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, 2020

or

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

For the transition period from to

Commission file number: 1-35229

Xylem Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

As of May 1, 2020, there were 179,915,293 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,	**2020**	2019
Revenue	**$ 1,123**	$ 1,237
Cost of revenue	**714**	763
Gross profit	**409**	474
Selling, general and administrative expenses	**297**	303
Research and development expenses	**49**	51
Restructuring and asset impairment charges	**2**	11
Operating income	**61**	109
Interest expense	**16**	18
Other non-operating (expense) income, net	**(3)**	2
Gain from sale of business	**—**	1
Income before taxes	**42**	94
Income tax expense	**4**	15
Net income	**$ 38**	$ 79
Earnings per share:		
Basic	**$ 0.21**	$ 0.44
Diluted	**$ 0.21**	$ 0.43
Weighted average number of shares:		
Basic	**180.2**	179.7
Diluted	**181.3**	181.1

See accompanying notes to condensed consolidated financial statements.

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

For the three months ended March 31,	**2020**	2019
Net income	**$ 38**	$ 79
Other comprehensive (loss) income, before tax:		
Foreign currency translation adjustment	**(78)**	29
Net change in derivative hedge agreements:		
Unrealized loss	**(2)**	(9)
Amount of loss reclassified into net income	**3**	2
Net change in postretirement benefit plans:		
Amortization of prior service credit	**(1)**	(1)
Amortization of net actuarial loss into net income	**5**	3
Other comprehensive (loss) income, before tax	**(73)**	24
Income tax expense related to items of other comprehensive (loss) income	**14**	4
Other comprehensive (loss) income, net of tax	**(87)**	20
Comprehensive (loss) income	**$ (49)**	$ 99
Less: comprehensive loss attributable to noncontrolling interests	**(1)**	—
Comprehensive (loss) income attributable to Xylem	**$ (48)**	$ 99

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, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 739**	$ 724
Receivables, less allowances for discounts, returns and doubtful accounts of $29 and $35 in 2020 and 2019, respectively	**975**	1,036
Inventories	**573**	539
Prepaid and other current assets	**175**	151
Total current assets	**2,462**	2,450
Property, plant and equipment, net	**628**	658
Goodwill	**2,790**	2,839
Other intangible assets, net	**1,141**	1,174
Other non-current assets	**570**	589
Total assets	**$ 7,591**	$ 7,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 506**	$ 597
Accrued and other current liabilities	**619**	628
Short-term borrowings and current maturities of long-term debt	**459**	276
Total current liabilities	**1,584**	1,501
Long-term debt	**2,031**	2,040
Accrued postretirement benefits	**433**	445
Deferred income tax liabilities	**315**	310
Other non-current accrued liabilities	**407**	447
Total liabilities	**4,770**	4,743
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Common Stock – par value $0.01 per share:		
Authorized 750.0 shares, issued 194.4 shares and 193.9 shares in 2020 and 2019, respectively	**2**	2
Capital in excess of par value	**2,004**	1,991
Retained earnings	**1,854**	1,866
Treasury stock – at cost 14.5 shares and 13.7 shares in 2020 and 2019, respectively	**(587)**	(527)
Accumulated other comprehensive loss	**(461)**	(375)
Total stockholders' equity	**2,812**	2,957
Non-controlling interests	**9**	10
Total equity	**2,821**	2,967
Total liabilities and stockholders' equity	**$ 7,591**	$ 7,710

See accompanying notes to condensed consolidated financial statements.

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

For the three months ended March 31,	**2020**	2019
Operating Activities		
Net income	**$ 38**	$ 79
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**29**	29
Amortization	**35**	35
Share-based compensation	**8**	9
Restructuring and asset impairment charges	**2**	11
Gain from sale of business	**—**	(1)
Other, net	**4**	1
Payments for restructuring	**(8)**	(4)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	**23**	7
Changes in inventories	**(54)**	(25)
Changes in accounts payable	**(68)**	(17)
Other, net	**(11)**	(41)
Net Cash – Operating activities	**(2)**	83
Investing Activities		
Capital expenditures	**(51)**	(69)
Acquisitions of businesses, net of cash acquired	**—**	(5)
Other, net	**3**	(3)
Net Cash – Investing activities	**(48)**	(77)
Financing Activities		
Short-term debt issued, net	**193**	50
Short-term debt repaid	**(3)**	—
Repurchase of common stock	**(60)**	(39)
Proceeds from exercise of employee stock options	**5**	4
Dividends paid	**(48)**	(44)
Net Cash – Financing activities	**87**	(29)
Effect of exchange rate changes on cash	**(22)**	2
Net change in cash and cash equivalents	**15**	(21)
Cash and cash equivalents at beginning of year	**724**	296
Cash and cash equivalents at end of period	**$ 739**	$ 275
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ 12**	$ 13
Income taxes (net of refunds received)	**$ 8**	$ 18

See accompanying notes to condensed consolidated financial statements.

Note 1. Background and Basis of Presentation

Background

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

Xylem operates in three segments, Water Infrastructure, Applied Water and Measurement & Control Solutions. See Note 19, "Segment Information", to the condensed consolidated financial statements for further segment background information.

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

Basis of Presentation

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

The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) considered necessary for a fair statement of the financial position and results of operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2019 ("2019 Annual Report") in preparing these unaudited condensed consolidated financial statements, with the exception of accounting standard updates described in Note 2. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes included in our 2019 Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are revised as additional information becomes available. Estimates and assumptions are used for, but not limited to, postretirement obligations and assets, revenue recognition, income tax contingency accruals and valuation allowances, goodwill and indefinite lived intangible impairment testing, contingent liabilities and lease accounting. Actual results could differ from these estimates.

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

Note 2. Recently Issued Accounting Pronouncements

Recently Adopted Pronouncements

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

Note 3. Acquisitions and Divestitures

Acquisitions

During the three months ended March 31, 2020 and 2019 we spent approximately $0 million and $5 million, net of cash received on acquisition activity, respectively.

Note 4. Revenue

Disaggregation of Revenue

The following table illustrates the sources of revenue:

(in millions)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Revenue from contracts with customers	**$ 1,074**	$ 1,178
Lease Revenue	**49**	59
Total	**$ 1,123**	$ 1,237

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

(in millions)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Water Infrastructure		
Transport	**$ 318**	$ 346
Treatment	**71**	77
Applied Water		
Building Services	**187**	213
Industrial Water	**151**	166
Measurement & Control Solutions		
Water	**183**	199
Energy	**72**	73
Software as a Service	**21**	24
Test	**71**	80
Total	**$ 1,074**	$ 1,178

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

(in millions)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Water Infrastructure		
United States	**$ 121**	$ 133
Europe	**157**	160
Asia Pacific	**59**	74
Other	**52**	56
Applied Water		
United States	**191**	201
Europe	**82**	94
Asia Pacific	**24**	39
Other	**41**	45
Measurement & Control Solutions		
United States	**221**	236
Europe	**74**	72
Asia Pacific	**22**	31
Other	**30**	37
Total	**$ 1,074**	$ 1,178

Contract Balances

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

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

(in millions)	Contract Assets (a)	Contract Liabilities
Balance at January 1, 2019	$ 96	$ 113
Additions, net	39	46
Revenue recognized from opening balance	—	(45)
Billings	(32)	—
Other	11	2
Balance at March 31, 2019	$ 114	$ 116
Balance at January 1, 2020	**$ 106**	**$ 135**
Additions, net	**42**	**54**
Revenue recognized from opening balance	**—**	**(47)**
Billings	**(38)**	**—**
Other	**(4)**	**(4)**
Balance at March 31, 2020	**$ 106**	**$ 138**

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

Performance obligations

Delivery schedules vary from customer to customer based upon their requirements. Typically, large projects require longer lead production cycles and delays can occur from time to time. As of March 31, 2020, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied for contracts with performance obligations, amount to $380 million. We expect to recognize the majority of revenue upon the completion of satisfying these performance obligations in the following 60 months. The Company elects to apply the practical expedient to exclude from this disclosure revenue related to performance obligations that are part of a contract whose original expected duration is less than one year.

Note 5. Restructuring and Asset Impairment Charges

Restructuring

From time to time, the Company will incur costs related to restructuring actions in order to optimize our cost base and more strategically position ourselves. During the three months ended March 31, 2020, we recognized restructuring charges of $2 million. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount within our Water Infrastructure segment.

During the three months ended March 31, 2019, we recognized restructuring charges of $8 million. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount and consolidation of facilities within our Measurement & Control Solutions and Water Infrastructure segments, as well as headcount reductions within our Applied Water segment.

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

	Three Months Ended March 31,	
(in millions)	**2020**	2019
By component:		
Severance and other charges	**$ 2**	$ 7
Lease related charges	**—**	1
Total restructuring charges	**$ 2**	$ 8
Asset impairment	**—**	3
Total restructuring and asset impairment charges	**$ 2**	$ 11
By segment:		
Water Infrastructure	**$ 2**	$ 4
Applied Water	**—**	—
Measurement & Control Solutions	**—**	7

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, 2020 and 2019:

(in millions)	**2020**	2019
Restructuring accruals - January 1	**$ 27**	$ 5
Restructuring charges	**2**	8
Cash payments	**(8)**	(4)
Foreign currency and other	**(1)**	—
Restructuring accruals - March 31	**$ 20**	$ 9
By segment:		
Water Infrastructure	**$ 1**	$ 2
Applied Water	**1**	—
Measurement & Control Solutions	**17**	4
Regional selling locations (a)	**1**	3

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

The following table presents expected restructuring spend for actions commenced as of March 31, 2020:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Actions Commenced in 2020:				
Total expected costs	$ 1	$ —	$ —	$ 1
Costs incurred during Q1 2020	1	—	—	1
Total expected costs remaining	**$ —**	**$ —**	**$ —**	**$ —**
Actions Commenced in 2019:				
Total expected costs	$ 20	$ 5	$ 27	$ 52
Costs incurred during 2019	18	5	27	50
Costs incurred during Q1 2020	1	—	—	1
Total expected costs remaining	**$ 1**	**$ —**	**$ —**	**$ 1**
Actions Commenced in 2017:				
Total expected costs	$ 12	$ 7	$ 4	$ 23
Costs incurred during 2017	5	4	2	11
Costs incurred during 2018	2	1	1	4
Costs incurred during 2019	1	—	1	2
Costs incurred during Q1 2020	—	—	—	—
Total expected costs remaining	**$ 4**	**$ 2**	**$ —**	**$ 6**

The Water Infrastructure actions commenced in 2020 consist primarily of severance charges and are substantially complete. The Water Infrastructure, Applied Water, and Measurement & Control Solutions actions commenced in 2019 consist primarily of severance charges. The Applied Water and Measurement & Control Solutions actions are complete and the Water Infrastructure actions are expected to continue through the fourth quarter of 2020. The Water Infrastructure, Applied Water and Measurement & Control Solutions actions commenced in 2017 consist primarily of severance charges. The Measurement & Control Solutions actions are complete and the Water Infrastructure and Applied Water actions are expected to continue through 2021.

Asset Impairment

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

Note 6. Income Taxes

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

The income tax provision for the three months ended March 31, 2020 was $4 million resulting in an effective tax rate of 10.0%, compared to a $15 million charge resulting in an effective tax rate of 16.6% for the same period in 2019. The effective tax rate for the three month period ended March 31, 2020 differs from the United States federal statutory rate primarily due to the mix of earnings in jurisdictions, partially offset by the Global Intangible Low-Taxed Income ("GILTI") inclusion. Additionally, the effective tax rate for the three month period ended March 31, 2020 is lower than the same period in 2019 due to the relative impact of the benefit from favorable equity compensation deductions on the effective tax rate.

Unrecognized Tax Benefits

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities or litigation, based on the technical merits of the position. The tax benefits recognized in the condensed consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The amount of unrecognized tax benefits at March 31, 2020 was $128 million, as compared to $129 million at December 31, 2019, which if ultimately recognized will reduce our effective tax rate. We believe that it is reasonably possible that the unrecognized tax benefits will be reduced by approximately $4 million within the next 12 months as a result of the expiration of certain statutes of limitations. We classify interest expense relating to unrecognized tax benefits as a component of other non-operating expense, net, and tax penalties as a component of income tax expense in our Condensed Consolidated Income Statements. As of March 31, 2020, we had $9 million of interest accrued for unrecognized tax benefits.

During 2019, Xylem's Swedish subsidiary received a tax assessment for the 2013 tax year related to the tax treatment of an intercompany transfer of certain intellectual property that was made in connection with a reorganization of our European businesses. The assessment asserts an aggregate amount of approximately $80 million for tax, penalties and interest. Xylem filed an appeal with the Administrative Court of Stockholm. Management, in consultation with external legal advisors, believes it is more likely than not that Xylem will prevail on the proposed assessment and is vigorously defending our position through litigation. As of March 31, 2020, we have not recorded any unrecognized tax benefits related to this uncertain tax position.

Note 7. Earnings Per Share

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

	Three Months Ended March 31,	
	2020	2019
Net income (in millions)	**$ 38**	$ 79
Shares (in thousands):		
Weighted average common shares outstanding	**180,154**	179,720
Add: Participating securities (a)	**25**	26
Weighted average common shares outstanding — Basic	**180,179**	179,746
Plus incremental shares from assumed conversions: (b)		
Dilutive effect of stock options	**725**	835
Dilutive effect of restricted stock units and performance share units	**390**	532
Weighted average common shares outstanding — Diluted	**181,294**	181,113
Basic earnings per share	**$ 0.21**	$ 0.44
Diluted earnings per share	**$ 0.21**	$ 0.43

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

(b) Incremental shares from stock options, restricted stock units and performance share units are computed by the treasury stock method. The weighted average shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented or were otherwise excluded under the treasury stock method. The treasury stock method calculates dilution assuming the exercise of all in-the-money options and vesting of restricted stock units and performance share units, reduced by the repurchase of shares with the proceeds from the assumed exercises and unrecognized compensation expense for outstanding awards. Performance share units will be included in the treasury stock calculation of diluted earnings per share upon achievement of underlying performance or market conditions at the end of the reporting period. See Note 15, "Share-Based Compensation Plans", to the condensed consolidated financial statements for further detail on the performance share units.

(in thousands)	Three Months Ended March 31, 2020	2019
Stock options	**1,367**	1,394
Restricted stock units	**314**	348
Performance share units	**285**	472

Note 8. Inventories

The components of total inventories are summarized as follows:

(in millions)	March 31, 2020	December 31, 2019
Finished goods	**$ 228**	$ 212
Work in process	**51**	47
Raw materials	**294**	280
Total inventories	**$ 573**	$ 539

Note 9. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying value of goodwill by reportable segment for the three months ended March 31, 2020 are as follows:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Balance as of January 1, 2020	$ 651	$ 513	$ 1,675	$ 2,839
Activity in 2020				
Foreign currency and other	(13)	(5)	(31)	(49)
Balance as of March 31, 2020	**$ 638**	**$ 508**	**$ 1,644**	**$ 2,790**

Other Intangible Assets

Information regarding our other intangible assets is as follows:

	March 31, 2020			December 31, 2019		
(in millions)	Carrying Amount	Accumulated Amortization	Net Intangibles	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	**$ 931**	**$ (361)**	**$ 570**	$ 945	$ (352)	$ 593
Proprietary technology and patents	**200**	**(113)**	**87**	204	(111)	93
Trademarks	**145**	**(54)**	**91**	148	(52)	96
Software	**442**	**(215)**	**227**	428	(206)	222
Other	**17**	**(16)**	**1**	20	(16)	4
Indefinite-lived intangibles	**165**	**—**	**165**	166	—	166
Other Intangibles	**$ 1,900**	**$ (759)**	**$ 1,141**	$ 1,911	$ (737)	$ 1,174

Amortization expense related to finite-lived intangible assets was $35 million and $35 million for the three month periods ended March 31, 2020 and 2019, respectively.

