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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

or

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

For the transition period from to

Commission file number: 1-35229

Xylem Inc.

(Exact name of registrant as specified in its charter)

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

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

(202) 869-9150
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

As of July 29, 2022, there were 180,181,765 outstanding shares of the registrant’s common stock, par value $0.01 per share.

Xylem Inc.

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PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months		Six Months	
For the period ended June 30,	**2022**	2021	**2022**	2021
Revenue	**$ 1,364**	$ 1,351	**$ 2,636**	$ 2,607
Cost of revenue	**844**	831	**1,649**	1,597
Gross profit	**520**	520	**987**	1,010
Selling, general and administrative expenses	**314**	304	**618**	605
Research and development expenses	**53**	53	**105**	103
Restructuring and asset impairment charges	**7**	3	**7**	9
Operating income	**146**	160	**257**	293
Interest expense	**12**	21	**25**	42
Other non-operating income (expense), net	**2**	(3)	**1**	(1)
Gain from sale of business	**—**	2	**1**	2
Income before taxes	**136**	138	**234**	252
Income tax expense	**24**	25	**40**	52
Net income	**$ 112**	$ 113	**$ 194**	$ 200
Earnings per share:				
Basic	**$ 0.62**	$ 0.63	**$ 1.07**	$ 1.11
Diluted	**$ 0.62**	$ 0.62	**$ 1.07**	$ 1.10
Weighted average number of shares:				
Basic	**180.2**	180.1	**180.2**	180.2
Diluted	**180.6**	181.3	**180.8**	181.4

See accompanying notes to condensed consolidated financial statements.

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

	Three Months		Six Months	
For the period ended June 30,	**2022**	2021	**2022**	2021
Net income	**$ 112**	$ 113	**$ 194**	$ 200
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustment	**(41)**	19	**(44)**	29
Net change in derivative hedge agreements:				
Unrealized gain (loss)	**(9)**	4	**(15)**	(7)
Amount of loss (gain) reclassified into net income	**3**	1	**5**	(2)
Net change in post-retirement benefit plans:				
Amortization of prior service credit	**(1)**	—	**(1)**	(1)
Amortization of net actuarial loss into net income	**4**	5	**8**	11
Other comprehensive income (loss), before tax	**(44)**	29	**(47)**	30
Income tax expense (benefit) related to items of other comprehensive income (loss)	**27**	1	**30**	15
Other comprehensive income (loss), net of tax	**(71)**	28	**(77)**	15
Comprehensive income	**$ 41**	$ 141	**$ 117**	$ 215

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,113**	$ 1,349
Receivables, less allowances for discounts, returns and credit losses of $41 and $44 in 2022 and 2021, respectively	**1,024**	953
Inventories	**852**	700
Prepaid and other current assets	**185**	158
Total current assets	**3,174**	3,160
Property, plant and equipment, net	**608**	644
Goodwill	**2,714**	2,792
Other intangible assets, net	**975**	1,016
Other non-current assets	**718**	664
Total assets	**$ 8,189**	$ 8,276
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 648**	$ 639
Accrued and other current liabilities	**782**	752
Short-term borrowings and current maturities of long-term debt	**521**	—
Total current liabilities	**1,951**	1,391
Long-term debt	**1,879**	2,440
Accrued post-retirement benefits	**408**	438
Deferred income tax liabilities	**292**	287
Other non-current accrued liabilities	**456**	494
Total liabilities	**4,986**	5,050
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common Stock – par value $0.01 per share:		
Authorized 750.0 shares, issued 195.9 shares and 195.6 shares in 2022 and 2021, respectively	**2**	2
Capital in excess of par value	**2,111**	2,089
Retained earnings	**2,238**	2,154
Treasury stock – at cost 15.8 shares and 15.2 shares in 2022 and 2021, respectively	**(708)**	(656)
Accumulated other comprehensive loss	**(448)**	(371)
Total stockholders' equity	**3,195**	3,218
Non-controlling interests	**8**	8
Total equity	**3,203**	3,226
Total liabilities and stockholders' equity	**$ 8,189**	$ 8,276

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES

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

For the six months ended June 30,	2022	2021
Operating Activities		
Net income	$ 194	$ 200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56	59
Amortization	62	65
Share-based compensation	18	17
Restructuring and asset impairment charges	7	9
Gain from sale of business	(1)	(2)
Other, net	6	6
Payments for restructuring	(5)	(18)
Changes in assets and liabilities (net of acquisitions):		
Changes in receivables	(119)	(66)
Changes in inventories	(189)	(89)
Changes in accounts payable	40	36
Other, net	(37)	(11)
Net Cash – Operating activities	32	206
Investing Activities		
Capital expenditures	(95)	(80)
Proceeds from sale of business	1	2
Proceeds from the sale of property, plant and equipment	3	—
Cash received from investments	4	—
Cash paid for investments	(7)	—
Other, net	10	9
Net Cash – Investing activities	(84)	(69)
Financing Activities		
Repurchase of common stock	(52)	(68)
Proceeds from exercise of employee stock options	3	9
Dividends paid	(110)	(102)
Other, net	1	(1)
Net Cash – Financing activities	(158)	(162)
Effect of exchange rate changes on cash	(26)	(10)
Net change in cash and cash equivalents	(236)	(35)
Cash and cash equivalents at beginning of year	1,349	1,875
Cash and cash equivalents at end of period	$ 1,113	$ 1,840
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 40	$ 58
Income taxes (net of refunds received)	$ 42	$ 60

See accompanying notes to condensed consolidated financial statements.

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

Note 1. Background and Basis of Presentation

Background

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

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

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

Basis of Presentation

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

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

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

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

Note 2. Revenue

Disaggregation of Revenue

The following table illustrates the sources of revenue:

(in millions)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenue from contracts with customers	**$ 1,312**	$ 1,302	**$ 2,534**	$ 2,513
Lease Revenue	**52**	49	**102**	94
Total	**$ 1,364**	$ 1,351	**$ 2,636**	$ 2,607

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

(in millions)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Water Infrastructure				
Transport	**$ 432**	$ 414	**$ 825**	$ 784
Treatment	**104**	106	**194**	200
*Applied Water**				
Commercial Building Services	**147**	155	**308**	303
Residential Building Services	**79**	71	**153**	135
Industrial Water	**204**	188	**394**	369
Measurement & Control Solutions				
Water	**279**	288	**544**	571
Energy	**67**	80	**116**	151
Total	**$ 1,312**	$ 1,302	**$ 2,534**	$ 2,513

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

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

(in millions)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Water Infrastructure				
United States	**$ 165**	$ 142	**$ 312**	$ 265
Western Europe	**190**	190	**376**	363
Emerging Markets (a)	**120**	133	**221**	255
Other	**61**	55	**110**	101
Applied Water				
United States	**219**	202	**440**	396
Western Europe	**101**	99	**195**	191
Emerging Markets (a)	**79**	81	**159**	159
Other	**31**	32	**61**	61
Measurement & Control Solutions				
United States	**212**	224	**393**	437
Western Europe	**59**	69	**128**	143
Emerging Markets (a)	**50**	49	**94**	95
Other	**25**	26	**45**	47
Total	**$ 1,312**	$ 1,302	**$ 2,534**	$ 2,513

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

Contract Balances

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

(in millions)	Contract Assets (a)	Contract Liabilities
Balance at January 1, 2021	$ 117	$ 166
Additions, net	78	99
Revenue recognized from opening balance	—	(93)
Billings transferred to accounts receivable	(74)	—
Other	—	(1)
Balance at June 30, 2021	$ 121	$ 171
Balance at January 1, 2022	**$ 125**	**$ 164**
Additions, net	**63**	**97**
Revenue recognized from opening balance	**—**	**(75)**
Billings transferred to accounts receivable	**(61)**	**—**
Other	**(4)**	**(3)**
Balance at June 30, 2022	**$ 123**	**$ 183**

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

Performance obligations

Delivery schedules vary from customer to customer based upon their requirements. Typically, large projects require longer lead production cycles and delays can occur from time to time. As of June 30, 2022, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied for contracts with performance obligations, amount to $498 million. We expect to recognize the majority of revenue upon the completion of satisfying these performance obligations in the following three years. The Company elects to apply the practical expedient to exclude from this disclosure revenue related to performance obligations that are part of a contract whose original expected duration is less than one year.

Note 3. Restructuring and Asset Impairment Charges

Restructuring

From time to time, the Company will incur costs related to restructuring actions in order to optimize our cost base and more strategically position itself. During the three and six months ended June 30, 2022, we incurred restructuring charges of $6 million. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness.The charges included the reduction of headcount across all segments.

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

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

(in millions)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
By component:				
Severance and other charges	**$ 6**	$ 4	**$ 6**	$ 8
Asset impairment	**—**	—	**—**	1
Reversal of restructuring accruals	**—**	(1)	**—**	(1)
Total restructuring charges	**$ 6**	$ 3	**$ 6**	$ 8
Asset impairment charges	**1**	—	**1**	1
Total restructuring and asset impairment charges	**$ 7**	$ 3	**$ 7**	$ 9
By segment:				
Water Infrastructure	**$ 2**	$ 3	**$ 2**	$ 7
Applied Water	**1**	—	**1**	1
Measurement & Control Solutions	**4**	—	**4**	1

The following table displays a roll-forward of the restructuring accruals, presented on our Condensed Consolidated Balance Sheets within "Accrued and other current liabilities" and "Other non-current accrued liabilities", for the six months ended June 30, 2022 and 2021:

(in millions)	2022	2021
Restructuring accruals - January 1	**$ 7**	$ 29
Restructuring charges, net	**6**	8
Cash payments	**(5)**	(18)
Asset impairment	**—**	(1)
Restructuring accruals - June 30	**$ 8**	$ 18
By segment:		
Water Infrastructure	**$ 1**	$ 3
Applied Water	**—**	1
Measurement & Control Solutions	**4**	11
Regional selling locations (a)	**1**	3
Corporate and other	**2**	—

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

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

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2022:					
Total expected costs	$ 2	$ 1	$ 3	$ —	$ 6
Costs incurred during Q1 2022	—	—	—	—	—
Costs incurred during Q2 2022	2	1	2	—	5
Total expected costs remaining	**$ —**	**$ —**	**$ 1**	**$ —**	**$ 1**
Actions Commenced in 2021:					
Total expected costs	$ 3	$ —	$ 1	$ —	$ 4
Costs incurred during 2021	3	—	—	—	3
Costs incurred during Q1 2022	—	—	—	—	—
Costs incurred during Q2 2022	—	—	—	—	—
Total expected costs remaining	**$ —**	**$ —**	**$ 1**	**$ —**	**$ 1**

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

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

During the second quarter of 2022, we also incurred charges of $1 million within the Measurement & Control Solutions segment, related to actions commenced prior to 2021.

