding a number of shares having an aggregate Fair Market Value equal to the minimum statutory tax required to be withheld (or such other amount that will not cause an adverse accounting consequence or cost). If this withholding would result in a fractional share being withheld, the number of shares withheld will be rounded up to the nearest whole share. If FICA taxes are required to be withheld while the PSUs are outstanding, the withholding will be made in a manner determined by the Company.

g. **Participant Acknowledgements.** The Participant acknowledges and agrees that:

i. Participant Obligations. In partial consideration for the award of these PSUs, if at any time during the period between the Grant Date and the 12-month period following the Participant's termination of Employment (the "Obligation Period"), the Participant: (i) directly or indirectly, hires or solicits or arranges for the hiring or solicitation of any employee of the Company or its Affiliates, or encourages any employee to leave the Company or an Affiliate; (ii) directly or indirectly, assist in soliciting in competition with the Company the business of any current customer, distributor or dealer or other sales or distribution channel partners of the Company; (iii) uses, discloses, misappropriates or transfers confidential or proprietary information concerning the Company or its Affiliates (except as required by the Participant's work responsibilities with the Company or its Affiliates); or (iv) engages in any activity in violation of Company policies, including the Company's Code of Conduct, or engages in conduct materially adverse to the best interests of the Company or its Affiliates; the PSUs, whether previously vested or not, may be cancelled in full, and the Participant may be required to return to the Company any shares received on settlement of vested PSUs or the net after-tax income from any disposition of any shares received upon settlement of vested PSUs, unless the Committee, in its sole discretion, elects not to cancel the PSUs and/or elects not to recover any income from settled and vested PSUs or unless applicable law prohibits such action.

   The obligations in this subsection are in addition to any other agreements related to non-solicitation and preservation of Company confidential and proprietary information entered into between the Participant and the Company, or otherwise applicable to the Participant, and nothing in this Agreement is intended to waive, modify, alter or amend the terms of any such other agreement. THE PARTICIPANT UNDERSTANDS THAT THIS SUBSECTION IS NOT INTENDED TO AND DOES NOT PROHIBIT THE CONDUCT DESCRIBED, BUT PROVIDES FOR THE CANCELLATION OF THE AWARD IN FULL AND A RETURN TO THE COMPANY OF ANY SHARES RECEIVED ON SETTLEMENT OF VESTED PSUS OR THE NET AFTER-TAX INCOME FROM THE DISPOSITION OF ANY SHARES RECEIVED UPON SETTLEMENT OF VESTED PSUS IF THE PARTICIPANT SHOULD CHOOSE TO VIOLATE THIS PARAGRAPH DURING THE OBLIGATION PERIOD. Nothing in this Agreement prohibits the Participant from voluntarily communicating, without notice to or approval by the Company, with any federal government agency about a potential violation of a federal law or regulation.

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

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

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

v. Stock Ownership Guidelines. If the Participant is or becomes subject to the Company's Stock Ownership Guidelines and applicable retention requirements, the Participant may be limited in selling shares obtained upon settlement of the PSUs.

vi. Clawback Policy. If the Participant is covered by the Company's Clawback Policy, the Participant agrees that the PSUs are subject to the Policy and may be subject to recovery (in whole or in part) by the Company. The Participant agrees that the Clawback Policy may be amended from time to time by the Committee, including amendments to comply with applicable laws, regulations or stock exchange listing requirements.

h. Section 409A Compliance. It is intended that the Plan and this Agreement comply with the requirements of Section 409A to the extent applicable and the Plan and this Agreement will be interpreted accordingly.

i. If it is determined that all or a portion of the Award constitutes deferred compensation for the purposes of Section 409A, and if the Participant is a "specified employee," as defined in Section 409A(a)(2)(B)(i) of the Code, at the time of the Participant's separation from service, then, to the extent required under Section 409A, any shares that would otherwise be distributed (along with the cash value of all dividend equivalents that would be payable) on the Participant's separation from service, will instead be delivered (and, in the case of the dividend equivalents, paid) on the earlier of (x) the first business day of the seventh month following the date of the Participant's separation from service or (y) the Participant's death.

ii. If it is determined that all or a portion of the Award constitutes deferred compensation for the purposes of Section 409A, upon an Change in Control that does not constitute a "change in the ownership" or a "change in the effective control" of the Company or a "change in the ownership of a substantial portion of a corporation's assets" (as those terms are used in Section 409A), the PSUs will vest at the time of the Change in Control, but distribution of any PSUs (or related dividend equivalents) that constitute deferred compensation for the purposes of Section 409A will not be accelerated (i.e., distribution will occur when it would have occurred absent the Change in Control).