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

Note 10. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Foreign Exchange Risk

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

Certain business units with exposure to foreign currency exchange risks have designated certain currency forward agreements as cash flow hedges of forecasted intercompany inventory purchases and sales. Our principal currency exposures relate to the Euro, Swedish Krona, British Pound, Canadian Dollar, Polish Zloty and Australian Dollar. We had foreign exchange contracts with purchased notional amounts totaling $376 million and $0 million as of March 31, 2020 and December 31, 2019, respectively. As of March 31, 2020, our most significant foreign currency derivatives included contracts to sell U.S. Dollar and purchase Euro, purchase Swedish Krona and sell Euro, sell British Pound and purchase Euro, purchase Polish Zloty and sell Euro, purchase U.S. Dollar and sell Canadian Dollar, and to sell Canadian Dollar and purchase Euro. The purchased notional amounts associated with these currency derivatives are $151 million, $117 million, $38 million, $24 million, $23 million and $18 million, respectively.

Hedges of Net Investments in Foreign Operations

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

Cross Currency Swaps

Beginning in 2015, we entered into cross currency swaps to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate. During 2019 we entered into additional cross currency swaps. The total notional amount of derivative instruments designated as net investment hedges was $702 million and $714 million as of March 31, 2020 and December 31, 2019, 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 $544 million and $554 million as of March 31, 2020 and December 31, 2019, respectively, net of unamortized discount, as a hedge of a net investment in certain foreign subsidiaries.

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

(in millions)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash Flow Hedges		
Foreign Exchange Contracts		
Amount of (loss) recognized in OCI	**$ (2)**	$ (9)
Amount of loss reclassified from OCI into revenue	**2**	1
Amount of loss reclassified from OCI into cost of revenue	**1**	1
Net Investment Hedges		
Cross Currency Swaps		
Amount of gain recognized in OCI	**$ 45**	$ 7
Amount of income recognized in Interest Expense	**4**	3
Foreign Currency Denominated Debt		
Amount of gain recognized in OCI	**$ 10**	$ 7

As of March 31, 2020, $2 million of net losses on cash flow hedges are expected to be reclassified into earnings in the next 12 months.

As of March 31, 2020, no gains or losses on the net investment hedges are expected to be reclassified into earnings over their duration.

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

The fair values of our foreign exchange contracts currently included in our hedging program designated as hedging instruments were as follows:

(in millions)	March 31, 2020	December 31, 2019
Derivatives designated as hedging instruments		
Assets		
Cash Flow Hedges		
Other current assets	**$ 6**	$ —
Net Investment Hedges		
Other non-current assets	**$ 29**	$ 4
Liabilities		
Cash Flow Hedges		
Other current liabilities	**$ (9)**	$ —
Net Investment Hedges		
Other non-current accrued liabilities	**$ (2)**	$ (24)

The fair value of our long-term debt, due in 2023, designated as a net investment hedge was $565 million and $591 million as of March 31, 2020 and December 31, 2019, respectively.

Note 11. Accrued and Other Current Liabilities

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

(in millions)		March 31, 2020		December 31, 2019
Compensation and other employee benefits	**$**	**177**	$	199
Customer-related liabilities		**155**		153
Accrued taxes		**73**		79
Lease liabilities		**56**		61
Accrued warranty costs		**50**		36
Other accrued liabilities		**108**		100
Total accrued and other current liabilities	**$**	**619**	$	628

Note 12. Credit Facilities and Debt

Total debt outstanding is summarized as follows:

(in millions)		March 31, 2020		December 31, 2019
4.875% Senior Notes due 2021 (a)	**$**	**600**	$	600
2.250% Senior Notes due 2023 (a)		**547**		557
3.250% Senior Notes due 2026 (a)		**500**		500
4.375% Senior Notes due 2046 (a)		**400**		400
Commercial paper		**268**		276
Other		**191**		—
Debt issuance costs and unamortized discount (b)		**(16)**		(17)
Total debt		**2,490**		2,316
Less: short-term borrowings and current maturities of long-term debt		**459**		276
Total long-term debt	**$**	**2,031**	$	2,040

(a) The fair value of our Senior Notes was determined using quoted prices in active markets for identical securities, which are considered Level 1 inputs. The fair value of our Senior Notes due 2021 was $640 million and $629 million as of March 31, 2020 and December 31, 2019, respectively. The fair value of our Senior Notes due 2023 was $565 million and $591 million as of March 31, 2020 and December 31, 2019, respectively. The fair value of our Senior Notes due 2026 was $533 million and $518 million as of March 31, 2020 and December 31, 2019, respectively. The fair value of our Senior Notes due 2046 was $400 million and $431 million as of March 31, 2020 and December 31, 2019, 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 September 20, 2011, we issued 4.875% Senior Notes of $600 million aggregate principal amount due October 2021 (the "Senior Notes due 2021"). On March 11, 2016, we issued 2.250% Senior Notes of €500 million aggregate principal amount due March 2023 (the "Senior Notes due 2023"). On October 11, 2016, we issued 3.250% Senior Notes of $500 million aggregate principal amount due October 2026 (the “Senior Notes due 2026”) and 4.375% Senior Notes of $400 million aggregate principal amount due October 2046 (the “Senior Notes due 2046” and, together with the Senior Notes due 2021, the Senior Notes due 2023 and the Senior Notes due 2026, the “Senior Notes”).

The Senior Notes include covenants that restrict our ability, subject to exceptions, to incur debt secured by liens and engage in sale and leaseback transactions, as well as provide for customary events of default (subject, in certain cases, to receipt of notice of default and/or customary grace and cure periods). We may redeem the Senior Notes, as applicable, in whole or in part, at any time at a redemption price equal to the principal amount of the Senior Notes to be redeemed, plus a make-whole premium. We may also redeem the Senior Notes in certain other circumstances, as set forth in the applicable Senior Notes indenture.

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

Interest on the Senior Notes due 2021 is payable on April 1 and October 1 of each year. Interest on the Senior Notes due 2023 is payable on March 11 of each year. Interest on the Senior Notes due 2026 and the Senior Notes due 2046 is payable on May 1 and November 1 of each year beginning on May 1, 2017. As of March 31, 2020, we are in compliance with all covenants for the Senior Notes.

Credit Facilities

2019 Five-Year Revolving Credit Facility

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

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

The 2019 Credit Facility requires that Xylem maintain a consolidated total debt to consolidated EBITDA ratio, which will be based on the last four fiscal quarters, and in addition a number of customary covenants, including limitations on the incurrence of secured debt and debt of subsidiaries, liens, sale and lease-back transactions, mergers, consolidations, liquidations, dissolutions and sales of assets. The 2019 Credit Facility also contains customary events of default. Finally, Xylem has the ability to designate subsidiaries that can borrow under the 2019 Credit Facility, subject to certain requirements and conditions set forth in the 2019 Credit Facility. As of March 31, 2020, the 2019 Credit Facility was undrawn and we are in compliance with all 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, 2020 and December 31, 2019, 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 $547 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, 2020 and December 31, 2019, $268 million and $276 million of the Company's Euro commercial paper program was outstanding, respectively, at a weighted average interest rate of (0.21)%. We have the ability to continue borrowing under this program going forward in future periods.

Other Borrowings

Effective October 20, 2016, Xylem entered into an uncommitted short term facility with SEB Bank. The line of credit provides for an aggregate principal amount of up to €110 million (approximately $120 million). The full amount of €100M has been drawn on March 19, 2020 at an interest rate of 0.70% for a duration of three months with a maturity date on June 19, 2020. As of March 31, 2020 and December 31, 2019, $120 million and $0 million were outstanding under the uncommitted short term facility, respectively.

Effective November 29, 2019, Xylem entered into an uncommitted short term facility with BGL BNP Paribas Bank. The line of credit provides for an aggregate principal amount of up to €65 million (approximately $71 million). The full amount of €65M has been drawn on March 19, 2020 at an interest rate of 1.25% for a duration of three months with a maturity date in June 19, 2020. No amounts were outstanding previously under the BGL BNP Paribas Bank short term facility.

Subsequent Events

On April 25, 2020, the Company’s subsidiary, Xylem Europe GmbH (the “borrower”) entered into a 12-month €100 million (approximately $109 million) term loan facility the terms of which are set forth in a term loan agreement, among the borrower, the Company, as parent guarantor and ING Bank. The Company has entered into a parent guarantee in favor of ING Bank also dated April 25, 2020 to secure all present and future obligations of the borrower under the Term Loan Agreement. Borrowings accrue interest at a rate equal to the EURIBOR or a replacement base rate, plus an applicable margin based on Xylem's credit rating. Xylem will also pay quarterly fees whether such commitment is used or unused. To date none of the ING Bank term facility has been drawn down upon.

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

Note 13. Postretirement 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)	**2020**	2019
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**	—
Net periodic benefit cost	**$ 1**	$ —
International defined benefit pension plans:		
Service cost	**$ 3**	$ 3
Interest cost	**4**	5
Expected return on plan assets	**(4)**	(9)
Amortization of net actuarial loss	**3**	2
Net periodic benefit cost	**$ 6**	$ 1
Total net periodic benefit cost	**$ 7**	$ 1

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

The total net periodic benefit cost for other postretirement employee benefit plans was less than $1 million including net credits recognized into other comprehensive income of less than $1 million for the three months ended March 31, 2020 and March 31, 2019, respectively.

We contributed $12 million and $5 million to our defined benefit plans during the three months ended March 31, 2020 and 2019, respectively. Additional contributions ranging between approximately $10 million and $20 million are expected during the remainder of 2020.

During Q1 2020, the Company purchased a bulk annuity policy with an insurance company for its largest defined benefit plan in the UK, as a plan asset, to facilitate the termination and buy-out of the plan. The bulk annuity fully insures the benefits payable to the participants of the plan until a full buy-out of the plan can be executed, which is expected to occur in 2021. Included in the Company's Q1 contributions is $5 million paid to meet the shortfall between the cost of the bulk annuity policy and the plan assets. As a result of the change in assets from a mix of equities and bonds to the bulk annuity, the plan's expected rate of return on assets was reduced to 1.00% at December 31, 2019. The rate at December 31, 2018 was 7.25%. On January 27, 2020, the plan's assets of $336 million were transferred to the insurance company for the purchase of the bulk annuity.

Note 14. Equity

The following table shows the changes in stockholders' equity for the three months ended March 31, 2020:

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

The following table shows the changes in stockholders' equity for the three months ended March 31, 2019:

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

Note 15. Share-Based Compensation Plans

Share-based compensation expense was $8 million and $9 million during the three months ended March 31, 2020 and 2019, respectively. The unrecognized compensation expense related to our stock options, restricted stock units and performance share units was $9 million, $29 million and $15 million, respectively, at March 31, 2020 and is expected to be recognized over a weighted average period of 2.3, 2.2 and 2.4 years, respectively. The amount of cash received from the exercise of stock options was $5 million and $4 million for the three months ended March 31, 2020 and 2019, respectively.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the three months ended March 31, 2020:

	Share units (in thousands)	Weighted Average Exercise Price / Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2020	2,040	$ 48.56	6.3	
Granted	334	80.66		
Exercised	(130)	41.18		
Forfeited and expired	(5)	74.37		
Outstanding at March 31, 2020	**2,239**	**$ 53.72**	**6.7**	**$ 37**
Options exercisable at March 31, 2020	**1,615**	**$ 44.45**	**5.7**	**$ 36**
Vested and expected to vest as of March 31, 2020	**2,146**	**$ 52.67**	**6.5**	**$ 36**

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, 2020 was $5.6 million.

Stock Option Fair Value

The fair value of each option grant was estimated on the date of grant using the binomial lattice pricing model which incorporates multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The following are weighted-average assumptions for 2020 grants:

Volatility	**22.90 %**
Risk-free interest rate	**1.15 %**
Dividend yield	**1.29 %**
Expected term (in years)	**5.8**
Weighted-average fair value / share	**$ 16.03**

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

Restricted Stock Unit Grants

The following is a summary of restricted stock unit activity for the three months ended March 31, 2020. The fair value of the restricted share unit awards is determined using the closing price of our common stock on date of grant:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value /Share**
Outstanding at January 1, 2020	512	$ 68.95
Granted	219	80.66
Vested	(200)	64.84
Forfeited	(9)	71.20
Outstanding at March 31, 2020	**522**	**$ 75.34**

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, 2020. The fair value of the ROIC performance share units is equal to the closing share price on the date of the grant:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value /Share**
Outstanding at January 1, 2020	225	$ 64.51
Granted	67	80.66
Vested	(89)	49.15
Forfeited	(1)	74.17
Outstanding at March 31, 2020	**202**	**$ 76.60**

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, 2020:

	Share units (in thousands)	Weighted Average Grant Date Fair Value /Share
Outstanding at January 1, 2020	225	$ 75.80
Granted	67	105.66
Adjustment for Market Condition Achieved (a)	35	49.15
Vested	(124)	49.15
Forfeited	(1)	74.17
Outstanding at March 31, 2020	**202**	**$ 97.97**

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

The fair value of TSR performance share units was calculated on the date of grant using a Monte Carlo simulation model utilizing several key assumptions, including expected Company and peer company share price volatility, correlation coefficients between peers, the risk-free rate of return, the expected dividend yield and other award design features. The following are weighted-average assumptions for 2020 grants:

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

Note 16. Capital Stock

For the three months ended March 31, 2020 and March 31, 2019 the Company repurchased approximately 0.8 million shares of common stock for $60 million and approximately 0.5 million shares of common stock for $39 million, respectively. Repurchases include both share repurchase programs approved by the Board of Directors and repurchases in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. The details of repurchases by each program are as follows:

On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our shareholders and maintains our focus on growth. There were approximately 0.7 million shares repurchased for $50 million under this program for the three months ended March 31, 2020. For the three months ended March 31, 2019, we repurchased approximately 0.3 million shares for $25 million. There are up to $288 million in shares that may still be purchased under this plan as of March 31, 2020.

Aside from the aforementioned repurchase program, we repurchased approximately 0.1 million shares and approximately 0.2 million shares for approximately $10 million and approximately $14 million for the three months ended March 31, 2020 and 2019, respectively, in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units.

Note 17. Accumulated Other Comprehensive Loss

The following table provides the components of accumulated other comprehensive loss for the three months ended March 31, 2020:

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

The following table provides the components of accumulated other comprehensive loss for the three months ended March 31, 2019:

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

Note 18. Commitments and Contingencies

Legal Proceedings

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

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

See Note 6, "Income Taxes", of our condensed consolidated financial statements for a description of a pending tax litigation matter.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claims, we do not believe it is reasonably possible that any asserted or unasserted legal claims or proceedings, individually or in aggregate, will have a material adverse effect on our results of operations, or financial condition. We have estimated and accrued $3 million and $5 million as of March 31, 2020 and December 31, 2019, respectively, for these general legal matters.

Indemnifications

As part of our 2011 spin-off from our former parent, ITT Corporation (now ITT LLC), Exelis Inc. and Xylem will indemnify, defend and hold harmless each of the other parties with respect to such parties' assumed or retained liabilities under the Distribution Agreement and breaches of the Distribution Agreement or related spin agreements. The former parent's indemnification obligations include asserted and unasserted asbestos and silica liability claims that relate to the presence or alleged presence of asbestos or silica in products manufactured, repaired or sold prior to October 31, 2011, the Distribution Date, subject to limited exceptions with respect to certain employee claims, or in the structure or material of any building or facility, subject to exceptions with respect to employee claims relating to Xylem buildings or facilities. The indemnification associated with pending and future asbestos claims does not expire. Xylem has not recorded a liability for material matters for which we expect to be indemnified by the former parent or Exelis Inc. through the Distribution Agreement and we are not aware of any claims or other circumstances that would give rise to material payments from us under such indemnifications. On May 29, 2015, Harris Inc. acquired Exelis. As the parent of Exelis, Harris Inc. is responsible for Exelis' indemnification obligations under the Distribution Agreement.