Note 4. Income Taxes

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

The income tax provision for the three months ended June 30, 2022 was $24 million resulting in an effective tax rate of 17.5%, compared to a $25 million expense resulting in an effective tax rate of 18.5% for the same period in 2021. The income tax provision for the six months ended June 30, 2022 was $40 million resulting in an effective tax rate of 17.0%, compared to a $52 million expense resulting in an effective tax rate of 20.7% for the same period in 2021. The effective tax rate for the three and six month periods ended June 30, 2022 was lower than the U.S. federal statutory rate primarily due to favorable earnings mix and tax settlement benefits, partially offset by the Global Intangible Low Taxed Income ("GILTI") inclusion.

Unrecognized Tax Benefits

During 2019, Xylem's Swedish subsidiary received a tax assessment for the 2013 tax year related to the tax treatment of an intercompany transfer of certain intellectual property that was made in connection with a reorganization of our European businesses. Xylem filed an appeal with the Administrative Court of Vaxjo, which rendered a decision adverse to Xylem in June 2022 for $80 million, consisting of the full tax assessment amount plus penalties and interest. Xylem intends to appeal this decision with the intermediate appellate court, the Administrative Court of Appeal (the "Court"). At this time, management, in consultation with external legal advisors, continues to believe it is more likely than not that Xylem will prevail on the proposed assessment and will continue to vigorously defend our position through the appellate process. The appeal to the Court is expected to take approximately one year; however, there can be no assurance as to the timing of the Court's decision. Both parties will have the ability to seek appeal of the Court's decision to the Supreme Administrative Court of Sweden. There can be no assurance that the final determination by the authorities will not be materially different than our position. As of June 30, 2022, we have not recorded any unrecognized tax benefits related to this uncertain tax position.

Note 5. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
Net income (in millions)	**$ 112**	$ 113	**$ 194**	$ 200
Shares (in thousands):				
Weighted average common shares outstanding	**180,123**	180,072	**180,164**	180,162
Add: Participating securities (a)	**33**	34	**29**	24
Weighted average common shares outstanding — Basic	**180,156**	180,106	**180,193**	180,186
Plus incremental shares from assumed conversions: (b)				
Dilutive effect of stock options	**438**	897	**513**	845
Dilutive effect of restricted stock units and performance share units	**56**	346	**129**	380
Weighted average common shares outstanding — Diluted	**180,650**	181,349	**180,835**	181,411
Basic earnings per share	**$ 0.62**	$ 0.63	**$ 1.07**	$ 1.11
Diluted earnings per share	**$ 0.62**	$ 0.62	**$ 1.07**	$ 1.10

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2022**	2021	**2022**	2021
Stock options	**1,647**	1,227	**1,491**	1,238
Restricted stock units	**362**	318	**346**	302
Performance share units	**270**	345	**252**	349

Note 6. Inventories

The components of total inventories are summarized as follows:

(in millions)	June 30, 2022	December 31, 2021
Finished goods	**$ 318**	$ 236
Work in process	**71**	58
Raw materials	**463**	406
Total inventories	**$ 852**	$ 700

Note 7. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying value of goodwill by reportable segment for the six months ended June 30, 2022 are as follows:

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Total
Balance as of January 1, 2022	$ 656	$ 515	$ 1,621	$ 2,792
Activity in 2022				
Foreign currency and other	(19)	(15)	(44)	(78)
Balance as of June 30, 2022	**$ 637**	**$ 500**	**$ 1,577**	**$ 2,714**

Other Intangible Assets

Information regarding our other intangible assets is as follows:

	June 30, 2022			December 31, 2021		
(in millions)	Carrying Amount	Accumulated Amortization	Net Intangibles	Carrying Amount	Accumulated Amortization	Net Intangibles
Customer and distributor relationships	**$ 914**	**$ (473)**	**$ 441**	$ 929	$ (456)	$ 473
Proprietary technology and patents	**198**	**(144)**	**54**	201	(142)	59
Trademarks	**138**	**(76)**	**62**	141	(72)	69
Software	**525**	**(274)**	**251**	548	(303)	245
Other	**20**	**(18)**	**2**	21	(18)	3
Indefinite-lived intangibles	**165**	**—**	**165**	167	—	167
Other Intangibles	**$ 1,960**	**$ (985)**	**$ 975**	$ 2,007	$ (991)	$ 1,016

Amortization expense related to finite-lived intangible assets was $32 million and $62 million for the three and six-month periods ended June 30, 2022, respectively, and $33 million and $65 million for the three and six month periods ended June 30, 2021, respectively.

Note 8. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Foreign Exchange Risk

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

Certain business units with exposure to foreign currency exchange risks have designated certain currency forward agreements as cash flow hedges of forecasted intercompany inventory purchases and sales. Our principal currency exposures relate to the Euro, Swedish Krona, British Pound, Canadian Dollar, Polish Zloty and Australian Dollar. We had foreign exchange contracts with purchased notional amounts totaling $278 million and $301 million as of June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022, our most significant foreign currency derivatives included contracts to sell U.S. Dollar and purchase Euro, purchase Swedish Krona and sell Euro, sell British Pound and purchase Euro, purchase U.S. Dollar and sell Canadian Dollar, sell Canadian Dollar and purchase Euro, sell Australian Dollar and purchase Euro, and to purchase Polish Zloty and sell Euro. The purchased notional amounts associated with these currency derivatives are $112 million, $83 million, $30 million, $15 million, $14 million, $13 million and $11 million, respectively. As of December 31, 2021 the purchased notional amounts associated with these currency derivatives are $130 million, $88 million, $31 million, $14 million, $14 million, $13 million and $11 million, respectively.

Hedges of Net Investments in Foreign Operations

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

Cross-Currency Swaps

Beginning in 2015, we entered into cross-currency swaps to manage our exposure to fluctuations in the Euro-U.S. Dollar exchange rate. During the second quarter of 2019, third quarter of 2020, and second quarter of 2022 we entered into additional cross-currency swaps. The total notional amount of derivative instruments designated as net investment hedges was $1,587 million and $1,151 million as of June 30, 2022 and December 31, 2021, respectively.

Foreign Currency Denominated Debt

On March 11, 2016, we issued 2.250% Senior Notes of €500 million aggregate principal amount due March 2023.

On June 2, 2022, we de-designated the entirety of the outstanding balance of the €500 million 2.250% Senior Notes, or $533 million from the net investment hedge relationship. Previously, the entirety of the outstanding balance, or $563 million as of December 31, 2021, net of unamortized discount, was designated as a hedge of a net investment in certain foreign subsidiaries.

Fair Value Hedges of Foreign Exchange Risk

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

On June 2, 2022, we entered into a currency forward agreement with a total notional amount of €500 million, designating the agreement as a fair value hedge of our Euro denominated notes. As of June 30, 2022, the total notional amount of the fair value hedge was $522 million.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2022**	2021	**2022**	2021
Cash Flow Hedges				
Foreign Exchange Contracts				
Amount of gain (loss) recognized in OCI	**$ (13)**	$ 4	**$ (19)**	$ (7)
Amount of (gain) loss reclassified from OCI into Revenue	**2**	1	**4**	(1)
Amount of (gain) loss reclassified from OCI into Cost of revenue	**1**	—	**1**	(1)
Net Investment Hedges				
Cross-Currency Swaps				
Amount of gain recognized in OCI	**$ 93**	$ 2	**$ 94**	$ 32
Amount of income recognized in Interest expense	**7**	5	**13**	10
Foreign Currency Denominated Debt				
Amount of gain (loss) recognized in OCI	**$ 23**	$ (6)	**$ 31**	$ 20
Fair Value Hedges				
Foreign Exchange Contracts				
Amount of gain recognized in OCI	**$ 4**	$ —	**$ 4**	$ —
Amount of (loss) recognized in Selling, general and administrative expenses	**$ (11)**	$ —	**$ (11)**	$ —
Amount recognized in Interest expense	**$ (1)**	$ —	**$ (1)**	$ —

As of June 30, 2022, $17 million of net losses on cash flow hedges are expected to be reclassified into earnings in the next 12 months.

As of June 30, 2022, no gains or losses on the net investment hedges are expected to be reclassified into earnings over their duration.

As of June 30, 2022, $4 million of net losses on the fair value hedges are expected to be reclassified into earnings in the next 12 months.

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

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

(in millions)	June 30, 2022	December 31, 2021
Derivatives designated as hedging instruments		
Assets		
Cash Flow Hedges		
Prepaid and other current assets	**$ 1**	$ —
Net Investment Hedges		
Other non-current assets	**$ 77**	$ 8
Liabilities		
Cash Flow Hedges		
Accrued and other current liabilities	**$ (14)**	$ (1)
Net Investment Hedges		
Other non-current accrued liabilities	**$ (1)**	$ (26)
Fair Value Hedges		
Accrued and other current liabilities	**$ (8)**	$ —

Our long-term debt, due in 2023, was de-designated from the hedging relationship in June 2022. The fair value of the long-term debt designated as a net investment hedge was $577 million as of December 31, 2021.