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

By signing a copy of this Agreement, the Participant acknowledges that s/he has received a copy of the Plan and that s/he has read and understands the Plan and this Agreement and agrees to their terms and conditions.

Agreed to: **XYLEM INC.**

______________________________ _________________________

Participant **[Name of Xylem Signatory]**

(Online Acceptance Constitutes Agreement)

Dated: __________________ Dated: **###GRANT_DATE###**

Enclosures

<u>2022-2024 Performance Targets and Payout Scale</u>

The payout scale for performance metrics below provides for PSUs to be earned above 100% for above target performance and below 100% for below target performance.

<u>Revenue (25%)</u> <u>Adjusted Operational ROIC (25%)</u> <u>Relative TSR* (50%)</u>

	Revenue 3-Year % of Plan	Payout%
Maximum Payout	**x%**	**x%**
	x%	x%
Above Plan	x%	x%
	x%	x%
	x%	x%
Plan/Target	**x%**	**x%**
	x%	x%
	x%	x%
Below Plan	x%	x%
	x%	x%
Threshold	**x%**	**x%**
Below Threshold	x%	0%

	ROIC 3-Year Average %	Payout%
Maximum Payout	**x%**	**x%**
	x%	x%
Above Plan	x%	x%
	x%	x%
	x%	x%
Plan/Target	**x%**	**x%**
	x%	x%
	x%	x%
Below Plan	x%	x%
	x%	x%
Threshold	**x%**	**x%**
Below Threshold	x%	0%

	TSR 3-Year %ile Rank	Payout%
Maximum Payout	**xth**	**x%**
	xth	x%
Above Plan	xth	x%
	xth	x%
	xth	x%
Plan/Target	**xth**	**x%**
	xth	x%
	xth	x%
Below Plan	xth	x%
	xth	x%
Threshold	**xth**	**x%**
Below Threshold	**<xth**	**0%**

Results are interpolated between threshold and the bottom end of the target range, and between the top end of the target range and maximum.

**Measured against S&P 500 less Financial Services companies. Payout capped at target if Xylem's 3-year TSR is negative.*

XYLEM
2011 OMNIBUS INCENTIVE PLAN

2022 RESTRICTED STOCK UNIT AGREEMENT

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

1. **Grant of Restricted Stock Units**. The Company hereby confirms the grant on **###GRANT_DATE###** (the "**Grant Date**") to the Participant of **###TOTAL_AWARDS###** Restricted Stock Units ("**RSUs**"). The RSUs are notional units of measurement denominated in shares of common stock (*i.e*., one Restricted Stock Unit is equivalent in value to one share of common stock of the Company). The RSUs represent an unfunded, unsecured right to receive shares and dividend equivalent payments in the future if the conditions in the Plan and this Agreement are satisfied.

Nature of the Grant:

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

b. The Participant is voluntarily participating in the Plan;

c. The RSUs and the shares subject to the RSUs, are not part of normal or expected compensation for any purpose, including for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, pension or retirement or welfare benefits or similar payments;

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

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

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

2. **Terms and Conditions**. It is understood and agreed that the RSUs are subject to the following terms and conditions.

a. **Restrictions**. Except as otherwise provided in the Plan and this Agreement, neither this Award nor any RSUs subject to this Award may be sold, assigned, pledged, exchanged, transferred, hypothecated or encumbered, other than to the Company as a result of forfeiture of the RSUs.

b. **Voting and Dividend Equivalent Rights.** The Participant will not have any privileges of a stockholder of the Company with respect to the RSUs or any shares that may be delivered under this Agreement, including without limitation any right to vote the shares or to receive dividends, unless and until the shares are delivered on vesting of the RSUs. Dividend equivalents will be earned with respect to each RSU that vests and the amount will be equal to the total dividends declared on a share, where the record date of the dividend is between the Grant Date of this Award and the date a share is issued on vesting of the RSU. Any dividend equivalents earned will be paid in cash to the Participant when the shares subject to the vested RSUs are issued. No dividend equivalents will be earned or paid with respect to any portion of the RSUs that do not vest. Dividend equivalents will not accrue interest.

c. **Vesting and Payment**. RSUs will vest as long as the Participant has been actively employed by the Company or an Affiliate from the Grant Date through the vesting date. Active employment does not include any potential severance period. The RSUs will vest in 3 installments as follows:

- 1/3rd of the RSUs will vest on March 1, 2023**,**
- 1/3rd of the RSUs will vest March 1, 2024, and
- 1/3rd of the RSUs will vest March 1, 2025.