Guarantees

We obtain certain stand-by letters of credit, bank guarantees, surety bonds and insurance letters of credit from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance related requirements. As of March 31, 2020 and December 31, 2019, the amount of surety bonds, bank guarantees, stand-by letters of credit and insurance letters of credit was $330 million and $340 million, respectively.

Environmental

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

Accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. Our accrued liabilities for these environmental matters represent our best estimates related to the investigation and remediation of environmental media such as water, soil, soil vapor, air and structures, as well as related legal fees. These estimates, and related accruals, are reviewed quarterly and updated for progress of investigation and remediation efforts and changes in facts and legal circumstances. Liabilities for these environmental expenditures are recorded on an undiscounted basis. We have estimated and accrued $3 million and $3 million as of March 31, 2020 and December 31, 2019, respectively, for environmental matters.

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

Warranties

We warrant numerous products, the terms of which vary widely. In general, we warrant products against defect and specific non-performance. The table below provides the changes in our product warranty accrual:

(in millions)	**2020**	2019
Warranty accrual – January 1	**$ 41**	$ 60
Net charges for product warranties in the period	**22**	5
Settlement of warranty claims	**(7)**	(13)
Foreign currency and other	**(1)**	—
Warranty accrual - March 31	**$ 55**	$ 52

Note 19. Segment Information

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

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

The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1 in the 2019 Annual Report). The following tables contain financial information for each reportable segment:

(in millions)	Three Months Ended March 31, 2020	2019
Revenue:		
Water Infrastructure	$ 438	$ 482
Applied Water	338	379
Measurement & Control Solutions	347	376
Total	$ 1,123	$ 1,237
Operating Income:		
Water Infrastructure	$ 39	$ 51
Applied Water	47	56
Measurement & Control Solutions	(12)	16
Corporate and other	(13)	(14)
Total operating income	$ 61	$ 109
Interest expense	$ 16	18
Other non-operating (expense) income, net	(3)	2
Gain from sale of business	—	1
Income before taxes	$ 42	$ 94
Depreciation and Amortization:		
Water Infrastructure	$ 15	$ 15
Applied Water	6	6
Measurement & Control Solutions	36	36
Regional selling locations (a)	4	4
Corporate and other	3	3
Total	$ 64	$ 64
Capital Expenditures:		
Water Infrastructure	$ 10	$ 30
Applied Water	9	6
Measurement & Control Solutions	27	24
Regional selling locations (b)	4	4
Corporate and other	1	5
Total	$ 51	$ 69

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

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

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

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the notes, included elsewhere in this report on Form 10-Q (this "Report"). Except as otherwise indicated or unless the context otherwise requires, "Xylem," "we," "us," "our" and the "Company" refer to Xylem Inc. and its subsidiaries.

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

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions; uncertainty of the magnitude, duration, geographic reach and impact on the global economy of the COVID-19 pandemic; the current, and uncertain future, impact of the COVID-19 pandemic on our business, growth, projections, financial condition, operations, cash flows, and liquidity, including the impact of adverse economic conditions caused by the COVID-19 pandemic on our performance or customer markets; actual or potential other epidemics, pandemics or global health crises; geopolitical and other risks associated with our international operations, including military actions, protectionism, economic sanctions or trade barriers including tariffs and embargoes that could affect customer markets and our business, and non-compliance with laws, including foreign corrupt practice laws, data privacy, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; disruption, competition and pricing pressures in the markets we serve; industrial, governmental and private sector spending; the strength of housing and related markets; weather conditions; ability to retain and attract talent and key members of management; our relationship with and the performance of our supply chain including channel partners; our ability to successfully identify, complete and integrate acquisitions; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; changes in the value of goodwill or intangible assets; risks relating to product defects, product security, product liability and recalls; claims or investigations by governmental or regulatory bodies; cybersecurity attacks, breaches or other disruptions of information technology systems on which we rely; our sustainability initiatives; litigation and 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, 2019 ("2019 Annual Report") and with subsequent filings we make with the Securities and Exchange Commission ("SEC").

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

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

Overview

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

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

COVID-19 Pandemic

The global outbreak of the COVID-19 disease was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020 and has created significant global volatility, uncertainty and economic disruption. The global spread of the COVID-19 pandemic has curtailed the movement of people, goods and services worldwide, including in many of the regions where we sell our products and services and conduct operations.

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

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

Public health officials have recommended, or governments have mandated, precautions to mitigate the spread of COVID-19, including stay at home or similar measures in many of the areas in which we operate. Operationally, our production facilities located in Latin America, Europe and Asia Pacific have experienced, or continue to experience reduced production levels due to such measures. Those production facilities that experienced temporarily closures have been or will be reopened in the near term.

The COVID-19 pandemic is also adversely affecting, and is expected to continue to adversely affect, our operations, supply chains and businesses. Closures and reduced facility production levels have had short term impacts to our internal supply chain. We expect to continue to experience unpredictable interruptions at our internal and external suppliers.

To date, the most significant impacts were experienced in volume reductions ranging across all segments and concentrated in Asia Pacific, particularly in China and India, and to a lesser extent, the United States and Europe.

Future demand for our products and services is uncertain as the COVID-19 pandemic has also had an adverse impact on many of the customers we serve. As such, we may experience decreased or delayed demand for our products and services, as well as changes in the payment patterns of our customers. At the end of the first quarter, total backlog increased 4.8% as compared to December 31, 2019 and cancellations were materially consistent with the prior year, with no material cancellations to date. In many cases, Xylem’s products and services are considered "essential services" under various governmental mandates, and as a result we did not experience significant issues in our ability to distribute products or services, aside from customer-driven project delays. However, because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the pandemic’s ongoing and future impacts on our business, financial condition, results of operations, and stock price remains uncertain and difficult to predict, but we expect our results to continue to be adversely impacted beyond the quarter ending March 31, 2020.

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

Many of our offices globally have transitioned to a fully remote work from home status, with no material disruption to operations, financial reporting systems, internal control over financial reporting or disclosure controls and procedures.

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

Risk related to these items are described in further detail under Item 1A, "Risk Factors".

Executive Summary

Xylem reported revenue for the first quarter of 2020 of $1,123 million, a decrease of 9.2% compared to $1,237 million reported in the first quarter of 2019. On a constant currency basis, revenue decreased by $95 million, or 7.7%, driven entirely by organic declines across all segments and all end markets. While organic revenue decline in the first quarter was anticipated, the decline was much greater than expected as our business was impacted by the global acceleration of the COVID-19 pandemic across all segments.

We generated operating income of $61 million (margin of 5.4%) during the first quarter of 2020, as compared to $109 million (margin of 8.8%) in 2019. Operating income in the first quarter of 2020 benefited from decreases in restructuring and realignment costs of $11 million and special charges of $4 million as compared to the first quarter of 2019. Excluding the impact of these items, adjusted operating income was $70 million (adjusted margin of 6.2%) during the first quarter of 2020 as compared to $133 million (adjusted margin of 10.8%) in 2019. The decrease in adjusted operating margin was primarily due to unfavorable volume, impacted significantly by COVID-19, cost inflation, increased cost of quality, unfavorable mix and increased spending on strategic investments. These impacts were partially offset by cost reductions from our global procurement and productivity initiatives, including restructuring savings, and price realization.

Additional financial highlights for the quarter ended March 31, 2020 include the following:

- Orders of $1,261 million, down 4.1% from $1,315 million in the prior year, and down 2.4% on an organic basis across all segments, heavily impacted by the COVID-19 pandemic.
- Earnings per share of $0.21, down 51.2% when compared to the prior year ($0.23, down 55.8% on an adjusted basis).
- Net cash flow used by operating activities of $2 million for the three months ended March 31, 2020, down $85 million from the prior year. Negative free cash flow of $53 million, down $67 million from the prior year.

Key Performance Indicators and Non-GAAP Measures

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

- "organic revenue" and "organic orders" defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency translation 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)	**2020**		2019	
Net income & Earnings per share	**$ 38**	**$ 0.21**	$ 79	$ 0.43
Restructuring and realignment, net of tax of $2 and $4	**7**	**0.04**	16	0.09
Special charges, net of tax of $0 and $0	**1**	**—**	4	0.02
Tax-related special items	**(4)**	**(0.02)**	(4)	(0.02)
Gain from sale of business, net of tax of $0	**—**	**—**	(1)	—
Adjusted net income & Adjusted earnings per share	**$ 42**	**$ 0.23**	$ 94	$ 0.52

- "adjusted operating expenses" defined as operating expenses adjusted to exclude restructuring and realignment costs and special charges.
- "adjusted operating income" defined as operating income, adjusted to exclude restructuring and realignment costs and special charges, and "adjusted operating margin" defined as adjusted operating income divided by total revenue.
- “realignment costs” defined as costs not included in restructuring costs that are incurred as part of actions taken to reposition our business, including items such as professional fees, severance, relocation, travel, facility set-up and other costs.
- “special charges" defined as costs incurred by the Company, such as acquisition and integration related costs, non-cash impairment charges and other special non-operating items, such as pension adjustments.
- "tax-related special items" defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, excess tax benefits/losses and other discrete tax adjustments.
- "free cash flow" defined as net cash from operating activities, as reported in the Statement of Cash Flows, less capital expenditures. Our definition of "free cash flow" does not consider certain non-discretionary cash payments, such as debt. The following table provides a reconciliation of free cash flow.

	Three Months Ended March 31,	
(In millions)	**2020**	2019
Net cash (used) provided by operating activities	**$ (2)**	$ 83
Capital expenditures	**(51)**	(69)
Free cash flow	**$ (53)**	$ 14
Net cash used by investing activities	**$ (48)**	$ (77)
Net cash provided (used) by financing activities	**$ 87**	$ (29)

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

	Three Months Ended March 31,	
(in millions)	**2020**	2019
Net Income	**$ 38**	$ 79
Income tax expense	**4**	15
Interest expense (income), net	**14**	17
Depreciation	**29**	29
Amortization	**35**	35
EBITDA	**$ 120**	$ 175
Share-based compensation	**$ 8**	$ 9
Restructuring and realignment	**9**	20
Special charges	**1**	4
Gain from sale of business	**—**	(1)
Adjusted EBITDA	**$ 138**	$ 207

2020 Outlook

We withdrew 2020 guidance on March 31, 2020 due to uncertainties caused by COVID-19. We are not prepared to reinstate full-year guidance, but are providing total organic revenue outlook for the second quarter to be down 20% to 30% driven by the impact of COVID-19.

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

- Utilities revenue decreased by approximately 5% organically in the first quarter driven by weakness in the United States, Asia Pacific and the Middle East, partially offset by strength in Europe. During 2020 we expect operational spending to continue to be resilient and are seeing some areas of opportunity driven by operational pressures facing utilities. Nevertheless, utilities will be facing workforce challenges from impacts of COVID-19 on the way in which they need to operate . We also expect delays in capital projects being awarded and a potential push back in execution of current projects, but anticipate capex spending to hold up in the mid-to-longer term given the multi-year capex funding mechanisms utilities use and the governmental commitments to continued investment we're seeing in a number of our markets.
- Industrial revenue decreased by approximately 10% organically in the first quarter driven by weakness in North America, Asia Pacific and western Europe. As 2020 progresses we expect industrial facilities to limit access to sales teams and channel partners, causing slower orders and activity while non-essential work is deferred. Exposure to the down-stream impacts of a soft oil and gas market will have an effect on both our dewatering and applied water businesses potentially leading to significant demand declines. Additionally, we anticipate softness in the marine and beverage dispensing verticals driven by social distancing and mandatory lockdown constraints.
- In the commercial markets, organic revenue decline was approximately 11% in the first quarter driven by weakness in the emerging markets and the United States. During the short-term we expect construction site shut-downs to lead to project delays while backlog remains robust and underlying quote activity remains healthy. Although we have not seen a slowdown in project pipelines at this point in time, this is an area that we will be monitoring closely given likely recessionary effects.
- In the residential markets, organic revenue decline was approximately 14% in the first quarter driven by weakness in western Europe, the United States and Asia Pacific. This market is primarily driven by replacement revenue serviced through distribution network. As such, we anticipate only emergency replacement activity as a result of social distancing requirements and expect industry softness to continue while lockdowns are in place.

As result of uncertainties caused by the COVID-19 pandemic and its potential impacts on future demand, we are reevaluating aspects of our spending, including capital expenditures, strategic investments and dividends. We have identified approximately $100 million in net reductions of planned spending on a combination of operational and capital expenditures for the remainder of 2020. We will also continue to strategically execute restructuring and realignment actions to reposition our business in an effort to optimize our cost structure and improve our operational efficiency and effectiveness. We are still assessing the amount of any additional restructuring and realignment actions that may incurred during the year.

Results of Operations

(In millions)	Three Months Ended March 31, 2020	2019	Change
Revenue	**$ 1,123**	$ 1,237	(9.2) %
Gross profit	**409**	474	(13.7) %
Gross margin	**36.4 %**	38.3 %	(190) bp
Total operating expenses	**348**	365	(4.7) %
Expense to revenue ratio	**31.0 %**	29.5 %	150 bp
Restructuring and realignment costs	**9**	20	(55.0) %
Special charges	**—**	4	NM
Adjusted operating expenses	**339**	341	(0.6) %
Adjusted operating expenses to revenue ratio	**30.2 %**	27.6 %	260 bp
Operating income	**61**	109	(44.0) %
Operating margin	**5.4 %**	8.8 %	(340) bp
Interest and other non-operating expense, net	**19**	16	18.8 %
Gain from sale of business	**—**	1	NM
Income tax expense	**4**	15	(73.3) %
Tax rate	**10.0 %**	16.6 %	(660) bp
Net income	**$ 38**	$ 79	(51.9) %

NM - Not meaningful change

Revenue

Revenue generated during the three months ended March 31, 2020 was $1,123 million, reflecting a decrease of $114 million, or 9.2%, compared to the same prior year period. On a constant currency basis, revenue declined 7.7% for the three months ended March 31, 2020. The decrease at constant currency consisted entirely of a decline in organic revenue of $95 million reflecting significantly lower demand across all major geographic regions and segments largely due to COVID-19 related impacts.

The following table illustrates the impact from organic declines, recent acquisitions and divestitures, and foreign currency translation in relation to revenue during the three months ended March 31, 2020:

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(In millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2019 Revenue	$ 482		$ 379		$ 376		$ 1,237	
Organic Impact	(32)	(6.6) %	(38)	(10.0) %	(25)	(6.6) %	(95)	(7.7) %
Acquisitions/(Divestitures)	—	— %	—	— %	—	— %	—	— %
Constant Currency	(32)	(6.6) %	(38)	(10.0) %	(25)	(6.6) %	(95)	(7.7) %
Foreign currency translation (a)	(12)	(2.5) %	(3)	(0.8) %	(4)	(1.1) %	(19)	(1.5) %
Total change in revenue	(44)	(9.1) %	(41)	(10.8) %	(29)	(7.7) %	(114)	(9.2) %
2020 Revenue	**$ 438**		**$ 338**		**$ 347**		**$ 1,123**	

(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 Australian Dollar, the Norwegian Krone, the Swedish Krona and the Chinese Yuan.

Water Infrastructure

Water Infrastructure revenue decreased $44 million, or 9.1%, for the first quarter of 2020 (6.6% decrease at constant currency) as compared to the prior year. Revenue was negatively impacted by $12 million of foreign currency translation, with the change at constant currency coming entirely from an organic decline of $32 million. Organic weakness for the quarter was primarily driven by the industrial end market, particularly in North America, due to continued soft market conditions in oil and gas, and in Asia Pacific, where organic growth was heavily impacted by the COVID-19 pandemic. Organic revenue decline for the quarter was also driven by weakness in the utility end market, particularly in the United States, due to softness in construction and the lapping of projects in the prior year, as well as in India due to the timing of project deployments in the prior year. We estimate that almost half of the organic revenue declines in the segment were impacted by the COVID-19 pandemic, particularly in China and India.