Note 9. Accrued and Other Current Liabilities

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

(in millions)	June 30, 2022	December 31, 2021
Compensation and other employee-benefits	**$ 248**	$ 273
Customer-related liabilities	**208**	186
Accrued taxes	**115**	86
Lease liabilities	**71**	69
Accrued warranty costs	**37**	40
Other accrued liabilities	**103**	98
Total accrued and other current liabilities	**$ 782**	$ 752

Note 10. Credit Facilities and Debt

Total debt outstanding is summarized as follows:

(in millions)	June 30, 2022	December 31, 2021
2.250% Senior Notes due 2023 (a)	**522**	564
3.250% Senior Notes due 2026 (a)	**500**	500
1.950% Senior Notes due 2028 (a)	**500**	500
2.250% Senior Notes due 2031 (a)	**500**	500
4.375% Senior Notes due 2046 (a)	**400**	400
Debt issuance costs and unamortized discount (b)	**(22)**	(24)
Total debt	**2,400**	2,440
Less: short-term borrowings and current maturities of long-term debt	**521**	—
Total long-term debt	**$ 1,879**	$ 2,440

(a) The fair value of our Senior Notes was determined using quoted prices in active markets for identical securities, which are considered Level 1 inputs. The fair value of our Senior Notes due 2023 was $525 million and $577 million as of June 30, 2022 and December 31, 2021, respectively. The fair value of our Senior Notes due 2026 was $487 million and $537 million as of June 30, 2022 and December 31, 2021 respectively. The fair value of our Senior Notes due 2028 was $446 million and $497 million as of June 30, 2022 and December 31, 2021, respectively. The fair value of our Senior Notes due 2031 was $419 million and $496 million as of June 30, 2022 and December 31, 2021, respectively. The fair value of our Senior Notes due 2046 was $367 million and $481 million as of June 30, 2022 and December 31, 2021, respectively.

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

Senior Notes

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

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

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

Interest on the Green Bond is payable on January 30 and July 30 of each year. As of June 30, 2022, we are in compliance with all covenants for the Green Bond.

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

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

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

Interest on the Senior Notes due 2021 was payable on April 1 and October 1 of each year. Interest on the Senior Notes due 2023 is payable on March 11 of each year. Interest on the Senior Notes due 2026 and the Senior Notes due 2046 is payable on May 1 and November 1 of each year. As of June 30, 2022, we are in compliance with all covenants for the Senior Notes.

Credit Facilities

2019 Five-Year Revolving Credit Facility

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

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

The 2019 Credit Facility requires that Xylem maintain a consolidated total debt to consolidated EBITDA ratio (or maximum leverage ratio), which will be based on the last four fiscal quarters; and in addition contains a number of customary covenants, including limitations on the incurrence of secured debt and debt of subsidiaries, liens, sale and lease-back transactions, mergers, consolidations, liquidations, dissolutions and sales of assets. The 2019 Credit Facility also contains customary events of default. Finally, Xylem has the ability to designate subsidiaries that can borrow under the 2019 Credit Facility, subject to certain requirements and conditions set forth in the 2019 Credit Facility. As of June 30, 2022, the 2019 Credit Facility was undrawn and we are in compliance with all revolver covenants.

Commercial Paper

U.S. Dollar Commercial Paper Program

Our U.S. Dollar commercial paper program generally serves as a means of short-term funding with a $600 million maximum issuing balance and a combined limit of $800 million inclusive of the 2019 Credit Facility. As of June 30, 2022 and December 31, 2021, none of the Company's $600 million U.S. Dollar commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Euro Commercial Paper Program

On June 3, 2019, Xylem entered into a Euro commercial paper program with ING Bank N.V., as administrative agent, and a syndicate of dealers. The Euro commercial paper program provides for a maximum issuing balance of up to €500 million (approximately $522 million) which may be denominated in a variety of currencies. The maximum issuing balance may be increased in accordance with the Dealer Agreement. As of June 30, 2022 and December 31, 2021, none of the Company's Euro commercial paper program was outstanding. We have the ability to continue borrowing under this program going forward in future periods.

Note 11. Post-retirement Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2022**	2021	**2022**	2021
Domestic defined benefit pension plans:				
Service cost	**$ —**	$ —	**$ 1**	$ 1
Interest cost	**1**	1	**2**	2
Expected return on plan assets	**(1)**	(1)	**(3)**	(3)
Amortization of net actuarial loss	**—**	1	**1**	2
Net periodic benefit cost	**$ —**	$ 1	**$ 1**	$ 2
International defined benefit pension plans:				
Service cost	**$ 4**	$ 3	**$ 7**	$ 7
Interest cost	**3**	3	**7**	6
Expected return on plan assets	**(3)**	(3)	**(7)**	(7)
Amortization of net actuarial loss	**3**	4	**6**	8
Net periodic benefit cost	**$ 7**	$ 7	**$ 13**	$ 14
Total net periodic benefit cost	**$ 7**	$ 8	**$ 14**	$ 16

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

The total net periodic benefit cost for other post-retirement employee benefit plans was less than $1 million, including net credits recognized into other comprehensive income of less than $1 million, for both the three and six months ended June 30, 2022 and 2021, respectively.

We contributed $10 million and $12 million to our defined benefit plans during the six months ended June 30, 2022 and 2021, respectively. Additional contributions ranging between approximately $7 million and $13 million are expected to be made during the remainder of 2022.

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

Note 12. Equity

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2022	$ 2	$ 2,089	$ 2,154	$ (371)	$ (656)	$ 8	$ 3,226
Net income	—	—	82	—	—	—	82
Other comprehensive loss, net	—	—	—	(6)	—	—	(6)
Dividends declared ($0.30 per share)	—	—	(55)	—	—	—	(55)
Stock incentive plan activity	—	10	—	—	(6)	—	4
Repurchase of common stock	—	—	—	—	(45)	—	(45)
Balance at March 31, 2022	$ 2	$ 2,099	$ 2,181	$ (377)	$ (707)	$ 8	$ 3,206
Net income	—	—	112	—	—	—	112
Other comprehensive income, net	—	—	—	(71)	—	—	(71)
Dividends declared ($0.30 per share)	—	—	(55)	—	—	—	(55)
Stock incentive plan activity	—	12	—	—	(1)	—	11
Balance at June 30, 2022	$ 2	$ 2,111	$ 2,238	$ (448)	$ (708)	$ 8	$ 3,203

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

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

Note 13. Share-Based Compensation Plans

Share-based compensation expense was $9 million and $18 million during the three and six months ended June 30, 2022, respectively, and $8 million and $17 million during the three and six months ended June 30, 2021, respectively. The unrecognized compensation expense related to our stock options, restricted stock units and performance share units was $9 million, $35 million and $17 million, respectively, at June 30, 2022 and is expected to be recognized over a weighted average period of 2.0, 2.1 and 2.4 years, respectively. The amount of cash received from the exercise of stock options was $3 million and $9 million for the six months ended June 30, 2022 and 2021, respectively.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2022:

	Share units (in thousands)	Weighted Average Exercise Price / Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2022	1,827	$ 64.12	6.1	102
Granted	306	86.76		
Exercised	(58)	48.07		
Forfeited and expired	(20)	90.49		
Outstanding at June 30, 2022	**2,055**	**$ 67.69**	**6.2**	**$ 32**
Options exercisable at June 30, 2022	**1,432**	**$ 59.14**	**5.1**	**$ 30**
Vested and expected to vest as of June 30, 2022	**1,980**	**$ 66.91**	**6.1**	**$ 31**

The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) during the six months ended June 30, 2022 was $2.1 million.

Stock Option Fair Value

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

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

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

Restricted Stock Unit Grants

The following is a summary of restricted stock unit activity for the six months ended June 30, 2022. The fair value of the restricted share unit awards is determined using the closing price of our common stock on date of grant:

	Share units (in thousands)	Weighted Average Grant Date Fair Value / Share
Outstanding at January 1, 2022	484	$ 88.47
Granted	323	86.42
Vested	(215)	84.40
Forfeited	(26)	91.34
Outstanding at June 30, 2022	**566**	**$ 88.72**

ROIC Performance Share Unit Grants

The following is a summary of Return on Invested Capital ("ROIC") performance share unit grants for the six months ended June 30, 2022. The fair value of the ROIC performance share units is equal to the closing share price on the date of the grant:

	Share units (in thousands)	Weighted Average Grant Date Fair Value / Share
Outstanding at January 1, 2022	177	$ 84.84
Granted	35	86.76
Forfeited (a)	(59)	75.49
Outstanding at June 30, 2022	**153**	**$ 88.89**

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

TSR Performance Share Unit Grants

The following is a summary of our Total Shareholder Return ("TSR") performance share unit grants for the six months ended June 30, 2022:

	Share units (in thousands)	Weighted Average Grant Date Fair Value / Share
Outstanding at January 1, 2022	177	$ 102.96
Granted	70	71.14
Adjustment for Market Condition Achieved (a)	22	89.62
Vested	(75)	89.62
Forfeited	(7)	87.54
Outstanding at June 30, 2022	**187**	**$ 100.64**

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

The fair value of TSR performance share units was calculated on the date of grant using a Monte Carlo simulation model utilizing several key assumptions, including expected Company and peer company share price volatility, correlation coefficients between peers, the risk-free rate of return, the expected dividend yield and other award design features. The following are weighted-average assumptions for 2022 grants:

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

Revenue Performance Share Unit Grants

The following is a summary of our Revenue performance share unit grants for the six months ended June 30, 2022:

	Share units (in thousands)	**Weighted Average Grant Date Fair Value / Share**
Outstanding at January 1, 2022	—	$ —
Granted	35	86.76
Forfeited	(1)	86.76
Outstanding at June 30, 2022	**34**	**$ 86.76**

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

Note 14. Capital Stock

For the three and six months ended June 30, 2022, the Company repurchased less than 0.1 million shares of common stock for $0.5 million and approximately 0.6 million shares of common stock for $52 million, respectively. For the three and six months ended June 30, 2021, the Company repurchased less than 0.1 million shares of common stock for $1 million and approximately 0.7 million shares of common stock for $68 million, respectively Repurchases include both share repurchase programs approved by the Board of Directors and repurchases in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. The details of repurchases by each program are as follows:

On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our stockholders and maintains our focus on growth. There were no shares repurchased under the program for the three months ended June 30, 2022. For the six months ended June 30, 2022, we repurchased 0.5 million shares for approximately $46 million. There were no shares repurchased under the program for the three months ended June 30, 2021. For the six months ended June 30, 2021, we repurchased 0.6 million shares for approximately $60 million. There are up to $182 million in shares that may still be purchased under this plan as of June 30, 2022.