March 1, 2022, March 1, 2023, and March 1, 2024 are the respective **"Vest Period Start Date"** for each of the 3 installments.

Except as provided in subsection 2(i), on vesting of the RSUs, including vesting pursuant to subsections 2(d) or 2(e), the Company will deliver to the Participant (i) one share for each vested RSU, with any fractional shares resulting from proration pursuant to subsection 2(e), if applicable, to be rounded to the nearest whole share, and (ii) an amount in cash attributable to dividend equivalents earned in accordance with subsection 2(b), less shares withheld in accordance with subsection 2(f).

d. **Effect of Change in control.** In the event of a Change in Control prior to the end of the vesting date, if the acquiring or surviving company in the transaction assumes or continues any then-outstanding RSUs under the Plan, any unvested RSUs will continue to vest based on the RSUs' service-based vesting criteria until the vesting date.

If the Participant's active employment with the Company or an Affiliate is terminated by the Company or an Affiliate without Cause or by the Participant for Good Reason (for applicable Participants only) within 2 years of a Change in Control, any assumed unvested RSUs will become 100% vested on the termination date. If the acquiring or surviving company in the transaction does not assume or continue outstanding awards under the Plan, immediately prior to the Change in Control any unvested RSUs will become 100% vested.

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

"**Good Reason**" means, without the Participant's express written consent (i) a reduction in annual target total cash compensation (base salary and target bonus), (ii) the assignment of any duties inconsistent in any material adverse respect with the Participant's position, authority, duties or responsibilities, (iii) any other action by the Company or an Affiliate which results in a material diminution in such position, authority, duties or responsibilities; or (iv) the Company or an Affiliate requiring the Participant to relocate to a work location 50 miles or more from the location where the Participant was principally working immediately prior to the Change in Control. The Participant must give notice within 90 days of any Good Reason event.

Good Reason only applies to Company or Affiliate employees who are at the time of termination of employment, or were at any time during the 2 year period immediately preceding the Change in Control, covered by the Xylem Special Senior Executive Severance Pay Plan or the Xylem Enhanced Severance Pay Plan and will exclude an isolated, insubstantial and inadvertent action not taken in bad faith that is resolved by the Company or an Affiliate within 30 days of receiving notice.

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

   i. Termination due to Death or Disability. Any unvested RSUs will immediately become 100% vested.

   ii. Termination due to Retirement or while Retirement Eligible. A prorated portion (as described below) of unvested RSUs with a vesting date within 12 months of termination shall immediately vest on the Participant's termination of employment. All other unvested RSUs will automatically be forfeited.

   iii. Termination other than for Death, Disability and Retirement. All unvested RSUs will automatically be forfeited.

"**Disability**" means the complete and permanent inability of the Participant to perform all duties under the terms of his, her or their employment, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

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

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

f. **Tax Withholding.** The Company may make such provisions and take such actions as it may deem necessary for the withholding of all applicable taxes attributable to the RSUs and any related dividend equivalents. Unless the Committee determines otherwise, the minimum statutory tax withholding required to be withheld upon delivery of the shares (or such other amount that will not cause an adverse accounting consequence or cost) and payment of dividend equivalents will be satisfied by withholding a number of shares having an aggregate Fair Market Value equal to the minimum statutory tax required to be withheld (or such other amount that will not cause an adverse accounting consequence or cost). If this withholding would result in a fractional share being withheld, the number of shares withheld will be rounded up to the nearest whole share. If FICA taxes are required to be withheld while the RSUs are outstanding, the withholding will be made in a manner determined by the Company.