From an application perspective, the organic revenue decline during the first quarter was primarily driven by our transport application where market conditions continued to soften in North America in the dewatering applications, with oil and gas, construction and mining all down in the quarter. Asia Pacific also contributed to the organic revenue decline within the transport application, primarily driven by the timing of large utility project deployments in India and the negative impact of the COVID-19 pandemic throughout the region. The treatment application contributed a more modest organic revenue decline during the quarter driven by the timing of filtration project deliveries in the United States.

Applied Water

Applied Water revenue decreased $41 million, or 10.8%, for the first quarter of 2020 (10.0% decrease at constant currency) as compared to the prior year. Revenue was negatively impacted by $3 million of foreign currency translation for the quarter, with the change at constant currency coming entirely from an organic decline of $38 million. Organic weakness for the quarter was driven by declines across all end markets and in all major geographic regions. We estimate that approximately two thirds of the organic revenue declines in the segment were driven by impacts from the COVID-19 pandemic, particularly in China and the United States where lockdown activities caused a slow down in the markets served.

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

Measurement & Control Solutions

Measurement & Control Solutions revenue decreased $29 million, or 7.7%, for the first quarter of 2020 (6.6% at constant currency) as compared to the prior year. Revenue was negatively impacted by $4 million of foreign currency translation for the quarter, with the change at constant currency coming entirely from an organic decline of $25 million. Organic weakness for the quarter was driven by a decline in the utility end market, primarily in the United States, Asia Pacific and the Middle East, partially offset by organic growth in Europe during the quarter.

From an application perspective, the organic revenue decline for the segment was driven by the water application, where we lapped strong project deployments in the United States and India during the first quarter of the prior year, and the COVID-19 pandemic which negatively impacted organic growth in the Middle East. Organic revenue declines within the water application were partially offset by organic growth in Europe during the quarter, primarily driven by software sales. The test application also experienced organic revenue decline during the quarter, primarily driven by declines in western Europe, China and North America, largely due to impacts from the COVID-19 pandemic, including component shortages from China. The software as a service ("SaaS") and energy applications had modest declines in revenue as compared to the prior year, primarily in the United States as we lapped a few large project deployments.

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 2020 were $1,261 million, a decrease of $54 million, or 4.1%, over the prior year (2.4% decrease at constant currency). Order intake was negatively impacted by $23 million of foreign currency translation for the quarter, with the change at constant currency coming entirely from an organic decline of $31 million.

The following table illustrates the impact from organic declines, recent acquisitions and divestitures, and foreign currency translation in relation to orders during the three months ended March 31, 2020:

	Water Infrastructure		**Applied Water**		**Measurement & Control Solutions**		**Total Xylem**	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2019 Orders	$ 532		$ 394		$ 389		$ 1,315	
Organic Impact	(3)	(0.6)%	(18)	(4.6)%	(10)	(2.6)%	(31)	(2.4)%
Acquisitions/(Divestitures)	—	— %	—	— %	—	— %	—	— %
Constant Currency	(3)	(0.6)%	(18)	(4.6)%	(10)	(2.6)%	(31)	(2.4)%
Foreign currency translation (a)	(15)	(2.8)%	(4)	(1.0)%	(4)	(1.0)%	(23)	(1.7)%
Total change in orders	(18)	(3.4)%	(22)	(5.6)%	(14)	(3.6)%	(54)	(4.1)%
2020 Orders	**$ 514**		**$ 372**		**$ 375**		**$ 1,261**	

(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 Australian Dollar, the Norwegian Krone, the Swedish Krona and the Chinese Yuan.

Water Infrastructure

Water Infrastructure segment orders decreased $18 million, or 3.4%, to $514 million (0.6% decrease at constant currency) for the first quarter of 2020 as compared to the prior year. Order intake during the quarter was negatively impacted by $15 million of foreign currency translation, with the change at constant currency coming from an organic decline in orders in the transport application, which was largely offset by organic order growth in the treatment application. Transport orders were primarily impacted by reduced order intake in North America as compared to the prior year where we had a couple of large project orders, as well as market weakness in the dewatering transport applications in the United States and Europe. The treatment application saw organic order growth in the quarter, primarily driven by strong order intake in Europe, North America and Latin America during the quarter, which was partially offset by a reduction of orders in India. We believe that substantially all of the organic order decline during the quarter was due to COVID-19 impacts, partially offset by organic order growth in the treatment application.

Applied Water

Applied Water segment orders decreased $22 million, or 5.6%, to $372 million (4.6% decrease at constant currency) for the first quarter of 2020 as compared to the prior year. Order intake during the quarter was negatively impacted by $4 million of foreign currency translation. The order decrease on a constant currency basis was primarily driven by organic weakness in the United States, where a decrease in industrial order intake was partially offset by commercial order growth during the quarter, and in Asia Pacific, which was significantly impacted by the COVID-19 pandemic during the quarter. We believe that substantially all of the organic order decline during the quarter was due to COVID-19 impacts.

Measurement & Control Solutions

Measurement & Control Solutions segment orders decreased $14 million, or 3.6%, to $375 million (2.6% decrease at constant currency) for the first quarter of 2020 as compared to the prior year. Order intake during the quarter was negatively impacted by $4 million of foreign currency translation. The order decrease on a constant currency basis was driven by an organic decline in the SaaS application during the quarter, which was negatively impacted by the lapping of large project deployment orders in North America during the prior year. The water application contributed a more modest decline in organic orders during the quarter as significant prior year project deployments within the AIA platform were largely offset by water metrology orders in North America. These order declines were partially offset by organic growth in the quarter in the test application, primarily in Europe, and in the energy application in North America. We believe that substantially all of the organic order decline during the quarter for the segment was due to COVID-19 impacts.

Backlog

Backlog includes orders on hand as well as contractual customer agreements at the end of the period. Delivery schedules vary from customer to customer based on their requirements. Annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. As such, beginning total backlog, plus orders, minus revenues, will not equal ending total backlog due to contract adjustments, foreign currency fluctuations, and other factors. Typically, large projects require longer lead production cycles and deployment schedules and delays can occur from time to time. Total backlog was $1,887 million at March 31, 2020, an increase of $54 million or 2.9%, as compared to March 31, 2019 backlog of $1,833 million, and an increase of $86 million or 4.8%, as compared to December 31, 2019 backlog of $1,801 million. We anticipate that approximately 56% of the backlog at March 31, 2020 will be recognized as revenue in the remainder of 2020. Cancellations in the quarter were materially consistent with the prior year.

Gross Margin

Gross margin as a percentage of revenue decreased 190 basis points to 36.4% for the three months ended March 31, 2020 as compared to 38.3% for the comparative 2019 period. The gross margin decrease for the quarter was primarily driven by unfavorable volume, impacted by COVID-19, cost inflation, increased cost of quality due to a product warranty issue in our Sensus business and unfavorable mix, which were partially offset by cost reductions from global procurement and productivity improvement initiatives.

Operating Expenses

The following table presents operating expenses for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,		
(In millions)	**2020**	2019	Change
Selling, general and administrative expenses ("SG&A")	**$ 297**	$ 303	(2.0) %
SG&A as a % of revenue	**26.4 %**	24.5 %	190 bp
Research and development expenses ("R&D")	**49**	51	(3.9) %
R&D as a % of revenue	**4.4 %**	4.1 %	30 bp
Restructuring and asset impairment charges	**2**	11	(81.8) %
Operating expenses	**$ 348**	$ 365	(4.7) %
Expense to revenue ratio	**31.0 %**	29.5 %	150 bp

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

SG&A expenses decreased by $6 million to $297 million, or 26.4% of revenue, in the first quarter of 2020, as compared to $303 million, or 24.5% of revenue, in the comparable 2019 period. The increase in SG&A as a percent of revenue for the quarter was primarily driven by the drop in revenue, which was significantly impacted by the COVID-19 pandemic, as well as in cost inflation and additional investment in strategic growth initiatives, which were partially offset by cost reductions from global procurement and productivity improvement initiatives, including restructuring savings.

Research and Development ("R&D") Expenses

R&D expense was $49 million, or 4.4% of revenue, in the first quarter of 2020, as compared to $51 million, or 4.1% of revenue, in the comparable period of 2019. The increase in R&D as a percent of revenue for the period was primarily driven by the drop in revenue, which was significantly impacted by the COVID-19 pandemic.

Restructuring and Asset Impairment Charges

Restructuring

During the three months ended March 31, 2020, we recognized restructuring charges of $2 million. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount and consolidation of facilities within our Water Infrastructure segment.

During the three months ended March 31, 2019, we recognized restructuring charges of $8 million. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount and consolidation of facilities within our Measurement & Control Solutions and Water Infrastructure segments, as well as headcount reductions within our Applied Water segment.

The following is a roll-forward for the three months ended March 31, 2020 and 2019 of employee position eliminations associated with restructuring activities:

	2020	2019
Planned reductions - January 1	**196**	69
Additional planned reductions	**50**	158
Actual reductions and reversals	**(60)**	(134)
Planned reductions - March 31	**186**	93

The following table presents expected restructuring spend for actions commenced as of March 31, 2020:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Actions Commenced in 2020:				
Total expected costs	$ 1	$ —	$ —	$ 1
Costs incurred during Q1 2020	1	—	—	1
Total expected costs remaining	**$ —**	**$ —**	**$ —**	**$ —**
Actions Commenced in 2019:				
Total expected costs	$ 20	$ 5	$ 27	$ 52
Costs incurred during 2019	18	5	27	50
Costs incurred during Q1 2020	1	—	—	1
Total expected costs remaining	**$ 1**	**$ —**	**$ —**	**$ 1**
Actions Commenced in 2017:				
Total expected costs	$ 12	$ 7	$ 4	$ 23
Costs incurred during 2017	5	4	2	11
Costs incurred during 2018	2	1	1	4
Costs incurred during 2019	1	—	1	2
Costs incurred during Q1 2020	—	—	—	—
Total expected costs remaining	**$ 4**	**$ 2**	**$ —**	**$ 6**

The Water Infrastructure actions commenced in 2020 consist primarily of severance charges and are substantially complete. The Water Infrastructure, Applied Water, and Measurement & Control Solutions actions commenced in 2019 consist primarily of severance charges. The Applied Water and Measurement & Control Solutions actions are complete and the Water Infrastructure actions are expected to continue through the fourth quarter of 2020. The Water Infrastructure, Applied Water and Measurement & Control Solutions actions commenced in 2017 consist primarily of severance charges. The Measurement & Control Solutions actions are complete and the Water Infrastructure and Applied Water actions are expected to continue through 2021.

Due to the impact of the COVID-19 pandemic, we are reevaluating the restructuring actions planned for 2020.

Asset Impairment

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

Operating Income

Operating income during the first quarter of 2020 was $61 million, reflecting a decrease of 44.0% compared to $109 million in the first quarter of 2019. Operating margin was 5.4% for 2020 versus 8.8% for 2019, a decrease of 340 basis points. Operating margin benefited from a decrease in restructuring and realignment costs of $11 million and special charges of $4 million incurred in 2019 that did not recur during the year. Excluding these restructuring and realignment costs and special charges, adjusted operating income was $70 million with an adjusted operating margin of 6.2% in the first quarter of 2020 as compared to adjusted operating income of $133 million with an adjusted operating margin of 10.8% in the first quarter of 2019. The decrease in adjusted operating margin was primarily due to unfavorable volume, impacted significantly by COVID-19, cost inflation, increased cost of quality, unfavorable mix and increased spending on strategic investments. These impacts were partially offset by cost reductions from our global procurement and productivity initiatives, including restructuring savings, and price realization.

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

	Three Months Ended March 31,		
(In millions)	**2020**	2019	Change
Water Infrastructure			
Operating income	**$ 39**	$ 51	(23.5) %
Operating margin	***8.9 %***	*10.6 %*	*(170) bp*
Restructuring and realignment costs	**5**	9	(44.4) %
Adjusted operating income	**$ 44**	$ 60	(26.7) %
Adjusted operating margin	***10.0 %***	*12.4 %*	*(240) bp*
Applied Water			
Operating income	**$ 47**	$ 56	(16.1) %
Operating margin	***13.9 %***	*14.8 %*	*(90) bp*
Restructuring and realignment costs	**2**	3	(33.3) %
Adjusted operating income	**$ 49**	$ 59	(16.9) %
Adjusted operating margin	***14.5 %***	*15.6 %*	*(110) bp*
Measurement & Control Solutions			
Operating (loss) income	**$ (12)**	$ 16	(175.0) %
Operating margin	***(3.5) %***	*4.3 %*	*(780) bp*
Restructuring and realignment costs	***2***	8	(75.0) %
Special charges	**—**	4	NM
Adjusted operating (loss) income	***$ (10)***	$ 28	(135.7) %
Adjusted operating margin	***(2.9) %***	*7.4 %*	*(1,030) bp*
Corporate and other			
Operating loss	**$ (13)**	$ (14)	(7.1) %
Adjusted operating loss	**$ (13)**	$ (14)	(7.1) %
Total Xylem			
Operating income	**$ 61**	$ 109	(44.0) %
Operating margin	***5.4 %***	*8.8 %*	*(340) bp*
Restructuring and realignment costs	**9**	20	(55.0) %
Special charges	**—**	4	NM
Adjusted operating income	**$ 70**	$ 133	(47.4) %
Adjusted operating margin	***6.2 %***	*10.8 %*	*(460) bp*

NM - Not meaningful percentage change

Water Infrastructure

Operating income for our Water Infrastructure segment decreased $12 million, or 23.5%, for the first quarter of 2020 compared to the prior year, with operating margin also decreasing from 10.6% to 8.9%. Operating margin benefited from a decrease in restructuring and realignment costs of $4 million in 2020. Excluding these restructuring and realignment costs, adjusted operating income decreased $16 million, or 26.7%, with adjusted operating margin decreasing from 12.4% to 10.0%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation, unfavorable volume, impacted significantly by COVID-19, unfavorable mix, negative currency impacts and increased spending on strategic investments. These impacts were partially offset by cost reductions from our global procurement and productivity initiatives and price realization.

Applied Water

Operating income for our Applied Water segment decreased $9 million, or 16.1%, for the first quarter of 2020 compared to the prior year, with operating margin also decreasing from 14.8% to 13.9%. Operating margin benefited from a decrease in restructuring and realignment costs of $1 million in 2020. Excluding these restructuring and realignment costs, adjusted operating income decreased $10 million, or 16.9%, with adjusted operating margin decreasing from 15.6% to 14.5%. The decrease in adjusted operating margin was primarily due to cost inflation, unfavorable volume, impacted significantly by COVID-19, and increased cost of quality. These impacts were partially offset by cost reductions from our global procurement and productivity initiatives and price realization.

Measurement & Control Solutions

Operating income for our Measurement & Control Solutions segment decreased $28 million, or 175.0%, for the first quarter of 2020 compared to the prior year, resulting in an operating loss of $12 million, with operating margin also decreasing from 4.3% to (3.5)%. Operating margin benefited from a decrease in restructuring and realignment costs of $6 million during the year and $4 million of special charges incurred during 2019 that did not recur in 2020. Excluding these items, adjusted operating income decreased $38 million, or 135.7%, for the quarter, resulting in an adjusted operating loss of $10 million, with adjusted operating margin decreasing from 7.4% to (2.9)%. The decrease in adjusted operating margin was primarily due to increased cost of quality, primarily due to a $15 million warranty charge recorded during the quarter for a firmware issue in some of our meters, unfavorable volume, impacted significantly by COVID-19, cost inflation, unfavorable mix and increased spending on strategic investments. These impacts were partially offset by cost reductions from our global procurement and productivity initiatives and price realization.