Aside from the aforementioned repurchase program, we repurchased less than 0.1 million shares and approximately 0.1 million shares for less than $1 million and approximately $6 million for the three and six months ended June 30, 2022, respectively, in relation to settlement of employee tax withholding obligations due as a result of the vesting of restricted stock units. Likewise, we repurchased less than 0.1 million shares and approximately 0.1 million shares for $1 million and $8 million for the three and six months ended June 30, 2021, respectively.

Note 15. Accumulated Other Comprehensive Loss

The following table provides the components of Accumulated other comprehensive loss for the six months ended June 30, 2022:

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

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

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

Note 16. Commitments and Contingencies

Legal Proceedings

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

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

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claims, we do not believe it is reasonably possible that any asserted or unasserted legal claims or proceedings, individually or in aggregate, will have a material adverse effect on our results of operations, or financial condition. We have estimated and accrued $4 million as of June 30, 2022 and December 31, 2021 for these general legal matters.

Guarantees

We obtain certain stand-by letters of credit, bank guarantees, surety bonds and insurance letters of credit from third-party financial institutions in the ordinary course of business when required under contracts or to satisfy insurance-related requirements. As of June 30, 2022 and December 31, 2021, the amount of surety bonds, bank guarantees, insurance letters of credit, stand-by letters of credit as well as revenue and customs guarantees was $447 million and $415 million, respectively.

Environmental

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

Accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. Our accrued liabilities for these environmental matters represent our best estimates related to the investigation and remediation of environmental media such as water, soil, soil vapor, air and structures, as well as related legal fees. These estimates, and related accruals, are reviewed quarterly and updated for progress of investigation and remediation efforts and changes in facts and legal circumstances. Liabilities for these environmental expenditures are recorded on an undiscounted basis. We have estimated and accrued $4 million and $3 million as of June 30, 2022 and December 31, 2021 for environmental matters.

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

Warranties

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

(in millions)	**2022**	2021
Warranty accrual – January 1	**$ 57**	$ 65
Net charges for product warranties in the period	**11**	17
Settlement of warranty claims	**(12)**	(18)
Foreign currency and other	**(2)**	(1)
Warranty accrual - June 30	**$ 54**	$ 63

Note 17. Segment Information

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2022**	2021	**2022**	2021
Revenue:				
Water Infrastructure	**$ 589**	$ 569	**$ 1,122**	$ 1,078
Applied Water	**429**	414	**854**	807
Measurement & Control Solutions	**346**	368	**660**	722
Total	**$ 1,364**	$ 1,351	**$ 2,636**	$ 2,607
Operating Income (Loss):				
Water Infrastructure	**$ 108**	$ 93	**$ 182**	$ 164
Applied Water	**61**	64	**120**	130
Measurement & Control Solutions	**(5)**	13	**(15)**	22
Corporate and other	**(18)**	(10)	**(30)**	(23)
Total operating income	**$ 146**	$ 160	**$ 257**	$ 293
Interest expense	**$ 12**	$ 21	**$ 25**	$ 42
Other non-operating income, net	**2**	(3)	**1**	(1)
Gain from sale of business	**—**	2	**1**	2
Income before taxes	**$ 136**	$ 138	**$ 234**	$ 252
Depreciation and Amortization:				
Water Infrastructure	**$ 14**	$ 13	**$ 27**	$ 26
Applied Water	**5**	6	**10**	12
Measurement & Control Solutions	**34**	37	**68**	73
Regional selling locations (a)	**4**	4	**9**	9
Corporate and other	**2**	2	**4**	4
Total	**$ 59**	$ 62	**$ 118**	$ 124
Capital Expenditures:				
Water Infrastructure	**$ 13**	$ 13	**$ 30**	$ 24
Applied Water	**5**	3	**8**	7
Measurement & Control Solutions	**21**	20	**43**	41
Regional selling locations (b)	**5**	5	**10**	8
Corporate and other	**2**	—	**4**	—
Total	**$ 46**	$ 41	**$ 95**	$ 80

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

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

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

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

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

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, many of which are beyond our control. Additionally, many of these risks and uncertainties are, and may continue to be, amplified by impacts from the war between Russia and Ukraine, as well as the ongoing coronavirus (“COVID-19”) pandemic and related macroeconomic conditions (including inflation). Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include, among others, the following: the impact of overall industry and general economic conditions, including industrial, governmental, and public and private sector spending and the strength of the residential and commercial real estate markets, on economic activity and our operations; geopolitical events, including the war between Russia and Ukraine, and regulatory, economic and other risks associated with our global sales and operations, including with respect to domestic content requirements applicable to projects with governmental funding; continued uncertainty around the ongoing COVID-19 pandemic’s magnitude, duration and impacts on our business, operations, growth, and financial condition; actual or potential other epidemics, pandemics or global health crises; availability, shortage or delays in receiving electronic components (in particular, semiconductors), parts, and raw materials from our supply chain; manufacturing and operating cost increases due to macroeconomic conditions, including inflation, supply chain shortages, logistics challenges, tight labor markets, prevailing price changes, tariffs and other factors; demand for our products; disruption, competition or pricing pressures in the markets we serve; cybersecurity incidents or other disruptions of information technology systems on which we rely, or involving our products; disruptions in operations at our facilities or that of third parties upon which we rely; ability to retain and attract senior management and other diverse and key talent, as well as competition for overall talent and labor; difficulty predicting our financial results; defects, security, warranty and liability claims, and recalls with respect to products; availability, regulation or interference with radio spectrum used by certain of our products; uncertainty related to restructuring and realignment actions and related charges and savings; our ability to continue strategic investments for growth; our ability to successfully identify, execute and integrate acquisitions; volatility in served markets or impacts on business and operations due to weather conditions, including the effects of climate change; fluctuations in foreign currency exchange rates; our ability to borrow or refinance our existing indebtedness and uncertainty around the availability of liquidity sufficient to meet our needs; risk of future impairments to goodwill and other intangible assets; failure to comply with, or changes in, laws or regulations, including those pertaining to anti-corruption, data privacy and security, export and import, competition, and the environment and climate change; changes in our effective tax rates or tax expenses; legal, governmental or regulatory claims, investigations or proceedings and associated contingent liabilities; and other factors set forth under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 Annual Report") and in subsequent filings we make with the Securities and Exchange Commission (“SEC”).

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

Overview

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

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

COVID-19 Pandemic Update and Related Macroeconomic Impacts

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

Our markets and operations have largely demonstrated resilience against the effects of the pandemic. However, we have experienced, and may continue to experience, shortages in the supply of components, including electronics, particularly semiconductors ("chips"), parts and raw materials. For example, China has adopted and continues to rely upon a “zero-COVID” policy pursuant to which it has declared a number of total and partial lockdowns in cities throughout China that has, and may continue to adversely affect the global supply chain. As a result of these measures, our production facilities located in China have experienced, and may continue to experience in the future, reduced production levels.

To counteract the ongoing impacts on our supply chain, we are taking various actions, including building inventory to support backlog execution, qualifying alternative supply chains and redesigning our products. We expect chip supply to modestly improve in each successive quarter in 2022.

We have also experienced, and continue to experience, increased inflation, freight and logistics costs, and are engaging in various mitigation strategies, including enhanced price realization efforts.

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

Risk related to the pandemic, supply chain and macroeconomic issues, including inflation, are described in further detail under "Item 1A. Risk Factors" in the Company's 2021 Annual Report.

Executive Summary

Xylem reported revenue for the second quarter of 2022 of $1,364 million, an increase of 1.0% compared to $1,351 million reported in the second quarter of 2021. On a constant currency basis, revenue increased by $73 million, or 5.4%, driven by organic revenue growth in the Applied Water and Water Infrastructure segments, partially offset by organic declines in Measurement & Control Solutions. These results were driven by organic growth in the industrial, residential and utilities end markets, partially offset by organic declines in commercial.

We generated operating income of $146 million (margin of 10.7%) during the second quarter of 2022, as compared to $160 million (margin of 11.8%) in 2021. Operating income in the second quarter of 2022 included an unfavorable impact from increased restructuring and realignment costs of $2 million as compared to the second quarter of 2021, as well as an increase in special charges of $1 million. Excluding the impact of these items, adjusted operating income was $155 million (adjusted margin of 11.4%) during the second quarter of 2022 as compared to $166 million (adjusted margin of 12.3%) in 2021. The decrease in adjusted operating margin was primarily due to cost inflation, increased spending on strategic investments and some unfavorable mix. These impacts were partially offset by strong price realization and productivity savings.

Additional financial highlights for the quarter ended June 30, 2022 include the following:

- Orders of $1,684 million, up 1.4% from $1,660 million in the prior year, and up 5.8% on an organic basis.
- Earnings per share of $0.62, flat compared to prior year ($0.66, flat versus prior year, on an adjusted basis).
- Net income as a percent of revenue of 8.2%, down 20 basis points compared to 8.4% in the prior year. EBITDA margin of 15.1%, down 110 basis points when compared to 16.2% in the prior year (16.6% on an adjusted basis, down 70 basis points)
- Net cash flow used in operating activities of $32 million for the six months ended June 30, 2022, a decrease of $174 million during the same period of the prior year. Negative free cash flow of $63 million, down $189 million from the prior year.