g. **Participant Acknowledgements.** The Participant acknowledges and agrees that:

   i. Participant Obligations. In partial consideration for the award of these RSUs, if at any time during the period between the Grant Date and the 12-month period following the Participant's termination of Employment (the "Obligation Period"), the Participant: (i) directly or indirectly, hires or solicits or arranges for the hiring or solicitation of any employee or customer of the Company or its Affiliates, or encourages any employee to leave the Company or an Affiliate; (ii) directly or indirectly, assist in soliciting in competition with the Company the business of any current customer, distributor or dealer or other sales or distribution channel partners of the Company; (iii) uses, discloses, misappropriates or transfers confidential or proprietary information concerning the Company or its Affiliates (except as required by the Participant's work responsibilities with the Company or its Affiliates); or (iv) engages in any activity in violation of Company policies, including the Company's Code of Conduct, or engages in conduct materially adverse to the best interests of the Company or its Affiliates; the RSUs, whether previously vested or not, may be cancelled in full, and the Participant may be required to return to the Company any shares received on settlement of vested RSUs or the net after-tax income from the disposition of any shares received upon settlement of vested RSUs, unless the Committee, in its sole discretion, elects not to cancel the RSUs and/or elects not to recover any income from settled RSUs or unless applicable law prohibits such action.

The obligations in this subsection are in addition to any other agreements related to non-solicitation and preservation of Company confidential and proprietary information entered into between the Participant and the Company, or otherwise applicable to the Participant, and nothing in this Agreement is intended to waive, modify, alter or amend the terms of any such other agreement. THE PARTICIPANT UNDERSTANDS THAT THIS SUBSECTION IS NOT INTENDED TO AND DOES NOT PROHIBIT THE CONDUCT DESCRIBED, BUT PROVIDES FOR THE CANCELLATION OF THE AWARDS IN FULL AND A RETURN TO THE COMPANY OF ANY SHARES RECEIVED UPON SETTLEMENT OF VESTED RSUS OR THE NET AFTER-TAX INCOME FROM THE DISPOSITION OF ANY SHARES RECEIVED UPON SETTLEMENT OF VESTED RSUS IF THE PARTICIPANT SHOULD CHOOSE TO VIOLATE THIS SUBSECTION DURING THE OBLIGATION PERIOD. Nothing in this Agreement prohibits the Participant from voluntarily communicating, without notice to or approval by the Company, with any federal government agency about a potential violation of a federal law or regulation.

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

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

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

v. Stock Ownership Guidelines. If the Participant is or becomes subject to the Company's Stock Ownership Guidelines and applicable retention requirements, the Participant may be limited in selling shares obtained upon settlement of the RSUs.

vi. Clawback Policy. If the Participant is covered by the Company's Clawback Policy, the Participant agrees that the RSUs are subject to the Policy and may be subject to recovery (in whole or in part) by the Company. The Participant agrees that the Clawback Policy may be amended from time to time by the Committee, including amendments to comply with applicable laws, regulations or stock exchange listing requirements.

h. **Section 409A Compliance.** It is intended that the Plan and this Agreement comply with the requirements of Section 409A to the extent applicable, and the Plan and this Agreement shall be interpreted accordingly.

i. If it is determined that all or a portion of the Award constitutes deferred compensation for the purposes of Section 409A, and if the Participant is a "specified employee," as defined in Section 409A(a)(2)(B)(i) of the Code, at the time of the Participant 's separation from service, then, to the extent required under Section 409A, any shares that would otherwise be distributed (along with the cash value of all dividend equivalents that would be payable) upon the Participant 's separation from service, shall instead be delivered (and, in the case of the dividend equivalents, paid) on the earlier of (x) the first business day of the seventh month following the date of the Participant 's separation from service or (y) the Participant 's death.

ii. If it is determined that all or a portion of the Award constitutes deferred compensation for the purposes of Section 409A, upon an Change in Control that does not constitute a "change in the ownership" or a "change in the effective control" of the Company or a "change in the ownership of a substantial portion of a corporation's assets" (as those terms are used in Section 409A), the RSUs will vest at the time of the Change in Control, but distribution of any RSUs (or related dividend equivalents) that constitute deferred compensation for the purposes of Section 409A will not be accelerated (*i.e*., distribution will occur when it would have occurred absent the Change in Control).

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

By signing a copy of this Agreement, the Participant acknowledges that s/he has received a copy of the Plan and that s/he has read and understands the Plan and this Agreement and agrees to their terms and conditions.

Agreed to: **XYLEM INC.**

______________________________ ______________________________
Participant **[Name of Xylem Signatory]**

(Online Acceptance Constitutes Agreement)

Dated: _________________ Dated: **###GRANT_DATE###**

Enclosures

EXHIBIT 31.1

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

I, Patrick K. Decker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended March 31, 2022;
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: May 4, 2022

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 March 31, 2022;
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: May 4, 2022

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 March 31, 2022 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
May 4, 2022

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 March 31, 2022 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
May 4, 2022

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.