Corporate and other

Operating loss for corporate and other decreased $1 million, or 7.1%, for the first quarter of 2020 compared to the prior year.

Interest Expense

Interest expense was $16 million for the three months ended March 31, 2020 and $18 million for the three months ended March 31, 2019. The decrease in interest expense for the three month period ended March 31, 2020 is primarily driven by the impact of cross currency swaps during the quarter and, to a lesser extent, the favorable interest rates associated with our Euro Commercial Paper Program borrowings as compared to borrowings from U.S. Dollar Commercial Paper Program during 2019. See Note 10, "Derivative Financial Instruments", of our condensed consolidated financial statements for a description of our cross currency swaps. See Note 12, "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, 2020 was $4 million resulting in an effective tax rate of 10.0%, compared to a $15 million charge resulting in an effective tax rate of 16.6% for the same period in 2019. The effective tax rate for the three month period ended March 31, 2020 differs from the United States federal statutory rate primarily due to the mix of earnings in jurisdictions, partially offset by the Global Intangible Low-Taxed Income ("GILTI") inclusion. Additionally, the effective tax rate for the three month period ended March 31, 2020 is lower than the same period in 2019 due to the relative impact of the benefit from favorable equity compensation deductions on the effective tax rate.

Other Comprehensive (Loss) Income

Other comprehensive loss was $87 million for the three months ended March 31, 2020 compared to income of $20 million for the same period in 2019. Foreign currency translation contributed unfavorable year-over-year impacts for the quarter of $107 million, driven primarily by the weakening of the Great British Pound, the Canadian Dollar, the Australian Dollar and the Chinese Yuan as compared to the U.S. Dollar in 2020 versus the strengthening of these currencies in the same prior year period. Additionally, the weakening of the Euro and the South African Rand as compared to the U.S. Dollar was greater in 2020 than the weakening of these currencies in the prior year. These unfavorable currency translation impacts were partially offset by the movement in our Euro net investment hedges during the quarter. In addition to net unfavorable foreign currency translation impacts, there was an unfavorable impact from the movement of tax on the net investment hedges as compared to the prior year of $10 million during the quarter that contributed to the loss. Partially offsetting these unfavorable drivers was the decreased loss in derivative hedge agreements during the year.

Liquidity and Capital Resources

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

	Three Months Ended March 31,		
(In millions)	**2020**	2019	Change
Operating activities	**$ (2)**	$ 83	$ (85)
Investing activities	**(48)**	(77)	29
Financing activities	**87**	(29)	116
Foreign exchange (a)	**(22)**	2	(24)
Total	**$ 15**	$ (21)	$ 36

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

Sources and Uses of Liquidity

Operating Activities

Net cash used by operating activities was $2 million for the three months ended March 31, 2020 as compared to net cash provided of $83 million in the comparable prior year period. This net decrease was primarily driven by the change in working capital levels as compared to the prior year, largely resulting from the sequential use of working capital following the low levels we saw at the end of 2019, and a decrease in cash from earnings.

Investing Activities

Cash used in investing activities was $48 million for the three months ended March 31, 2020 as compared to $77 million in the comparable prior year period. This decrease in cash used of $29 million was mainly driven by lower spending on capital expenditures compared to the prior year, which included the purchase of a building and new software tools, and a $5 million reduction in spending on acquisitions.

Financing Activities

Cash generated by financing activities was $87 million for the three months ended March 31, 2020 as compared to cash used of $29 million in the comparable prior year period. This net increase in cash from financing activities during the period was primarily due to higher levels of short-term debt during the first quarter of 2020, partially offset by an increase in share repurchase activity of $21 million.

Funding and Liquidity Strategy

Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations and access to bank financing and the capital markets. As a result of uncertainties caused by the COVID-19 pandemic, we are reevaluating aspects of our spending, including capital expenditures, strategic investments and dividends. We are also considering available federal, state and foreign tax programs related to timing of tax payments and deductions to further manage our liquidity. Historically, we have generated operating cash flow sufficient to fund our primary cash needs. The potentially prolonged economic effects of the COVID-19 pandemic may impact the Company's future operating cash flows. If our cash flows from operations are less than we expect, we may need to incur debt or issue equity. From time to time, we may need to access the long-term and short-term capital markets to obtain financing. Our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including: (i) our credit ratings or absence of a credit rating, (ii) the liquidity of the overall capital markets, and (iii) the current state of the economy. There can be no assurance that such financing will be available to us on acceptable terms or that such financing will be available at all.

We monitor our global funding requirements and seek to meet our liquidity needs on a cost effective basis. The future impact of the COVID-19 pandemic is uncertain and may increase our borrowing costs and other costs of capital and otherwise adversely affect our business, results of operations, financial condition and liquidity.

We have considered the impacts of the COVID-19 pandemic on our liquidity and capital resources and do not currently expect it to impact our ability to meet future liquidity needs or continue to comply with debt covenants. Based on our current global cash positions, cash flows from operations and access to the capital markets, we believe there is sufficient liquidity to meet our funding requirements. In addition, our existing committed credit facilities and access to the public debt markets would provide further liquidity if required. Currently, we have available liquidity of approximately $1.7 billion, consisting of cash and available credit facilities, including term loan facilities as disclosed in Note 12, "Credit Facilities and Debt", of our condensed consolidated financial statements. Our debt repayment obligations in 2020 consist of $268 million in outstanding commercial paper and $191 million of other borrowings. Our next long term debt maturity is October 2021.

Risk related to these items are described below and under Item 1A, "Risk Factors".

Credit Facilities & Long-Term Contractual Commitments

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

Non-United States Operations

We generated approximately 50% and 51% of our revenue from non-United States operations for the three months ended March 31, 2020 and 2019, respectively. As we continue to grow our operations in the emerging markets and elsewhere outside of the United States, we expect to continue to generate significant revenue from non-United States operations and expect that a substantial portion of our cash will be predominately held by our foreign subsidiaries. We expect to manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the United States and other international subsidiaries when we believe it is cost effective to do so. We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities and reassess whether there is a need to repatriate funds held internationally to support our United States operations. As of March 31, 2020, we have provided a deferred tax liability of $8 million for net foreign withholding taxes and state income taxes on $505 million of earnings expected to be repatriated to the United States parent as deemed necessary in the future.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and capital resources are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain, particularly at this time and moving forward given the uncertainty around the magnitude and duration of the COVID-19 pandemic. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2019 Annual Report describes the critical accounting estimates used in preparation of the condensed consolidated financial statements. Actual results in these areas could differ from management's estimates. Other than as discussed below, there have been no significant changes in the information concerning our critical accounting estimates as stated in our 2019 Annual Report.

The carrying value of our Advanced Infrastructure Analytics ("AIA") goodwill reporting unit is $169 million as of March 31, 2020. During the fourth quarter of 2019 we completed our annual goodwill assessment. Our 2019 impairment analysis indicated that the fair value of the AIA reporting unit exceeded its carrying value by less than 20%. We used the income approach to determine the fair value of our goodwill reporting units. Under the income approach, the fair value of the reporting units was based on the present value of the estimated cash flows that the reporting unit is expected to generate over its remaining life. Cash flow projections were based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate was based on the weighted average cost of capital appropriate for the reporting unit.

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

See Item 1A, "Risk Factors" for a discussion of the potential impacts of COVID-19 on the fair value of our assets.

New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Information regarding our risk factors appears in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 28, 2020 ("Annual Report"). These risk factors describe some of the assumptions, risks, uncertainties and other factors that could materially and adversely affect our business, financial condition or operating results. In addition, the following risk factor represents a material change in our risk factors from those disclosed in Item 1A. of our Annual Report.

Our business, results of operations and stock price have been adversely impacted by the coronavirus disease 2019 (COVID-19), and we are unable to predict the full extent to which COVID-19 may adversely impact our business, operations, financial condition, results of operations, and stock price in the future.

The coronavirus disease 2019 (COVID-19) pandemic has created significant global volatility, uncertainty and economic disruption. The global spread of the COVID-19 pandemic has curtailed the movement of people, goods and services worldwide, including in many of the regions where we sell our products and services and conduct operations. Public health officials have recommended, or governments have mandated, precautions to mitigate the spread of COVID-19, including stay at home or similar measures in many of the areas in which we operate. This has resulted in temporary production impacts at several of our facilities over the past several months, and also curtailed the business and operations of some of our customers and suppliers.

The COVID-19 pandemic is adversely affecting, and is expected to continue to adversely affect, our operations, supply chains and businesses, and we have experienced, and expect to continue to experience, unpredictable interruptions at our suppliers and reductions in demand for certain of our products and services as the COVID-19 pandemic has also had an adverse impact on many of the customers we serve. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the pandemic’s impact on our business, operations, financial condition and results, and stock price remains uncertain and difficult to predict, but we expect our results to be adversely impacted beyond the quarter ending March 31, 2020.

The extent to which the COVID-19 pandemic impacts our business, operations, financial condition and results, and stock price will depend on numerous evolving factors that remain uncertain, many of which are not within our control or which we may not effectively respond to, including: the duration and scope of the pandemic; governmental, business and individuals’ mandates, actions and protocols that have been and continue to be taken in response to the pandemic; shortage of labor due to stay at home mandates, quarantines or prolonged illness of our employees or that of our customers or suppliers; the impact of the pandemic on economic activity and actions taken in response; the effect on our customers’ demand for our products and services, including slowed decision-making, delay or cancellation of orders or planned projects, or termination of existing agreements; the ability of our suppliers to supply us with products, parts and raw materials, including the ability of our suppliers to meet logistics or delivery requirements; our ability to sell and provide our products and services, including as a result of travel restrictions and people working from home; the ability of our customers to pay for our products and services; any closures of our and our customers’ facilities or suspension of operations; commodity cost volatilities; and the pace of recovery when the COVID-19 pandemic subsides, as well as response to potential recurrence.

Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has, and may continue to, adversely impact our stock price. The financial and capital market volatility may also increase our cost of capital or may limit the availability of additional capital or make it more difficult to secure, possibly only on terms less favorable to us. A sustained downturn may impact our liquidity position, including our ability to continue to pay dividends. A sustained downturn in the financial markets and asset values may also result in the carrying value of our goodwill or other intangible assets exceeding their fair value, which may require us to recognize an impairment to those assets. The effects of the COVID-19 pandemic, including remote working arrangements for employees, may also impact our financial reporting systems and internal control over financial reporting.

Further, the COVID-19 pandemic, and the volatile regional and global economic conditions stemming from the pandemic, could also precipitate or aggravate the other risk factors that we identify in our 2019 Annual Report on Form 10-K, which could materially adversely affect our business, financial condition, results of operations and/or stock price. Additionally, the COVID-19 pandemic may also affect our operating and financial results in a manner that is not presently known to us or that we currently do not consider to present significant risks to our operations.

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, 2020:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS) PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE (a)	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (b)	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (b)
1/1/20 - 1/31/20	—	—	—	**$338**
2/1/20 - 2/29/20	—	—	—	**$338**
3/1/20 - 3/31/20	0.7	77.06	0.7	**$288**

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

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

(b) On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our shareholders and maintains our focus on growth. For the three months ended March 31, 2020, we repurchased 0.7 million shares for $50 million. There are up to $288 million in shares that may still be purchased under this plan as of March 31, 2020.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

XYLEM INC.

EXHIBIT INDEX

Exhibit Number	Description	Location
3.1	Fourth Amended and Restated Articles of Incorporation of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
3.2	Fourth Amended and Restated By-laws of Xylem Inc.	Incorporated by reference to Exhibit 3.2 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
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.
10.35	Term Loan Agreement, dated as of April 25, 2020 among Xylem Europe GmbH, as borrower, Xylem Inc., as parent guarantor and ING Bank, as lender (including Form of Parent Guarantee)	Filed herewith.
10.36	Term Loan Agreement, dated April 30, 2020 among Xylem Inc., as borrower, and Australia and New Zealand Banking Group Limited, as lender	Filed herewith.
101.0	The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Income Statements, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
104.0	The cover page from Xylem Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2020 formatted in Inline XBRL and contained in Exhibit 101.0.	

SIGNATURES

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

XYLEM INC.
(Registrant)

/s/ Geri McShane

Geri McShane
Vice President, Controller and Chief Accounting Officer

May 5, 2020

Agreed form, April 25, 2020

EUR 100,000,000 TERM LOAN AGREEMENT

This Agreement is dated 25 April 2020 and is made between:

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

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

(3) **ING Bank, a branch of ING-DiBa AG**, a company incorporated under the laws of Germany, having its registered address at Hamburger Allee 1, 60486 Frankfurt am Main (**the Bank**).

IT IS AGREED AS FOLLOWS:

1. Definitions

Terms used in this Agreement have the following meaning:

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

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

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

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

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

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

Business Day means a day (other than a Saturday or a Sunday) on which banks are open for general business in Frankfurt am Main, Germany.

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

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

Compliance Certificate means a Compliance Certificate in accordance with Section 5.03 (c) (ii) of the Revolving Facility.

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

Cost of Funds means the interest rate per annum which the Bank determines in its reasonable discretion (*nach billigem Ermessen*) pursuant to Section 315 German Civil Code is the cost it will incur in order to fund a Loan in the public or private markets.

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

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

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

Facility means the term loan facility made available pursuant to this Agreement.

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

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

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

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

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

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

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

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

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

Margin means the rate set out in Clause 5.3 **Margin**.

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

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

Original Financial Statements means the audited financial statements of the Borrower and the audited consolidated financial statements of the Parent Guarantor for the financial year ended 31st December 2019 (or, if unavailable, for the year ended 31st December 2018 each).

Parent Guarantee means the document set out in Schedule **Parent Guarantee**.

Party means a party to this Agreement.

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

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

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

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

Revolving Facility means the five-year revolving credit facility agreement dated as of March 5, 2019 with, *inter alios*, Xylem Inc as borrower, Citibank, N.A., BNP Paribas Securities Corp., ING Bank N.V., Dublin Branch, JPMorgan Chase Bank, N.A., and Wells Fargo Securities, LLC, as lead arrangers, Citibank, N.A.as administrative agent and the persons set out therein as lenders, as amended from time to time.

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

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

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

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

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

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

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Subsidiary means in relation to a specified Person any Person which is a subsidiary within the meaning of sections 271 paragraph 2, 290 of the German Commercial Code (*Handelsgesetzbuch*) of the first Person.

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

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

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

2. Facility

2.1 Availability

Subject to the terms of this Agreement, the Bank makes available to the Borrower a committed term loan facility in an aggregate amount of EUR 100,000,000.

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

3. Purpose

The Borrower shall apply all amounts borrowed by it under the Facility towards general corporate purposes. The Bank is not bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. Conditions

4.1 Conditions precedent

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

4.3 Utilisation Request

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

4.3 Utilisation

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

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

(b) the Borrower has issued a notice pursuant to Clause 8.5 **Notification of Default**;

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

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

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

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

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

4.4 Security

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

4.5 Cancellation of Commitment

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

5. Interest and Fees

5.1 Interest Periods

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

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

5.2 Obligation to pay interest

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

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

5.3 Margin

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

Long Term Credit Rating	Margin (per cent p.a)
Baa2/BBB (or higher)	1,40
Baa3/BBB- (or lower)	1,70

provided that:
(i) the initial Margin as at the date of this Agreement is 1.40 per cent. per annum;
(ii) in the event that the Long Term Credit Ratings of Moody's and Standard & Poor's differ by one notch the margin will be the one associated with the higher rating. In the event that the Long Term Credit Ratings of Moody's and Standard & Poor's will differ by more than one notch the margin will be the one associated with the lower rating;
(iii) in the event that only one of the two above Long Term Credit Ratings is available the remaining one shall determine the Margin;
(iv) if both Long Term Credit Ratings are withdrawn or no Long Term Credit Rating is assigned, the Margin shall be the highest percentage rate per annum set out above; and
(v) a change in the Margin will take effect from and including the fifth Business Day following the publication of the relevant assignment of or change in the Long Term Credit Rating or other event set out in sub-paragraph (iv) above with respect to all Advances then outstanding or made after that date.