Key Performance Indicators and Non-GAAP Measures

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions, except for per share data)	**2022**		2021		**2022**		2021	
Net income & Earnings per share	**$ 112**	**$ 0.62**	$ 113	$ 0.62	**$ 194**	**$ 1.07**	$ 200	$ 1.10
Restructuring and realignment, net of tax of $2 and $3 for 2022 and $1 and $3 for 2021	**6**	**0.03**	5	0.03	**9**	**0.06**	11	0.06
Special charges, net of tax of $0 and $1 for 2022 and $1 and $1 for 2021	**3**	**0.02**	2	0.01	**4**	**0.02**	5	0.03
Tax-related special items	**(1)**	**(0.01)**	1	0.01	**(2)**	**(0.01)**	7	0.04
Gain from sale of business, net of tax of $0 for 2022	**—**	**—**	(2)	(0.01)	**(1)**	**(0.01)**	(2)	—
Adjusted net income & Adjusted earnings per share	**$ 120**	**$ 0.66**	$ 119	$ 0.66	**$ 204**	**$ 1.13**	$ 221	$ 1.23

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

- “EBITDA” defined as earnings before interest, taxes, depreciation and amortization expense "EBITDA margin" defined as EBITDA divided by total revenue, "adjusted EBITDA" reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, special charges and gain or loss from sale of businesses, and "adjusted EBITDA margin" defined as adjusted EBITDA divided by total revenue.
- “realignment costs” defined as costs not included in restructuring costs that are incurred as part of actions taken to reposition our business, including items such as professional fees, severance, relocation, travel, facility set-up and other costs.
- “special charges" defined as costs incurred by the Company, such as acquisition and integration related costs, non-cash impairment charges and both operating and non-operating adjustments for costs related to the UK pension plan buy-out.
- "tax-related special items" defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, excess tax benefits/losses and other discrete tax adjustments.
- "free cash flow" defined as net cash from operating activities, as reported in the Condensed Consolidated Statement of Cash Flows, less capital expenditures. Our definition of "free cash flow" does not consider certain non-discretionary cash payments, such as debt. The following table provides a reconciliation of free cash flow.

	Six Months Ended June 30,	
(In millions)	**2022**	2021
Net cash provided by operating activities	**$ 32**	$ 206
Capital expenditures	**(95)**	(80)
Free cash flow	**$ (63)**	$ 126
Net cash used in investing activities	**$ (84)**	$ (69)
Net cash used in financing activities	**$ (158)**	$ (162)

2022 Outlook

We are updating our total revenue growth to be in the range of 3% to 5% in 2022, with organic revenue growth anticipated to be in the range of 8% to 10%. The following is a summary of our organic revenue outlook by end markets:

- Utilities revenue was flat through the first half of the year on an organic basis driven by strength in western Europe and tempered growth in North America offset by weakness in the emerging markets. For 2022, we expect organic revenue growth in the mid-single-digit range, as utilities remain focused on mission-critical applications in wastewater and operational activity and demand continues to be healthy and resilient. We expect uneven growth from China and India as multi-year government funding programs are deployed. On the clean water side, the timing of large project deployments has been impacted by the global shortage of electronic components. We anticipate that with modest easing of chip shortages, these deployments will ramp up based on our strong backlog position and orders momentum. Additionally, we can expect continued momentum in the global test and treatment markets and rising demand, and focus on pipeline assessment services.
- Industrial revenue increased by approximately 11% through the first half of the year on an organic basis driven by strength across all major geographic regions. For 2022, we expect organic revenue growth in the high-single-digit to low-double-digit range based on steady global demand. We continue to see robust growth in our dewatering business, especially in the emerging markets. In the U.S. and western Europe, we expect sustained demand in light industrial activity reflecting our strong orders and backlog, and considerable traction from new product introductions and large account activity in western Europe.
- In the commercial markets, organic revenue for the first half of the year increased by approximately 4% driven by western Europe and the U.S. For 2022, we expect organic revenue growth in the mid-single to high-single digit range. We expect solid replacement business and new product introductions in the U.S. and Europe. We also expect modest share gains, with demand for eco-friendly products supported by increase in funding for green buildings in Europe.
- In the residential markets, organic revenue increased by approximately 14% through the first half of the year driven by strength in the U.S. growth and western Europe, marginally offset by weakness in the emerging markets. This market is primarily driven by solid replacement revenue serviced through our distribution network. For 2022, we expect double-digit organic revenue growth. We anticipate activity to remain healthy from increased residential users in the U.S. and western Europe.

We will continue to strategically execute restructuring and realignment actions in an effort to optimize our cost structure, improve our operational efficiency and effectiveness, strengthen our competitive positioning and better serve our customers. During 2022, we expect to incur approximately $20 million and $25 million in restructuring and realignment costs.

Results of Operations

(In millions)	Three Months Ended June 30, 2022	2021	Change	Six Months Ended June 30, 2022	2021	Change
Revenue	**$ 1,364**	$ 1,351	1.0 %	**$ 2,636**	$ 2,607	1.1 %
Gross profit	**520**	520	— %	**987**	1,010	(2.3) %
Gross margin	**38.1 %**	38.5 %	(40) bp	**37.4 %**	38.7 %	(130) bp
Total operating expenses	**374**	360	3.9 %	**730**	717	1.8 %
Expense to revenue ratio	**27.4 %**	26.6 %	80 bp	**27.7 %**	27.5 %	20 bp
Restructuring and realignment costs	**8**	6	33.3 %	**12**	14	(14.3) %
Special charges	**1**	—	NM %	**2**	2	— %
Adjusted operating expenses	**365**	354	3.1 %	**716**	701	2.1 %
Adjusted operating expenses to revenue ratio	**26.8 %**	26.2 %	60 bp	**27.2 %**	26.9 %	30 bp
Operating income	**146**	160	(8.8) %	**257**	293	(12.3) %
Operating margin	**10.7 %**	11.8 %	(110) bp	**9.7 %**	11.2 %	(150) bp
Interest and other non-operating expense, net	**10**	24	(58.3) %	**24**	43	(44.2) %
Gain from sale of business	**—**	2	—	**1**	2	(50.0)
Income tax expense	**24**	25	(4.0) %	**40**	52	(23.1) %
Tax rate	**17.5 %**	18.5 %	(100) bp	**17.0 %**	20.7 %	(370) bp
Net income	**$ 112**	$ 113	(0.9) %	**$ 194**	$ 200	(3.0) %

NM - Not meaningful change

Revenue

Revenue generated during the three and six months ended June 30, 2022 was $1,364 million and $2,636 million, reflecting increases of $13 million, or 1.0%, and $29 million, or 1.1%, respectively, compared to the same prior year periods. On a constant currency basis, revenue grew 5.4% and 4.7% for the three and six months ended June 30, 2022. The increases on a constant currency basis were driven by organic revenue growth of $76 million and $127 million respectively, reflecting strong organic growth in western Europe and the U.S. for both periods, as the emerging markets were flat for the quarter and a decline for the year-to-date, with the COVID lockdowns mandated by the government in China offsetting organic growth in other parts of the region.

The following table illustrates the impact from organic growth, recent divestitures, and foreign currency translation in relation to revenue during the three and six months ended June 30, 2022:

(In millions)	Water Infrastructure $ Change	% Change	Applied Water $ Change	% Change	Measurement & Control Solutions $ Change	% Change	Total Xylem $ Change	% Change
2021 Revenue	$ 569		$ 414		$ 368		$ 1,351	
Organic Growth	54	9.5 %	30	7.2 %	(8)	(2.2)%	76	5.6 %
Divestitures	—	— %	—	— %	(3)	(0.8)%	(3)	(0.2)%
Constant Currency	54	9.5 %	30	7.2 %	(11)	(3.0)%	73	5.4 %
Foreign currency translation (a)	(34)	(6.0)%	(15)	(3.6)%	(11)	(3.0)%	(60)	(4.4)%
Total change in revenue	20	3.5 %	15	3.6 %	(22)	(6.0)%	13	1.0 %
2022 Revenue	**$ 589**		**$ 429**		**$ 346**		**$ 1,364**	

(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 British Pound, the Swedish Krona and the Australian Dollar.

	Water Infrastructure		Applied Water		Measurement & Control Solutions		Total Xylem	
(In millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2021 Revenue	$ 1,078		$ 807		$ 722		$ 2,607	
Organic Growth	97	9.0 %	70	8.7 %	(40)	(5.5)%	127	4.9 %
Divestitures	—	— %	—	— %	(5)	(0.7)%	(5)	(0.2)%
Constant Currency	97	9.0 %	70	8.7 %	(45)	(6.2)%	122	4.7 %
Foreign currency translation (a)	(53)	(4.9)%	(23)	(2.9)%	(17)	(2.4)%	(93)	(3.6)%
Total change in revenue	44	4.1 %	47	5.8 %	(62)	(8.6)%	29	1.1 %
2022 Revenue	**$ 1,122**		**$ 854**		**$ 660**		**$ 2,636**	

(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 British Pound, the Swedish Krona and the Australian Dollar.

Water Infrastructure

Water Infrastructure revenue increased $20 million, or 3.5%, for the second quarter of 2022 (9.5% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $34 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $54 million. Organic growth for the quarter was driven by strength in both the industrial and utility end markets. The industrial end market had organic growth across all major geographic regions, with particular strength in western Europe where we benefited from price realization and strong backlog execution, as well as strong dewatering demand in the emerging markets. The utilities end market also experienced organic growth led by strength in the U.S. driven by strong backlog and order intake execution, as well as good price realization, and in western Europe where we saw strong demand in utilities' capital spending. Strength in the utilities end market was partially offset by weakness in the emerging markets, mostly due to the negative impact of continued COVID lockdowns in China early on in the quarter.

From an application perspective, organic revenue growth for the second quarter was primarily driven by our transport applications reflecting strong revenue growth across all major geographies, with particular strength in the U.S., where we executed on a strong backlog, experienced solid price realization and healthy order intake, and in western Europe from solid price realization and increased demand in utility capital projects. We also experienced solid growth in emerging markets where Africa and Latin America benefited from robust mining and rental demand in our dewatering business. Organic revenue for the treatment application was also up modestly for the quarter, driven by healthy market conditions and solid backlog execution in western Europe and the U.S., partially offset by the negative impact in China as a result of the COVID lockdowns early in the quarter.

For the six months ended June 30, 2022, revenue increased $44 million, or 4.1% (9.0% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $53 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $97 million. Organic growth for the period was driven by strength in both the industrial and utility end markets. The industrial end market had organic growth across all major geographies, with particular strength in western Europe, Latin America and the U.S. The utilities end market also experienced organic growth led by strength in the U.S. and western Europe, bolstered by strong price realization, solid backlog execution and timing of projects as compared to prior year; which was partially offset by weakness in the emerging markets, primarily due to the negative impact of continued COVID lockdowns in China.

From an application perspective, organic revenue growth during the six-month period was driven almost entirely by our transport applications. Transport experienced strong revenue growth the U.S., where we executed on a strong backlog and experienced solid price realization, and in western Europe from solid price realization and strong utility project backlog execution. The emerging markets had strong growth in dewatering from mining demand in Latin America and Africa, which was partially offset by declines in China due to COVID lockdowns. Organic revenue for the treatment application was also up modestly for the period, as revenue growth from project deliveries and strong backlog execution in western Europe and the U.S. more than offset the negative impact in China as a result of the continued COVID lockdowns.

Applied Water

Applied Water revenue increased $15 million, or 3.6%, for the second quarter of 2022 (7.2% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $15 million of foreign currency translation, with the change at constant currency coming entirely from organic growth of $30 million, driven by strength in the industrial and residential end markets, partially offset by modest declines in the commercial end market. Organic revenue growth in the second quarter was led by strength in the industrial water application in the U.S. where we benefited from price realization and strong backlog execution, and in western Europe where we benefited from investments that drove strong growth in manufacturing output. Residential building services also grew organically during the quarter, primarily from price realization and strong backlog execution in the U.S., partially offset by declines in China impacted by COVID related project delays. Organic growth for the quarter was partially offset by the declines in the commercial building services application in the U.S., impacted by supply constraints more than offsetting the growth in western Europe due to healthy order intake and stocking by distributors.

For the six months ended June 30, 2022, revenue increased $47 million, or 5.8% (8.7% increase on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $23 million of foreign currency translation during the six month period, with the change at constant currency coming entirely from organic growth of $70 million. Organic growth during the period was driven by strength in every end market and across all major geographic regions, with particular strength in the U.S. and western Europe. Organic revenue growth during the six month period was led by strength in the industrial water application in the U.S. where we benefited from price realization and strong backlog execution, and in western Europe, driven by healthy order intake. The residential building services application also grew organically during the period, primarily in the U.S. driven by price realization and strong backlog execution. Commercial building services also grew organically during the period, particularly in western Europe due to distributors maintaining higher stock levels, and in the U.S. where we benefited from price realization and strong backlog execution.

Measurement & Control Solutions

Measurement & Control Solutions revenue decreased $22 million, or 6.0%, for the second quarter of 2022 (3.0% decrease on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $11 million of foreign currency translation, with the change at constant currency coming from an organic decline of $8 million and reduced revenue related to divestiture impacts of $3 million. Organic weakness in the quarter was driven by declines in the utility end markets in the U.S. and western Europe while the emerging markets remained relatively flat as compared to the prior year. The industrial end market experienced modest growth.

From an application perspective, organic revenue decline during the quarter was driven by declines in the energy applications, in the U.S. as a result of continued electronic component shortages affecting our smart metering business. The water applications had modest growth in the emerging markets where we executed on strong backlog.

For the six months ended June 30, 2022, revenue decreased $62 million, or 8.6% (6.2% decrease on a constant currency basis) as compared to the prior year. Revenue was negatively impacted by $17 million of foreign currency translation, with the change at constant currency coming from an organic decline of $40 million and reduced revenue related to divestiture impacts of $5 million. Organic weakness in the period was driven by declines in the utility end market across all major geographic regions, primarily driven by electronic component shortages which more than offset modest growth in the industrial end market.

From an application perspective, organic revenue declined during the six-month period driven by weakness in both the energy and water applications, primarily in the U.S. as a result of continued electronic component shortages affecting our smart metering business. Declines in the water applications were slightly offset by modest growth in the emerging markets from strong backlog execution in our test business.

Orders / Backlog

An order represents a legally enforceable, written document that includes the scope of work or services to be performed or equipment to be supplied to a customer, the corresponding price and the expected delivery date for the applicable products or services to be provided. An order often takes the form of a customer purchase order or a signed quote from a Xylem business. Orders received during the second quarter of 2022 were $1,684 million, an increase of $24 million, or 1.4%, over the prior year (5.5% increase on a constant currency basis). Orders received during the six months ended June 30, 2022 were $3,399 million, an increase of $201 million, or 6.3%, over the prior year (9.6% increase on a constant currency basis). Order intake was negatively impacted by $67 million and $107 million of foreign currency translation for the three and six months ended June 30, 2022, respectively.

The following table illustrates the impact from organic growth, recent divestitures, and foreign currency translation in relation to orders during the three and six months ended June 30, 2022:

	Water Infrastructure		**Applied Water**		**Measurement & Control Solutions**		**Total Xylem**	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2021 Orders	$ 639		$ 486		$ 535		$ 1,660	
Organic Growth	134	21.0 %	9	1.9 %	(47)	(8.8)%	96	5.8 %
Divestitures	—	— %	—	— %	(5)	(0.9)%	(5)	(0.3)%
Constant Currency	134	21.0 %	9	1.9 %	(52)	(9.7)%	91	5.5 %
Foreign currency translation (a)	(42)	(6.6)%	(15)	(3.1)%	(10)	(1.9)%	(67)	(4.0)%
Total change in orders	92	14.4 %	(6)	(1.2)%	(62)	(11.6)%	24	1.4 %
2022 Orders	**$ 731**		**$ 480**		**$ 473**		**$ 1,684**	

(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 British Pound, the Swedish Krona and the Australian Dollar.

	Water Infrastructure		**Applied Water**		**Measurement & Control Solutions**		**Total Xylem**	
(in millions)	$ Change	% Change	$ Change	% Change	$ Change	% Change	$ Change	% Change
2021 Orders	$ 1,250		$ 963		$ 985		$ 3,198	
Organic Growth	207	16.6 %	47	4.9 %	65	6.6 %	319	10.0 %
Divestitures	—	— %	—	— %	(11)	(1.1)%	(11)	(0.4)%
Constant Currency	207	16.6 %	47	4.9 %	54	5.5 %	308	9.6 %
Foreign currency translation (a)	(66)	(5.3)%	(25)	(2.6)%	(16)	(1.6)%	(107)	(3.3)%
Total change in orders	141	11.3 %	22	2.3 %	38	3.9 %	201	6.3 %
2022 Orders	**$ 1,391**		**$ 985**		**$ 1,023**		**$ 3,399**	

(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 British Pound, the Swedish Krona and the Australian Dollar.

Water Infrastructure

Water Infrastructure segment orders increased $92 million, or 14.4%, to $731 million (21.0% on a constant currency basis) for the second quarter of 2022 as compared to the prior year. Order growth for the quarter was negatively impacted by $42 million of foreign currency translation. The order increase on a constant currency basis in the quarter was driven by organic order growth in our transport applications across all major geographic regions, primarily in the U.S., where we benefited from strong market demand and large infrastructure projects. Transport also had organic order growth in western Europe, where we saw healthy demand and capital spending from utility customers and in emerging markets, primarily from continued mining demand in Africa. For the treatment application, organic orders declined in the quarter, primarily due to in weakness in the emerging markets from the impact of COVID lockdowns in China.

For the six months ended June 30, 2022, orders increased $141 million, or 11.3%, to $1,391 million (16.6% on a constant currency basis) as compared to the prior year. Order growth for the period was negatively impacted by $66 million of foreign currency translation. Organic orders increased during the period as strength in the transport applications came primarily from the U.S. where we benefited from strong market demand, large infrastructure projects and mining demand for the dewatering business. There was also order growth from water utility customers in western Europe and dewatering demand in the emerging markets coming from Africa and Latin America, partially offset by order declines in India where there was a large project order in the prior year, and China impacted by the COVID lockdowns. The treatment application saw a decrease in orders due to the prolonged COVID lockdowns in China, which more than offset project order wins in western Europe in the period.

Applied Water

Applied Water segment orders decreased $6 million, or 1.2%, to $480 million (1.9% increase on a constant currency basis) for the second quarter of 2022 as compared to the prior year. Order growth for the quarter was negatively impacted by $15 million of foreign currency translation. The order increase on a constant currency basis was driven by strength across all major geographic regions, primarily the emerging markets where we saw strong project orders in Africa and distributor order strength in India.

For the six months ended June 30, 2022, orders increased $22 million, or 2.3%, to $985 million (4.9% increase on a constant currency basis) as compared to the prior year. Order growth for the period was negatively impacted by $25 million of foreign currency translation. The order increase on a constant currency basis was driven by strength across all major geographic regions. This reflects demand and timing of orders to address longer lead times in the U.S and western Europe, and strong project orders in the emerging markets.