5.4 Default interest

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

5.5 Market disruption

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

5.6 Commitment Fee

The Borrower must pay to the Bank a commitment fee computed at a daily basis at the rate of 0.175% per annum on the undrawn and uncancelled portion of the Commitment during the Availability Period. Accrued commitment fees are payable in arrears on the last day of each calendar quarter and, if the whole Commitment is cancelled, on the date that the cancellation is effective.

5.7 Debiting of interest, costs and fees

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

5.8 Replacement of Screen Rate

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

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6. Repayment

(a) The Borrower must repay each Loan made to it in one amount 12 (twelve) months after the first Utilisation Date.

(b) No amount of a Loan repaid may subsequently be re-borrowed.

7. Prepayment and cancellation

7.1 Mandatory prepayment – Illegality, Change of Control

(a) If it becomes unlawful for the Bank or any of its Affiliates to perform any of its obligations, to fund, issue or maintain any Loan or to receive interest under any Finance Document, the Bank may immediately cancel the Commitment and/or declare all outstanding Loans, together with accrued interest and all other amounts accrued under the Finance Documents, to be immediately due and payable.

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

7.2 Voluntary prepayment

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

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

8. Information covenants

8.1 Financial statements

(a) The Borrower must supply to the Bank:

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

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

ii. in case of the annual audited financial statements of the Borrower, within 180 days after the end of each relevant financial period;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.3 Compliance Certificate

Together with each set of its financial statements the Parent Guarantor must supply to the Bank a Compliance Certificate in accordance with Section 5.03 (c) (ii) of the Revolving Facility and a specification of the financial covenants' calculation. The Compliance Certificate must be duly signed by two authorised signatories, of whom one must be the Parent Guarantor's chief financial officer. A Compliance Certificate supplied with the Parent Guarantor's audited financial statements, must also be signed by its auditor.

8.4 Information - miscellaneous

The Borrower must supply to the Bank:

(a) copies of all material documents dispatched by the Borrower to its shareholders (or any class of them) and/or its creditors generally or any class of them, at the same time as they are dispatched to such shareholders and/or creditors by the Borrower;
(b) all information on changes in the legal or organisational structure of the Borrower, its constitutional documents, the Persons that are authorised to sign on behalf of the Borrowers documents and notices in connection with this Agreement and/or Persons that are authorised to sign payment orders on behalf of the Borrowers, promptly following the relevant change;
(c) promptly on request of the Bank, such information as the Bank requires to fulfil its know your customer requirements; and
(d) promptly on request of the Bank, any further information regarding the financial condition and operations of the Borrower as the Bank may reasonably request.

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

9. Financial covenants
The Parent Guarantor agrees to be bound by and that it shall comply with the Leverage Ratio 3.5x as stipulated and defined in Section 6.05 of the Revolving Facility and a specification of the financial covenants' calculation. The Parent Guarantor shall comply with the above mentioned Leverage Ratio 3.5x also in case the Revolving Facility is cancelled or otherwise ceases to be valid. The Compliance Certificate must be duly signed by two authorised signatories, of whom one must be the Parent Guarantor's chief financial officer. A Compliance Certificate supplied with the Parent Guarantor's audited financial statements, must also be signed by its auditor.

10. General covenants

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

10.2 Borrowing for own account/no trustee
The Borrower declares that all Loans will be drawn by the Borrower for its own account.

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

10.4 Negative pledge
(a) Except as provided in paragraph (b) below, the Borrower may not create or allow to exist any Security Interest on any of its present or future assets.
(b) Paragraph (a) does not apply to:
i. any Security Interest constituted by or entered into pursuant to a Finance Document;
ii. any Security Interest comprising a netting or set-off arrangement (including cash pooling) entered into by the Borrower in the ordinary course of its banking arrangements;
iii. any Security Interest or other lien arising by operation of law and in the ordinary course of trading of the Borrower; or
iv. any Security Interest securing indebtedness the amount of which (when aggregated with the amounts of any other indebtedness which has the benefit of a Security Interest given by the Borrower, other than any permitted security under (i), (ii) or (iii), does not exceed 10% of the total assets (or its equivalent in any other currency) of the Borrower at any time.

10.5 Disposals
(a) Except as provided below in paragraph (b), the Borrower may not, either in a single transaction or in a series of transactions whether related or not, dispose of all or any material part of its assets.
(b) Paragraph (a) does not apply to any disposal:
i. from a member of the Group (including the Borrower) to another member of the Group (other than the Borrower);
ii. made in the ordinary course of business of the disposing entity; or
iii. other than under (i) or (ii) where the aggregate amount of those disposals does not exceed €50,000,000 (or its equivalent in any other currency) at any time in any financial year of the Borrower.

10.6 Financial Indebtedness
(a) Except as provided below in paragraph (b), the Borrower may not incur any Financial Indebtedness.
(b) Paragraph (a) does not apply to any Financial Indebtedness:
i. incurred by the Borrower from another member of the Group;

ii. incurred under or in relation to the Finance Documents and/or incurred under any other finance document as agreed between a member of the Group and (an Affiliate of) the Bank;
iii. subordinated to the satisfaction of the Bank; or
iv. other than under (i), (ii) or (iii) which in aggregate does not exceed €300,000,000 (or its equivalent in any other currency) at any time.

10.7 Loans out

(a) Except as provided in paragraph (b) below, the Borrower may not extend loans or be a creditor in respect of any Financial Indebtedness.
(b) Paragraph (a) does not apply to any loan or trade credit:
i. from a member of the Group (including the Borrower) to another member of the Group (other than the Borrower);
ii. extended on arm's length terms and in the ordinary course of business of the relevant member of the Group; or
iii. other than under (i) or (ii), provided that the aggregate amount thereof does not exceed €75,000,000 (or its equivalent in any other currency) at any time.

10.8 No Guarantees or indemnities

(a) Except as provided in paragraph (b) below, the Borrower may not guarantee the obligations of any other Person or assume joint and several liability for or commit itself as surety for those obligations.
(b) Paragraph (a) does not apply to:
i. guarantees on arm's length terms and given in the ordinary course of business of the relevant member of the Group;
ii. any obligation under the Finance Documents or under any other finance document as agreed between a member of the Group and (an Affiliate of) the Bank; or
iii. other guarantees than under (i) or (ii), provided that the aggregate amount thereof does not exceed €50,000,000 (or its equivalent in any other currency) at any time.

10.9 Acquisitions

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

10.10 Pari Passu

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

11. Representations

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

11.1 Status

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

11.2 Binding obligations

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

11.3 Non-conflict with other obligations

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

11.4 Power and authority

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

11.5 Validity and admissibility in evidence

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

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

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

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

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

12. Events of default

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

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

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

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

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

12.5 Insolvency, dissolution or attachment
(a) The Parent Guarantor or the Borrower or any of their creditors applies for moratorium or files for bankruptcy or any other equivalent that materially qualifies as insolvency of the Parent Guarantor or the Borrower, or the Parent Guarantor or the Borrower is declared bankrupt or insolvent by a competent authority, a petition is presented for its winding-up or liquidation, is subject to a moratorium or any other equivalent that materially qualifies as insolvency, is unable or admits its inability to pay its debts as they fall due, suspends making payments on any of its debts (or announces an intention to do so), begins negotiations with its creditors for the rescheduling of any of its indebtedness, offers a composition,

compromise, concordat, assignment or arrangement to its creditors, is being dissolved or decides (or another corporate body of such Person decides or consents to such a decision) to carry out any of the above mentioned actions. If a moratorium occurs, the ending of the moratorium will not remedy any Event of Default caused by that moratorium.
(b) The appointment of a liquidator, receiver, administrator or other similar officer in respect of the Parent Guarantor or the Borrower or any of its assets.
(c) The enforcement of any Security Interest over any assets of the Parent Guarantor or the Borrower .
(d) Any asset(s) of the Parent Guarantor or the Borrower is affected by an expropriation, executorial attachment, sequestration, distress or execution or a provisional attachment which is not discharged or set aside within 30 days.
(e) The Parent Guarantor or the Borrower acts or decides, or is the subject of an act or decision, in a foreign jurisdiction which is comparable with an act or decision described in the paragraphs (a), (b), (c) or (d) above.

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

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

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

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

12.10 Invalidity and unenforceability of the Finance Documents
(a) It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents.
(b) Any Finance Document is not effective or enforceable in accordance with its terms or is alleged by the Borrower to be ineffective and/or unenforceable in accordance with its terms for any reason.
(c) The Borrower repudiates or rescinds a Finance Document or evidences an intention to repudiate or rescind a Finance Document.
(d) No Event of Default under paragraphs (a) or (b) will occur if the unlawfulness or (alleged or actual) ineffectiveness or unenforceability individually or cumulatively is remedied within 14 days of the earlier of (i) the Bank giving notice or (ii) the Borrower becoming aware of the non-compliance.

13. Acceleration

Without prejudice to any other rights it may have under this Agreement, if an Event of Default occurs or is continuing, the Bank may, by notice to the Borrower:
(a) cancel the Commitment in whole or in part;
(b) declare that any and all amounts outstanding under the Finance Documents are:
i) immediately (without a default notice being required) due and payable (as a result of which all outstanding Loans including accrued interest and any other amounts due by the Borrowers under the Finance Documents (including Break Funding Costs) are immediately due and payable), or
ii) payable on first demand by the Bank (as a result of which all outstanding Loans including accrued interest and any other amounts due by the Borrowers under the Finance Documents (including Break Funding Costs) will become payable on first demand by the Bank;

14. Payments and set-off

14.1 Currency of account
(a) Each (re)payment in respect of Loans, Unpaid Sums, interest, costs, expenses or taxes shall be made in the currency in which such amounts are denominated or, if applicable, incurred.
(b) Any amount expressed to be payable in a specific currency shall be paid in that currency.

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

14.3 No set-off
All payments made by the Borrower under the Finance Documents must be made without set-off or counterclaim with the exception of counterclaims which are not in dispute between the Borrower and the Bank or have been legally established.

14.4 Set-off by the Bank

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

14.5 Business Days

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

14.6 Priority of payments

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

15. INCREASED COST

The Borrower shall, within three Business Days of a written demand from the Bank, pay to the Bank the amount equal to any Increased Cost incurred by the Bank or any of its Affiliates as a result of:

(a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation (with or without having the force of law) made after the date of this Agreement;

(b) compliance with any law or regulation (with or without having the force of law) made after the date of this Agreement; or

(c) the implementation or application of or compliance with Basel III or any law or regulation that implements, applies or amends Basel III, in each case to the extent not reasonably known to the Bank or its relevant Affiliates at the date of this Agreement.

This Clause 15 does not apply to the extent any Increased Cost is (i) attributable to the implementation or application of or compliance with the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III or CRD IV) (“**Basel II**”) or any other law or regulation that implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or (ii) attributable to the wilful breach by the Bank or its Affiliates of any law or regulation.

For this Clause **Basel III** means:

(a) Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and 2006/49/EC (*CRD IV*);

(b) Regulation (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No. 648/2012 (*CRR*); and

(c) any and all other agreements, rules, guidance, regulations and/or standards published by the Basel Committee on Banking Supervision relating to “*Basel III*”.

16. Evidence and calculations

16.1 Evidence

In the absence of manifest error:

(a) accounts maintained by the Bank will be conclusive evidence of the existence and the amount of the obligations of the Borrower under any Finance Document; and

(b) a determination by the Bank of a fee, an interest rate or amount under any Finance Document will be conclusive evidence.

16.2 Calculations

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

17. Indemnity and gross up

17.1 Indemnity

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

17.2 Currency indemnity

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

17.3 Gross up

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

17.4 Stamp duty

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

17.5 Value added tax

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

17.6 Break Funding Costs

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

18. Changes to the documents and parties

18.1 Amendments, waivers and consents

Any waiver, amendment and consent in relation to or under the Finance Documents must be agreed upon in writing (*Schriftform* according to Section 126 German Civil Code).

18.2 Transfers by the Borrower

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

18.3 Transfers by the Bank

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

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

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

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

19. Notices

19.1 Manner of giving notices

a. Any communication in connection with a Finance Document must be in writing, or, if agreed or indicated by the Bank, electronically (including, but not limited to, e-mail), and must be duly signed and, unless stated otherwise, may be made by letter, sent by post, attached to an e-mail or by fax.
b. The Bank may rely on the literal wording of any notice (purporting to be) from the Borrower and is not obliged to verify the contents thereof. Incompleteness or distortion of a notice is for the risk of the sender thereof.
c. The Bank will not be liable for any loss and/or damage resulting from the use of fax or electronic means of communication, including, but not limited to, loss or damage resulting from failure or delay in delivery, interception or manipulation by third parties or computer programs used for electronic communications and transmission of viruses (other than in the case of gross negligence and/or wilful misconduct).

19.2 Contact details

(a) Subject to the provisions of this Clause and unless expressly agreed otherwise in writing between the Bank and the Borrower, the contact details of each Party for all communications are those notified by that Party on or before the date it becomes a Party to this Agreement.
(b) The contact details of the Borrower are:
Xylem Europe GmbH
attn: Mr. Stephan Ludescher
Bleicheplatz 6
8200 Schaffhausen, Switzerland
(c) The contact details of the Bank are:
ING Bank, a branch of ING-DiBa AG
attn. Diversified Lending / Susanne Fichera
Hamburger Allee 1,
60486 Frankfurt am Main, Germany
E-mail: Susanne.Fichera@ing.de and SP_CB-DE-ING-LOAN-ADMINISTRATION@ing.de
(d) A Party may change its contact details by giving 5 Business Days' notice to the Bank (or in the case of the Bank, to the other Parties). Any communication or document to be made or delivered to the Bank will only be effective if and when actually received by the Bank. Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

20. Wholesale Banking conditions

The Wholesale Banking conditions of the Bank attached hereto as Schedule 4 **Wholesale Banking Conditions** shall be applicable. By the execution of the Agreement each Obligor acknowledges receipt of a copy of these conditions and agrees to the terms. In the event of a conflict between these conditions and the terms of the Agreement, the terms of the Agreement shall prevail.

21. DISCLOSURE OF CONFIDENTIAL INFORMATION

The Borrower irrevocably consents to the disclosure by the Bank, to the extent allowed by applicable law, of any (confidential) information, including personal data, regarding the Borrower and the Finance Documents including information which is, if applicable, subject to bank secrecy rules, to:
(a) the Bank's Affiliates, professional advisers, auditors, representatives and service providers;
(b) any Person with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly any transaction under which payments are to be made or may be made by reference to one or more Finance Documents and/or the Borrower
(c) ny Person to whom the Bank (intends to) assign(s) or transfer(s) or create(s) a Security Interest over all or a part of its rights or obligations under the Finance Documents, and to any of that entity's Affiliates and other entities, including professional advisers, to the extent necessary or desired to conclude and perform such assignment, transfer or Security Interest; and
(d) any Person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority, the rules of any stock exchange or pursuant to any applicable law or regulation.
a.

22. Miscellaneous

(a) No failure or delay by the Bank in exercising any right or remedy under the Finance Documents shall operate as a waiver thereof, no single or partial exercise of any such right or remedy shall prevent any other or further exercise thereof or the exercise of any other right or remedy, and the rights and remedies provided in the Finance Documents are cumulative and not exclusive of any rights or remedies provided by law.
(b) If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable, it shall not affect or impair the legality, validity or enforceability of any other provisions of the Finance Documents.
(c) The Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

Agreed form, April 25, 2020

23. Governing law and jurisdiction

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

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

Agreed form, April 25, 2020

Schedule 1
Conditions Precedent
Part 1
To be delivered before the first Utilisation

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

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

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

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

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

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

(7) Legal opinions: legal opinion on the executed Parent Guarantee (to be prepared by ING's lawyer in the US) and capacity opinion done by ING legal in Switzerland

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

(9) As soon as available a copy of the resolution of the board of directors of the Borrower and the Parent Guarantor approving the transaction and the execution of the Finance Documents (condition subsequent).

Agreed form, April 25, 2020

Schedule 2

PARENT GUARANTEE

Xylem Inc. Parent Guarantee dated April 25, 2020

The undersigned, Xylem Inc., incorporated in Indiana, U.S.A. and having its registered office and principal place of business at 1 International Drive, Rye Brook, NY 10573 U.S.A., hereinafter referred to as the "**Guarantor**",

hereby unconditionally and irrevocably guarantees as an independent obligation to and in favor of ING Bank, a Branch of ING-DiBa AG, for itself, its branches and all of its direct and indirect holding companies, subsidiaries and/or any of its or their affiliates, branches and offices (hereinafter collectively referred to as the "**Bank**"), the correct and prompt fulfilment of any and all debt and liabilities, actual or contingent, present or future of Xylem Europe GmbH, incorporated in Switzerland and having its registered address at Schaffhausen, Switzerland (hereinafter referred to as the "**Borrower**") under or in connection with the Euro 100,000,000 Term Loan Agreement dated April 25, 2020, entered into with the Bank, as amended and supplemented from time to time (hereinafter referred to as the "**Agreement**") including without limitation any debts or liabilities under the Agreement (hereinafter collectively referred to as the "**Obligations**").

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

The Guarantor represents and warrants to the Bank that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

XYLEM INC.
By: /s/ E. Mark Rajkowski
Name: E. Mark Rajkowski
Title: Senior Vice President and Chief Financial Officer

Acknowledged

ING BANK, a Branch of ING-DiBa AG
By: /s/ Susanne Fichera
Name: Susanne Fichera
Title: Vice President

By: /s/ Maximilian Cupriak
Name: Maximilian Cupriak
Title: Vice President

Agreed form, April 25, 2020

Schedule 3
Utilisation Request

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

Xylem Europe GmbH – EUR 100,000,000 Term Loan Agreement dated [DATE] (the **"Agreement")**

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

[BORROWER]

By: []

Title: []

EX 10.35

Agreed form, April 25, 2020

Schedule 4
Wholesale Banking Conditions

Agreed form, April 25, 2020

Signatories

XYLEM EUROPE GMBH

/s/ Samir Patel

By: Samir Patel

Title: Attorney-in-Fact

XYLEM INC.

/s/ E. Mark Rajkowski

By: E. Mark Rajkowski

Title: Senior Vice President and Chief Financial Officer

ING BANK, a branch of ING-DiBa AG

/s/ Susanne Fichera /s/ Maximilian Cupriak

By: Susanne Fichera By: Maximilian Cupriak

Title: Vice President Title: Vice President

TERM LOAN NOTE

Australia and New Zealand Banking Group Limited

U.S.$50,000,000.00   April 30, 2020

FOR VALUE RECEIVED**, Xylem Inc.** (the "Borrower") unconditionally promises to pay to **AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED** (the "Bank"), having an address at 277 Park Avenue, New York, New York, 10172, in the lawful money of the United States of America and in immediately available funds, the principal amount of Fifty Million United States Dollars (U.S.$50,000,000.00) (the "Loan") at the Bank's office at 277 Park Avenue, New York, New York, 10172, on April 29, 2021 (the "Maturity Date"), together with accrued interest thereon from the date hereof as more particularly hereinafter set forth.

The Borrower promises to pay interest on the unpaid principal amount of the Loan at a rate per annum equal to the Adjusted LIBO Rate (as defined below) plus 1.50%. After maturity of the Loan (including by reason of acceleration of the Loan following an Event of Default (as defined below)) or non-payment when due of interest on the Loan or any other amount payable hereunder (whether at scheduled maturity, by acceleration or otherwise), the Borrower shall on demand from the Bank pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment in full (after as well as before judgment) at a rate equal to (i) in the case of overdue principal of the Loan, 2.00% plus the rate otherwise applicable to the Loan as provided in this Note, and (ii) in the case of any other amount, 2.00% plus the Bank's Base Rate (as defined below). Any change in the interest rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate. Interest shall be calculated on the basis of a year of (i)(x) in the case of obligations bearing interest at the Adjusted LIBO Rate, 360 days and (y) in the case of obligations bearing interest at the Base Rate, 365 or 366 days, as applicable, and (ii) the exact number of days elapsed. Interest shall be payable in lawful money of the United States of America at the office of the Bank listed above (i) at the end of each three (3) month period after the date hereof and (ii) on the Maturity Date (each such date, an "Interest Payment Date"). The Borrower authorizes the Bank to debit its account with the Bank's New York branch with respect to all payments hereon.

The Borrower represents and warrants to the Bank on the date hereof that: (a) the Borrower has full power and authority to execute and deliver this Note and to perform its obligations hereunder; (b) this Note has been duly authorized by the Borrower, and evidences its legal, valid and binding obligation, enforceable against it in accordance with its terms; (c) the Borrower's execution, delivery and performance of this Note do not and will not contravene (i) its incorporation documents, (ii) any instrument or agreement to which it is a party or by which it or any of its assets is bound where such violation is reasonably likely to result in a Material Adverse Effect or (iii) any provision of any law, rule or regulation or any decree, order, judgment or requirement for approvals applicable to it where such violation is reasonably likely to result in a Material Adverse Effect; (d) the obligations of the Borrower hereunder rank *pari passu* with all of its other unsubordinated, unsecured indebtedness; (e) the Loan will be used by the Borrower for general corporate and working capital purposes; and (f) there has been no material adverse change in the consolidated financial condition of the Borrower and its Subsidiaries from the financial condition reported in the most recently delivered audited financial statements delivered to the Bank.

Upon the occurrence of any of the following events (each, an "Event of Default"): (i) non-payment when due and payable of (x) any principal amount of the Loan or (y) any other amount in respect of the Liabilities and such default shall continue unremedied for a period of five (5) days; (ii) any representation made in the foregoing paragraph being false or misleading in any material respect when so made; (iii) the failure of the Borrower or any of its Significant Subsidiaries (as defined below) to generally pay its debts as they come due or the admission in writing by the Borrower or any of its Significant Subsidiaries of its inability to pay its debts generally, or the making by the Borrower or any of its Significant Subsidiaries of an assignment for the benefit of creditors, or the institution of any proceeding by or against the Borrower or any of its Significant Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or the appointment of a receiver, trustee, custodian or other similar official for the Borrower or any of its Significant Subsidiaries or for any substantial part of its property and, in the case of institution of any such proceeding against the Borrower or any of its Significant Subsidiaries either such proceeding remaining undismissed or unstayed for a period of sixty (60) days or any of the actions sought in the proceeding occurring, or the Borrower or any of its Significant Subsidiaries taking any corporate or other authorizing action in respect of the foregoing; (iv) failure of the Borrower or any of its Subsidiaries to pay when due any principal, interest, premium, or other amount owing with respect to any of its indebtedness for borrowed money or other obligations (including guarantees thereof in an amount exceeding U.S.$70,000,000.00 (or its equivalent in any other currency)) or any other event occurring or condition existing and continuing after any applicable grace period, the effect of which event occurring or condition existing and continuing is to accelerate or to permit the acceleration of the maturity of such indebtedness; (v) any judgment or order for the payment of money in an amount exceeding U.S.$70,000,000.00 (or its equivalent in any other currency) shall be rendered against the Borrower or any of its Subsidiaries and shall remain unpaid or unsatisfied for a period of sixty (60) days; or (vi) a Change in Control (as defined below) shall occur.

THEN AND IN ANY SUCH EVENT, the Bank in its discretion may, by written notice to the Borrower, declare the principal of and accrued interest on all Liabilities to be, whereupon the same shall become, forthwith due and payable, without presentment, demand, protest or other notice of any kind all of which are hereby expressly waived by the Borrower, provided that upon the occurrence of any event specified in clause (iii) with respect to the Borrower such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

The Borrower shall give the Bank written notice of the occurrence of any Event of Default promptly after the Borrower is aware of the same.

The Loan may be prepaid by the Borrower, together with all accrued and unpaid interest thereon, at any time without premium or penalty; provided that if any principal payment hereunder is made for any reason whatsoever on a date other than an Interest Payment Date, the Borrower (i) shall pay interest accrued thereon through the date of such payment and (ii) shall indemnify the Bank against any actual net loss or expense that the Bank may sustain or incur (including any actual net loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Bank to fund or maintain funding of the Loan), as determined by the Bank, on demand. A certificate of the Bank as to any amount required to be paid by the Borrower under this paragraph shall accompany such demand and shall be, except in the case of manifest error or in the absence of good faith, final and conclusive.

In the event that a determination is made by the Bank in its sole discretion that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Bank's capital as a consequence of its Loan to the Borrower evidenced hereby to a level below that which the Bank could have achieved but for such adoption, change, or compliance, the Borrower promises to pay on demand to the Bank such additional amount or amounts as will compensate the Bank for such reduction. It is agreed that all requests, rules, guidelines or directives (x) in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act or (y) promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or the United States or Australian financial regulatory authorities in connection with Basel III, in the case of each of clauses (x) and (y), regardless of the date enacted, adopted, issued, promulgated or implemented shall be deemed to be changes in law, rule or regulation included in the scope of this paragraph. A certificate of the Bank as to any amount required to be paid by the Borrower under this paragraph shall accompany such demand and shall be, except in the case of manifest error or in the absence of good faith, final and conclusive.

Notwithstanding any other provision herein, if any change in any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for the Bank to make or maintain the Loan as a LIBO Loan, then, by written notice to the Borrower, the Bank may declare that the Loan is deemed to be a Base Rate Loan, in which event the Loan shall be automatically converted to a Base Rate Loan as of the effective date of such notice.

In the event the Bank determines that the rates at which U.S. dollar deposits are being offered for an interest period will not adequately and fairly reflect the cost to such the Bank of making or maintaining the Loan as a LIBO Loan, the Bank shall notify the Borrower of such determination and until the Bank shall have advised the Borrower that the circumstances giving rise to such notice no longer exist, the Loan shall be deemed to be a Base Rate Loan. Each determination by the Bank hereunder shall be made in good faith and shall be conclusive absent manifest error.

Notwithstanding any other provision herein, if the Bank determines (which determination shall be conclusive absent manifest error) that:

(i) adequate and reasonable means do not exist for ascertaining the LIBO Rate for any interest period, including, without limitation, because the Screen Rate is not available or published on a current basis and such circumstances are unlikely to be temporary; or

(ii) the administrator of the Screen Rate or a governmental authority having jurisdiction over the Bank has made a public statement identifying a specific date after which the LIBO Rate or the Screen Rate shall no longer be made available, or used for determining the interest rate of loans (such specific date, the "Scheduled Unavailability Date"),

then, reasonably promptly after such determination by the Bank, the Bank and the Borrower shall negotiate in good faith for a period of 30 days to amend this Note to replace the LIBO Rate with an alternate benchmark rate (including any mathematical or other adjustments to the benchmark (if any) incorporated therein), giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated credit facilities for such alternative benchmarks (any such proposed rate, a "LIBOR Successor Rate"), together with any proposed LIBOR Successor Rate Conforming Changes (as defined below). Such LIBOR Successor Rate shall be applied in a manner consistent with market practice; provided that to the extent such market practice is not administratively feasible for the Bank, such LIBOR Successor Rate shall be applied in a manner as otherwise reasonably determined by the Bank.

If the Bank and the Borrower have not agreed on a LIBOR Successor Rate by the end of such 30-day period and the circumstances under clause (i) above exist or the Scheduled Unavailability Date has occurred (as applicable), the Loan shall be automatically converted to a Base Rate Loan.

All payments by the Borrower hereunder shall be made without any claim, right of setoff, defense, or counterclaim and shall be free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties or additions thereto (collectively, "Taxes"), except as required by any law. Each Recipient (as defined below) shall furnish to the Borrower on the date hereof or on the date it acquires an interest in the Loan, as applicable (and from time to time thereafter either at the request of the Borrower or if any tax documentation it previously delivered expires or becomes obsolete or inaccurate in any respect), any applicable withholding form (and any associated documentation) it is legally entitled to deliver which is prescribed by law as a basis for claiming exemption from, or a reduction of, U.S. federal withholding Tax, together with such supplementary documentation necessary to enable the Borrower to determine the amount of Tax (if any) required by law to be withheld. If the Borrower shall be required by law to deduct any Indemnified Taxes (as defined below) from or in respect of any sum payable hereunder to the Bank, (i) such sum shall be increased as may be necessary so that after making all required deductions (including any deductions applicable to additional sums payable under this paragraph) the Bank shall receive an amount equal to the sum it would have received had no such deduction been made, (ii) the Borrower shall make such deduction and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other authority as required by law. If, for the purpose of obtaining judgment in any court with respect to sums due hereunder, it becomes necessary to convert any such sum from United States Dollars into another currency the conversion shall be made at the rate of exchange prevailing on the Business Day on which the judgment is given and shall be made at the rate at which the Bank is able on the relevant date to purchase United States Dollars with such other currency at the place such judgment is given. If there is a change in the rate of exchange prevailing between the Business Day on which a judgment is given and the date of payment of the amount due, the Borrower shall pay such additional amounts as may be necessary to ensure that the amount paid on such date is the amount in such other currency which, when converted at the rate of exchange prevailing on the date of payment, is the amount then due hereunder in United States Dollars. Any amount due from the Borrower pursuant to this paragraph will be due as a separate debt and shall not be affected by judgments obtained for other sums due from the Borrower.

No delay on the part of the Bank in exercising any of its options, powers or rights, or partial or single exercise thereof, shall constitute a waiver thereof. The options, powers and rights of the Bank specified herein are in addition to those otherwise created.

The Borrower represents and warrants that (a) the Borrower is in compliance with applicable AML/CTF Laws (as such term is hereinafter defined) and applicable Sanctions (as such term is hereinafter defined) in all material respects and are not engaged in any activity that would result in the Borrower being designated as a Sanctioned Person (as such term is hereinafter defined); (b) the Loan will not violate any AML/CTF Laws or applicable Sanctions except where such violation could not reasonably be expected to have a Material Adverse Effect; and (c) except as permitted by Sanctions, the proceeds of the Loan will not be used to fund, finance or facilitate any activities, business or transaction of or with any Sanctioned Person or in any Sanctioned Country. The Bank shall not be obligated to make the Loan if the Borrower is or becomes a Sanctioned Person, or if the use of the proceeds thereof would violate any of the representations or warranties in this paragraph or elsewhere in this Note. The Borrower acknowledges that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), the Bank is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Bank to identify the Borrower in accordance with the Act. The Borrower agrees to provide this information to the Bank so the Bank can comply with the Act.

As used herein:

"Adjusted LIBO Rate" means an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to (a) the LIBO Rate for an interest period of three (3) months multiplied by (b) the Statutory Reserve Rate.

"Affiliate" shall mean, when used with respect to a specified Person, another Person that directly or indirectly controls or is controlled by or is under common control with the Person specified.

"AML/CTF Laws" means any anti-money laundering, counter-terrorism financing or economic or trade sanctions laws or regulations applicable to the Borrower or its Subsidiaries, including the *Anti-Money Laundering and Counter-Terrorism Financing Act* 2006 (Cth) and all laws, rules, and regulations of any jurisdiction applicable to the Borrower and its Subsidiaries concerning or relating to bribery or corruption and/or counter-terrorism financing laws or regulations.