Measurement & Control Solutions

Measurement & Control Solutions segment orders decreased $62 million, or 11.6%, to $473 million (9.7% decrease on a constant currency basis) for the second quarter of 2022 as compared to the prior year. Order weakness for the quarter was negatively impacted by $10 million of foreign currency translation and reduced orders related to divestiture impacts of $5 million. The order decrease on a constant currency basis consisted primarily of organic order declines of $47 million, or (8.8)%. Organic orders for the quarter decreased in water applications, primarily driven by moderation of the early increased demand and advanced ordering to address electronic component shortages that we benefited from in the prior year and lapping of large prior year orders for metrology projects in the U.S. and western Europe. This decline was partially offset by strength in the energy applications driven by continued orders to mitigate electronic component shortages and longer lead times.

For the six months ended June 30, 2022, orders increased $38 million or 3.9%, to $1,023 million (5.5% increase on a constant currency basis) as compared to the prior year. Order growth for the period was negatively impacted by $16 million of foreign currency translation and reduced orders related to divestiture impacts of $11 million. The order increase on a constant currency basis consisted primarily of organic order growth of $65 million, or 6.6%. Organic orders for the period increased in the energy application, primarily driven by demand and continued advanced ordering to address electronic component shortages. This increase was offset by weakness in the water application driven by the moderation of early orders to mitigate electronic component shortages and longer lead times that drove order growth in the prior year, as well as modest order growth in our test application.

Backlog

Backlog includes orders on hand as well as contractual customer agreements at the end of the period. Delivery schedules vary from customer to customer based on their requirements. Annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. As such, beginning total backlog, plus orders, minus revenues, will not equal ending total backlog due to contract adjustments, foreign currency fluctuations, and other factors. Typically, large projects require longer lead production cycles and deployment schedules and delays occur from time to time. Total backlog was $3,757 million at June 30, 2022, an increase of $978 million or 35.2%, as compared to June 30, 2021 backlog of $2,779 million, and an increase of $517 million or 16.0%, as compared to December 31, 2021 backlog of $3,240 million, driven by the significant increase in orders in the year. We anticipate that approximately 40% of the backlog at June 30, 2022 will be recognized as revenue in the remainder of 2022. There were no significant order cancellations during the quarter.

Gross Margin

Gross margin as a percentage of revenue decreased 40 and 130 basis points to 38.1% and 37.4% for the three and six months ended June 30, 2022, as compared to 38.5% and 38.7% for the comparative 2021 period. The gross margin decrease for the quarter was primarily driven by cost inflation, as well as increased spending on strategic investments and unfavorable mix. These impacts were partially offset by price realization, productivity savings and net favorable impacts from exchange rate movements. The gross margin decrease for the six month period was primarily driven by cost inflation, as well as increased spending on strategic investments and unfavorable mix. These impacts were partially offset by price realization, productivity savings and net favorable impacts from foreign exchange rate movements.

Operating Expenses

The following table presents operating expenses for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2022**	2021	Change	**2022**	2021	Change
Selling, general and administrative expenses ("SG&A")	**$ 314**	$ 304	3.3 %	**$ 618**	$ 605	2.1 %
SG&A as a % of revenue	**23.0 %**	22.5 %	50 bp	**23.4 %**	23.2 %	20 bp
Research and development expenses ("R&D")	**53**	53	— %	**105**	103	1.9 %
R&D as a % of revenue	**3.9 %**	3.9 %	— bp	**4.0 %**	4.0 %	— bp
Restructuring and asset impairment charges	**7**	3	133.3 %	**7**	9	(22.2) %
Operating expenses	**$ 374**	$ 360	3.9 %	**$ 730**	$ 717	1.8 %
Expense to revenue ratio	**27.4 %**	26.6 %	80 bp	**27.7 %**	27.5 %	20 bp

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

SG&A expenses increased by $10 million to $314 million, or 23.0% of revenue, in the second quarter of 2022, as compared to $304 million, or 22.5% of revenue, in the comparable 2021 period; and increased by $13 million to $618 million, or 23.4% of revenue, in the six months ended June 30, 2022, as compared to $605 million, or 23.2% of revenue, in the comparable 2021 period. Revenue growth driven by favorable price realization was slightly higher than SG&A increases resulting in a slightly lower SG&A as a percentage of sales. Cost increases in the quarter were driven by increased spending on strategic investments and logistics costs, partially offset by cost reductions from our productivity, restructuring and other cost savings initiatives. Cost increases in the first half of the year were driven by increased spending on strategic investments partially offset by cost reductions from our productivity, restructuring and other cost savings initiatives.

Research and Development ("R&D") Expenses

R&D expense was $53 million, or 3.9% of revenue, in the second quarter of 2022, as compared to $53 million, or 4.0% of revenue in the second quarter of 2021; and was $105 million, or 4.0% of revenue, in the six months ended June 30, 2022, as compared to $103 million, or 4.0% of revenue, in the comparable 2021 period. The decrease in R&D as a percent of revenue for the quarter was primarily driven by timing of spending on strategic investments.

Restructuring and Asset Impairment Charges

Restructuring

During the three and six months ended June 30, 2022, we incurred restructuring charges of $6 million. We incurred these charges primarily as a continuation of our efforts to reposition our European and North American businesses to optimize our cost structure and improve our operational efficiency and effectiveness. The charges included the reduction of headcount across all segments.

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

The following is a roll-forward for the six months ended June 30, 2022 and 2021 of employee position eliminations associated with restructuring activities:

	2022	2021
Planned reductions - January 1	**60**	319
Additional planned reductions	**69**	72
Actual reductions and reversals	**(48)**	(202)
Planned reductions - June 30	**81**	189

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

(in millions)	Water Infrastructure	Applied Water	Measurement & Control Solutions	Corporate	Total
Actions Commenced in 2022:					
Total expected costs	$ 2	$ 1	$ 3	$ —	$ 6
Costs incurred during Q1 2022	—	—	—	—	—
Costs incurred during Q2 2022	2	1	2	—	5
Total expected costs remaining	**$ —**	**$ —**	**$ 1**	**$ —**	**$ 1**
Actions Commenced in 2021:					
Total expected costs	$ 3	$ —	$ 1	$ —	$ 4
Costs incurred during 2021	3	—	—	—	3
Costs incurred during Q1 2022	—	—	—	—	—
Costs incurred during Q2 2022	—	—	—	—	—
Total expected costs remaining	**$ —**	**$ —**	**$ 1**	**$ —**	**$ 1**

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

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

During the second quarter of 2022, we also incurred charges of $1 million within the Measurement & Control Solutions segment, related to actions commenced prior to 2021.

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

Operating Income and Adjusted EBITDA

Operating income during the second quarter of 2022 was $146 million, reflecting a decrease of 8.8% compared to $160 million in the second quarter of 2021. Operating margin was 10.7% for the second quarter of 2022 versus 11.8% for the comparable period in 2021, a decrease of 110 basis points. Operating margin was negatively impacted by increased restructuring and realignment costs of $2 million as compared to the second quarter of 2021, and an increase in special charges of $1 million. Excluding the impact of these items, adjusted operating income was $155 million with an adjusted operating margin of 11.4% in the second quarter of 2022 as compared to adjusted operating income of $166 million with an adjusted operating margin of 12.3% in the second quarter of 2021. The decrease in adjusted operating margin was primarily due to cost inflation, increased spending on strategic investments and some unfavorable mix. These impacts were partially offset by strong price realization and productivity savings.

Operating income for the six months ended June 30, 2022 was $257 million, reflecting a decrease of 12.3% compared to $293 million in 2021. Operating margin was 9.7% for the six months ended June 30, 2022 versus 11.2% for the comparable period in 2021, a decrease of 150 basis points. Operating margin benefited from a decrease in restructuring and realignment costs of $2 million as compared to 2021. Excluding the impact of these items, adjusted operating income was $271 million with an adjusted operating margin of 10.3% for the six months ended June 30, 2022 as compared to adjusted operating income of $309 million with an adjusted operating margin of 11.9% in 2021. The decrease in adjusted operating margin was impacted by the same dynamics impacting the decrease in adjusted operating margin for the quarter as compared to the prior year.

Adjusted EBITDA was $226 million (adjusted EBITDA margin of 16.6%) during the second quarter of 2022, a decrease of $8 million, or 3.4%, when compared to adjusted EBITDA of $234 million (adjusted EBITDA margin of 17.3%) during the comparable quarter in the prior year. The decrease in adjusted EBITDA margin was primarily due to the same factors impacting operating margin noted above.

Adjusted EBITDA for the six months ended June 30, 2022 was $407 million (adjusted EBITDA margin of 15.4%), a decrease of $42 million, or 9.4%, when compared to adjusted EBITDA of $449 million (adjusted EBITDA margin of 17.2%) during the comparable period in prior year. The decrease in adjusted EBITDA margin was primarily due to the same factors impacting operating margin noted above.