"Base Rate" means a fluctuating interest rate per annum equal to the higher of the (i) Bank's Prime Lending Rate and (ii) 0.50% above the Bank's Overnight Federal Funds Rate; provided that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Note.

"Base Rate Loan" means a loan bearing interest at a rate determined by reference to the Base Rate.

"Board" means the Board of Governors of the Federal Reserve System of the United States.

"Board of Directors" shall mean the Board of Directors of the Borrower or any duly authorized committee thereof.

"Business Day" means any day (other than (i) a day which is a Saturday, Sunday or legal holiday in the State of New York or (ii) a day on which banks are not open for dealings in deposits in United States Dollars in the London interbank market) on which banks are open for business in New York City.

A "Change in Control" shall be deemed to have occurred if (a) any Person or group of Persons shall have acquired beneficial ownership of more than thirty percent (30%) of the outstanding Voting Shares of the Borrower (within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended and the applicable rules and regulations thereunder) or (b) during any period of twelve (12) consecutive months, commencing after the date hereof, individuals who on the first day of such period were directors of the Borrower (together with any replacement or additional directors who were nominated, elected or approved prior to their election by a majority of directors then in office) cease to constitute a majority of the Board of Directors of the Borrower.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time, and the Treasury regulations promulgated thereunder.

"Electronic Signature" means an electronic sound, symbol, or process attached to, or associated with, a contract or other record and adopted by a Person with the intent to sign, authenticate or accept such contract or record.

"Excluded Taxes" shall mean any of the following Taxes imposed on or with respect to the Bank (including any assignee of or successor to the Bank and any participant thereof) (each, a "Recipient") or required to be withheld or deducted from a payment to a Recipient: (a) income or franchise Taxes imposed on (or measured by) net income (however denominated) (I) by the United States of America, or by the jurisdiction under the laws of which the Recipient is organized or in which its principal office is located or in which its applicable lending office is located or (II) that are imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced the Note or any related document, or sold or assigned an interest in any Loan, the Note or any related document), (b) any branch profits Taxes imposed by the United States of America or any similar Taxes imposed by any other jurisdiction, (c) any Tax attributable to a failure by a Recipient to furnish applicable withholding forms and any associated documentation in accordance with the terms hereof (including as a result of any inaccurate or incomplete documentation), (d) any U.S. federal withholding Taxes with respect to an applicable interest in the Loan resulting from any law in effect on the date the applicable Recipient acquires such interest in the Loan or designates a new lending office, except to the extent that such Recipient (in the case of the designation of a new lending office) or its assignor, if any was entitled, at the time of acquisition of such interest in the Loan or the designation of a new lending office, to receive additional amounts from the Borrower with respect to such withholding Taxes pursuant to the terms hereof, and (e) any Taxes imposed with respect to the requirements of FATCA.

"FATCA" shall mean Sections 1471 through 1474 of the Code, as of the date of this Note (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any regulations and any official governmental interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Code, any intergovernmental agreement between the United States of America and any other relevant jurisdiction entered into in connection with the implementation of such Sections of the Code and any fiscal or regulatory legislation, rules or practices adopted pursuant to such intergovernmental agreement.

"Indemnified Taxes" shall mean Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by the Borrower under this Note.

"Interpolated Screen Rate" means a rate per annum which results from interpolating on a linear basis between (a) the applicable Screen Rate for the longest maturity for which a Screen Rate is available that is shorter than such three (3) month interest period and (b) the applicable Screen Rate for the shortest maturity for which a Screen Rate is available that is longer than such three (3) month interest period, in each case at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such three (3) month interest period.

"Liabilities" means the Loan, interest thereon and all other obligations of the Borrower under this Note.

"LIBO Loan" means a loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"LIBO Rate" means the applicable Screen Rate at approximately 11:00 a.m., London time on the Quotation Day for an interest period of three (3) months, as the rate for deposits of United States Dollars with a maturity comparable to such three (3) month interest period. If no Screen Rate shall be available for such three (3) month interest period but Screen Rates shall be available for maturities both longer and shorter than such three (3) month interest period, then the LIBO Rate for such three (3) month interest period shall be the Interpolated Screen Rate. Notwithstanding the foregoing, if the LIBO Rate, determined as provided above, would otherwise be less than zero, then the LIBO Rate shall be deemed to be zero for all purposes.

"LIBOR Successor Rate Conforming Changes" means, with respect to any proposed LIBOR Successor Rate, any conforming changes to the definition of Base Rate, the interest period, timing and frequency of determining rates and making payments of interest and other administrative matters as may be appropriate, in the discretion of the Bank in consultation with the Borrower, to reflect the adoption of such LIBOR Successor Rate and to permit the administration thereof by the Bank in a manner substantially consistent with market practice (or, if the Bank determines that adoption of any portion of such market practice is not administratively feasible or that no market practice for the administration of such LIBOR Successor Rate exists, in such other manner of administration as the Bank determines is reasonably necessary in connection with the administration of this Note in consultation with the Borrower). Any definition of LIBOR Successor Rate shall provide that in no event shall such LIBOR Successor Rate be less than zero for purposes of this Note.

"Material Adverse Effect" shall mean an event or condition that has resulted in a material adverse effect on (a) the business or financial condition of the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Borrower to perform any of its material obligations under this Note or (c) the enforceability of the Bank's rights under this Note.

"Note" means this Term Loan Note, as amended, restated, supplemented or otherwise modified from time to time.

"Overnight Federal Funds Rate" means the rate per annum at which the New York branch of the Bank, as a branch of a foreign bank, in its sole discretion, can acquire federal funds in the interbank overnight federal funds market including through brokers of recognized standing.

"Person" shall mean any natural person, corporation, limited liability company, business trust, joint venture, association, company, partnership, governmental authority or other entity.

"Prime Lending Rate" means the rate established by the Bank from time to time as its prime lending rate for unsecured commercial loans within the United States (but is not intended to be the lowest rate of interest charged by the Bank in connection with extensions of credit to debtors).

"Quotation Day" means two (2) Business Days prior to the first day of a three (3) month interest period unless market practice differs in the London interbank market for United States Dollars, in which case the Quotation Day for such currency shall be determined by the Bank in accordance with market practice in the London interbank market (and if quotations would normally be given by leading banks in the London interbank market on more than one day, the Quotation Day shall be the last of those days).

“Sanctioned Country” means at any time, a country or region which is the subject of comprehensive country-wide or region-wide Sanctions.

“Sanctioned Person” means, at any time, (1) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, or by the United Nations Security Council, the European Union, Her Majesty’s Treasury of the United Kingdom or Australia.

“Sanctions” means all economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (i) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, or (ii) the United Nations Security Council, the European Union, Her Majesty’s Treasury of the United Kingdom or Australia.

“Screen Rate” means the ICE Benchmark Administration Settlement Rate for such three (3) month interest period as set forth on the applicable Bloomberg screen (and if such service ceases to be available, another service displaying the appropriate rate designated by the Bank).

“Significant Subsidiary” shall mean, at any time, each Subsidiary accounting for more than five percent (5%) of the consolidated revenues of the Borrower for the most recent period of four consecutive fiscal quarters of the Borrower for which historical financial statements of the Borrower have been delivered to the Bank or more than five percent (5%) of the consolidated total assets of the Borrower at the end of such period; provided that if at the end of or for any such period of four consecutive fiscal quarters all Subsidiaries that are not Significant Subsidiaries shall account for more than ten percent (10)% of the consolidated revenues of the Borrower or more than ten percent (10%) of the consolidated total assets of the Borrower, the Borrower shall designate sufficient Subsidiaries as “Significant Subsidiaries” to eliminate such excess (or if the Borrower shall have failed to designate such Subsidiaries within ten (10) Business Days, Subsidiaries shall automatically be deemed designated as Significant Subsidiaries in descending order based on the amounts of their contributions to consolidated revenues or consolidated total assets, as the case may be, until such excess shall have been eliminated), and the Subsidiaries so designated or deemed designated shall for all purposes of this Note constitute Significant Subsidiaries.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves), expressed as a decimal, established by the Board to which the Bank is subject for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. The Loan shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to the Bank under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Subsidiary” shall mean a subsidiary of the Borrower.

“Voting Shares” shall mean, as to a particular corporation or other Person, outstanding shares of stock or other equity interests of any class of such Person entitled to vote in the election of directors, or otherwise to participate in the direction of the management and policies, of such Person, excluding shares or equity interests entitled so to vote or participate only upon the happening of some contingency.

Nothing in this Note obliges the Bank to do or omit to do anything if it would, or might in the Bank’s reasonable opinion, constitute a breach of any AML/CTF Laws applicable to the Bank. The Borrower will provide to the Bank all information and documents that are within its possession, custody or control reasonably required by the Bank in order for the Bank to comply with any AML/CTF Laws. The Borrower agrees that the Bank may disclose any information concerning it to any law enforcement entity, regulatory agency or court where required by any laws or regulations. The Borrower will exercise its rights and perform its obligations in connection with this Note and the Loan in accordance with all applicable AML/CTF Laws.

Except as expressly provided to the contrary herein, any communication, notice or demand to be given hereunder shall be duly given if delivered or mailed by certified or registered mail or sent by telex or fax as follows:

If to the Borrower, at: Xylem, Inc.
1 International Drive.
Rye Brook, NY 10573
Email: mark.rajkowski@xyleminc.com
Fax: (914) 323-5952
Attention: E. Mark Rajkowski, Chief Financial Officer

If to the Bank, at: Australia and New Zealand Banking Group Limited
277 Park Avenue
New York, NY 10172
Email: LoanAdminNYC1177AA2@ANZ.com
Fax: (212) 536-9625
Attention: Lending Operations

The Borrower agrees that the Bank may act upon telex, facsimile, email or .pdf instructions which are received by the Bank from persons purporting to be, or which instructions appear to be authorized by the Borrower. The Borrower further agrees to indemnify and hold the Bank harmless from any claims by virtue of the Bank's acting upon such upon telex, facsimile, email or .pdf instructions as such instructions were understood by the Bank except for claims relating solely from the Bank's gross negligence, fraud, material breach of this Note or willful misconduct. The Bank shall not be liable for any errors in transmission or the illegibility of any documents sent by telex, facsimile, email or as a .pdf. In the event the Borrower sends the Bank a manually signed confirmation of instructions previously sent by telex, facsimile, email or as a .pdf, the Bank shall have no duty to compare it against the previous instructions received by the Bank nor shall the Bank have any responsibility should the contents of the written confirmation differ from the telex, facsimile, email or .pdf instructions acted upon by the Bank.

The Borrower agrees to indemnify and hold harmless the Bank and its Affiliates, directors, officers, employees, attorneys and agents (each, an "Indemnified Person") from and against any loss, cost, liability, damage or expense (including the reasonable and documented fees and disbursements of counsel of such Indemnified Person, including all local counsel hired by any such counsel) incurred by such Indemnified Person in investigating, preparing for, defending against, or providing evidence, producing documents or taking any other action in respect of, any commenced or threatened litigation, administrative proceeding or investigation under any federal securities law or any other statute of any jurisdiction, or any regulation, or at common law or otherwise, which is alleged to arise out of or is based upon (i) any untrue statement or alleged untrue statement of any material fact by the Borrower in any document or schedule executed or filed with any governmental authority by or on behalf of the Borrower; (ii) any omission or alleged omission to state any material fact required to be stated in such document or schedule, or necessary to make the statements made therein, in light of the circumstances under which made, not misleading; or (iii) any acts, practices or omissions or alleged acts, practices or omissions of the Borrower or its agents relating to the use of the proceeds of the Loan, or in violation of any federal securities law, AML/CTF Laws, Sanctions or of any other statute, regulation or other law of any jurisdiction applicable thereto. The indemnity set forth herein shall survive any payment of all Liabilities or termination of this Note.

No provision of this Note shall require the payment or permit the collection of interest in excess of the maximum rate permitted by applicable New York law.

The Borrower agrees to pay on demand all reasonable and documented costs and expenses incurred by the Bank in connection with the preparation, execution and delivery of this Note and any other documents appurtenant thereto, including without limitation, the reasonable and documented costs and expenses of the Bank's counsel. The Borrower agrees to pay on demand all documented costs and expenses, if any, incurred by the Bank and the reasonable and documented costs and expenses of counsel for the Bank in connection with the enforcement of this Note.

This Note may not be amended without the prior written consent of the Borrower and the Bank.

The provisions of this Note shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby. The Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Bank (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). The Bank may at any time assign to one or more Persons all or a portion of its rights and obligations under this Note (including all or a portion of the Loan at the time owing to it) with the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed); provided that the Borrower's prior written consent shall not be required in the case of an assignment to an Affiliate of the Bank (as defined above) or if an Event of Default has occurred and is continuing at the time of such assignment; provided, further, that the Borrower shall be deemed to have consented to an assignment unless it shall have objected thereto by written notice to the Bank within ten Business Days after having received notice thereof.

The Bank, acting solely for this purpose as an agent of the Borrower, shall maintain a register for the recordation of the names and addresses of each Recipient and principal amounts (and stated interest) of the Loan owing to, each Recipient pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrower and each Recipient shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Recipient hereunder for all purposes of this Note. The Register shall be available for inspection by Borrower and any Recipient, at any reasonable time and from time to time upon reasonable prior notice. Each Recipient that sells a participation shall, acting solely for this purpose as an agent of the Borrower, maintain a register on which it enters the name and address of each participant and the principal amounts (and stated interest) of each participant's interest in the Loan or other obligations under the Note (the "Participant Register"); provided that no Recipient shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any participant or any information relating to a participant's interest in any obligations under the Note or any related document) to any Person except to the extent that such disclosure is necessary to establish that such obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Recipient shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Note notwithstanding any notice to the contrary.

THIS NOTE AND THE RIGHTS AND OBLIGATIONS OF THE BORROWER HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. EACH OF THE BORROWER AND THE BANK HEREBY IRREVOCABLY WAIVES ALL RIGHT OF TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN CONNECTION WITH THIS NOTE OR ANY MATTER ARISING HEREUNDER. EACH OF THE BORROWER AND BANK SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE CITY OF NEW YORK TO RESOLVE ANY CLAIM OR DISPUTE ARISING HEREUNDER. THE BORROWER HEREBY EXPRESSLY WAIVES PRESENTMENT, PROTEST, NOTICE OF PROTEST AND/OR OF DEFAULT, NOTICE OF DISHONOR AND ALL OTHER NOTICES OR DEMANDS RELATING TO THIS NOTE.

This Note may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Note by telecopy, emailed pdf. or any other electronic means that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Note. The words “execution,” “signed,” “signature,” “delivery,” and words of like import in or relating to any document to be signed in connection with this Note and the transactions contemplated hereby shall be deemed to include Electronic Signatures, deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed and delivered by an authorized officer as of the day and year first above written.

Xylem Inc. as the Borrower

By: /s/ E. Mark Rajkowski
Name: E. Mark Rajkowski
Title: Senior Vice President and Chief Financial Officer

ACCEPTED AND AGREED:

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED,as the Bank

By: /s/ Robert Grillo
Name: Robert Grillo
Title: Director

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, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2020

/s/ Patrick K. Decker

Patrick K. Decker
President and Chief Executive Officer

EXHIBIT 31.2

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

I, E. Mark Rajkowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended March 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2020

/s/ E. Mark Rajkowski

E. Mark Rajkowski
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the “Company”) for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrick K. Decker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Patrick K. Decker

Patrick K. Decker
President and Chief Executive Officer
May 5, 2020

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the "Company") for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Mark Rajkowski, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ E. Mark Rajkowski

E. Mark Rajkowski
Senior Vice President and Chief Financial Officer
May 5, 2020

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