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

(In millions)	Three Months Ended June 30, 2022	2021	Change	Six Months Ended June 30, 2022	2021	Change
Water Infrastructure						
Operating income	**$ 108**	$ 93	16.1 %	**$ 182**	$ 164	11.0 %
Operating margin	***18.3 %***	*16.3 %*	*200 bp*	***16.2 %***	*15.2 %*	*100 bp*
Restructuring and realignment costs	**3**	4	(25.0) %	**4**	9	(55.6) %
Adjusted operating income	**$ 111**	$ 97	14.4 %	**$ 186**	$ 173	7.5 %
Adjusted operating margin	***18.8 %***	*17.0 %*	*180 bp*	***16.6 %***	*16.0 %*	*60 bp*
Applied Water						
Operating income	**$ 61**	$ 64	(4.7) %	**$ 120**	$ 130	(7.7) %
Operating margin	***14.2 %***	*15.5 %*	*(130) bp*	***14.1 %***	*16.1 %*	*(200) bp*
Restructuring and realignment costs	**2**	2	— %	**3**	3	— %
Special charges	**—**	—	NM	**—**	1	NM
Adjusted operating income	**$ 63**	$ 66	(4.5) %	**$ 123**	$ 134	(8.2) %
Adjusted operating margin	***14.7 %***	*15.9 %*	*(120) bp*	***14.4 %***	*16.6 %*	*(220) bp*
Measurement & Control Solutions						
Operating income (loss)	**$ (5)**	$ 13	(138.5) %	**$ (15)**	$ 22	168.2 %
Operating margin	***(1.4)%***	*3.5 %*	*(490) bp*	***(2.3)%***	*3.0 %*	*(530) bp*
Restructuring and realignment costs	**3**	—	NM	**5**	2	150.0 %
Special charges	**1**	—	NM	**1**	—	NM
Adjusted operating (loss) income	**$ (1)**	$ 13	(107.7) %	**$ (9)**	$ 24	137.5 %
Adjusted operating margin	***(0.3)%***	*3.5 %*	*(380) bp*	***(1.4)%***	*3.3 %*	*(470) bp*
Corporate and other						
Operating loss	**$ (18)**	$ (10)	(80.0) %	**$ (30)**	$ (23)	30.4 %
Special charges	**—**	—	NM	**1**	1	— %
Adjusted operating loss	**$ (18)**	$ (10)	80.0 %	**$ (29)**	$ (22)	31.8 %
Total Xylem						
Operating income	**$ 146**	$ 160	(8.8) %	**$ 257**	$ 293	(12.3) %
Operating margin	***10.7 %***	*11.8 %*	*(110) bp*	***9.7 %***	*11.2 %*	*(150) bp*
Restructuring and realignment costs	**8**	6	33.3 %	**12**	14	(14.3) %
Special charges	**1**	—	— %	**2**	2	— %
Adjusted operating income	**$ 155**	$ 166	(6.6) %	**$ 271**	$ 309	(12.3) %
Adjusted operating margin	***11.4 %***	*12.3 %*	*(90) bp*	***10.3 %***	*11.9 %*	*(160) bp*

NM - Not meaningful percentage change

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

	Three Months Ended June 30, 2022
Net Income	**$ 112**
Net Income margin	**8.2 %**
Depreciation	28
Amortization	32
Interest expense, net	10
Income tax expense	24
EBITDA	**$206**

	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$123**	**$66**	**$28**	**$(11)**	**$206**
Restructuring and realignment	3	2	3	0	8
Share-based compensation	0	1	2	6	9
Special charges	0	0	1	2	3
Adjusted EBITDA	**$126**	**$69**	**$34**	**$(3)**	**$226**
Adjusted EBITDA margin	***21.4 %***	***16.1 %***	***9.8 %***	***NM***	***16.6 %***

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

	Three Months Ended June 30, 2021
Net Income	**$113**
Net Income margin	**8.4 %**
Depreciation	29
Amortization	33
Interest expense, net	19
Income tax expense	25
EBITDA	**$219**

	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$104**	**$71**	**$49**	**$(5)**	**$219**
Restructuring and realignment	4	2	0	0	6
Share-based compensation	0	1	2	5	8
Special charges	0	0	0	3	3
(Gain) loss from sale of business	0	(2)	0	0	(2)
Adjusted EBITDA	**$108**	**$72**	**$51**	**$3**	**$234**
Adjusted EBITDA margin	***19.0 %***	***17.4 %***	***13.9 %***	***NM***	***17.3 %***

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

	2022 versus 2021				
	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$19**	**$(5)**	**$(21)**	**$(6)**	**$(13)**
Restructuring and realignment	(1)	0	3	0	2
Share-based compensation	0	0	0	1	1
Special charges	0	0	1	(1)	0
(Gain) loss from sale of business	0	2	0	0	2
Adjusted EBITDA	**$18**	**$(3)**	**$(17)**	**$(6)**	**$(8)**
Adjusted EBITDA margin	***2.4 %***	***(1.3)%***	***(4.1)%***	***NM***	***(0.7)%***

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

Six Months Ended
June 30, 2022

Net Income	**$ 194**
Net Income margin	**7.4 %**
Depreciation	56
Amortization	62
Interest expense, net	21
Income tax expense	40
EBITDA	**$373**

	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$206**	**$129**	**$53**	**$(15)**	**$373**
Restructuring and realignment	4	3	5	0	12
Share-based compensation	1	2	3	12	18
Special charges	0	0	1	4	5
(Gain) loss from sale of business	0	0	(1)	0	(1)
Adjusted EBITDA	**$211**	**$134**	**$61**	**$1**	**$407**
Adjusted EBITDA margin	***18.8 %***	***15.7 %***	***9.2 %***	***NM***	***15.4 %***

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

Six Months Ended
June 30, 2021

Net Income	**$200**
Net Income margin	**7.7 %**
Depreciation	59
Amortization	65
Interest expense, net	38
Income tax expense	52
EBITDA	**$414**

	Water Infrastructure	Applied Water	Measurement & Control Solutions	Other*	Total
EBITDA	**$186**	**$143**	**$93**	**$(8)**	**$414**
Restructuring and realignment	9	3	2	0	14
Share-based compensation	1	2	3	11	17
Special charges	0	1	0	5	6
(Gain) loss from sale of business	0	(2)	0	0	(2)
Adjusted EBITDA	**$196**	**$147**	**$98**	**$8**	**$449**
Adjusted EBITDA margin	***18.2 %***	***18.2 %***	***13.6 %***	***NM***	***17.2 %***

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

2022 versus 2021					
	Water Infrastructure	**Applied Water**	**Measurement & Control Solutions**	**Other***	**Total**
EBITDA	**$20**	**$(14)**	**$(40)**	**$(7)**	**$(41)**
Restructuring and realignment	(5)	0	3	0	(2)
Share-based compensation	0	0	0	1	1
Special charges	0	(1)	1	(1)	(1)
(Gain) loss from sale of business	0	2	(1)	0	1
Adjusted EBITDA	**$15**	**$(13)**	**$(37)**	**$(7)**	**$(42)**
Adjusted EBITDA margin	***0.6 %***	***(2.5)%***	***(4.4)%***	***NM***	***(1.8)%***

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

Water Infrastructure

Operating income for our Water Infrastructure segment increased $15 million, or 16.1%, for the second quarter of 2022 compared to the prior year, with operating margin also increasing from 16.3% to 18.3%. Operating margin benefited from a decrease in restructuring and realignment costs of $1 million during the quarter. Excluding these restructuring and realignment costs, adjusted operating income increased $14 million, or 14.4%, with adjusted operating margin increasing from 17.0% to 18.8%. The increase in adjusted operating margin for the quarter was primarily due to strong price realization, productivity savings, net favorable impacts from movements in exchange rates as well as modest favorability from volume and mix. These items were partially offset by cost inflation and increased spending on strategic investments.

For the six months ended June 30, 2022, operating income for our Water Infrastructure segment increased $18 million, or 11.0%, as compared to the prior year, with operating margin also increasing from 15.2% to 16.2%. Operating margin benefited from a decrease in restructuring and realignment costs of $5 million in 2022. Excluding these restructuring and realignment costs, adjusted operating income increased $13 million, or 7.5%, with adjusted operating margin increasing from 16.0% to 16.6%. The increase in adjusted operating margin for the period was primarily due to strong price realization, productivity savings, favorable volume and net favorable impacts from movements in exchange rates. These items were partially offset by cost inflation and increased spending on strategic investments.

Adjusted EBITDA was $126 million (adjusted EBITDA margin of 21.4%) for the second quarter of 2022, an increase of $18 million, or 16.7%, when compared to adjusted EBITDA of $108 million (adjusted EBITDA margin of 19.0%) during the prior year. The increase in adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin; however, adjusted EBITDA margin also benefited from an increase in investment income in the quarter included in other non-operating income/(expense).

Adjusted EBITDA was $211 million (adjusted EBITDA margin of 18.8%) for the six months ended June 30, 2022, an increase of $15 million, or 7.7%, when compared to adjusted EBITDA of $196 million (adjusted EBITDA margin of 18.2%) during 2021. The increase in adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin.

Applied Water

Operating income for our Applied Water segment decreased $3 million, or 4.7%, for the second quarter of 2022 compared to the prior year, with operating margin decreasing from 15.5% to 14.2%. Operating margin was impacted by restructuring and realignment costs of $2 million in both years. Excluding these items, adjusted operating income decreased $3 million, or 4.5%, with adjusted operating margin decreasing from 15.9% to 14.7%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation and increased logistics costs, increased spending on strategic investments, as well as unfavorable volume and mix. These impacts were partially offset by strong price realization and productivity savings.

For the six months ended June 30, 2022, operating income for our Applied Water segment decreased $10 million, or 7.7%, as compared to the prior year, with operating margin decreasing from 16.1% to 14.1%. Operating margin was impacted by restructuring and realignment costs of $3 million in both years and a decrease of special charges of $1 million in the first quarter of 2022. Excluding these items, adjusted operating income decreased $11 million, or 8.2%, with adjusted operating margin decreasing from 16.6% to 14.4%. The decrease in adjusted operating margin for the period was primarily due to cost inflation and increased logistics costs. These impacts were partially offset by price realization.

Adjusted EBITDA was $69 million (adjusted EBITDA margin of 16.1%) for the second quarter of 2022, a decrease of $3 million, or 4.2%, when compared to adjusted EBITDA of $72 million (adjusted EBITDA margin of 17.4%) during the prior year. The decrease in adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin.

Adjusted EBITDA was $134 million (adjusted EBITDA margin of 15.7%) for the six months ended June 30, 2022, a decrease of $13 million, or 8.8%, when compared to adjusted EBITDA of $147 million (adjusted EBITDA margin of 18.2%) during the prior year. The decrease in adjusted EBITDA margin was primarily due to the same factors impacting the increase in adjusted operating margin; however, adjusted EBITDA margin did not benefit from a year over year reduction in depreciation and amortization expense.

Measurement & Control Solutions

Operating income for our Measurement & Control Solutions segment decreased $18 million, or 138.5%, for the second quarter of 2022 compared to the prior year, with operating margin decreasing from 3.5% to (1.4)%. Operating margin was negatively impacted during the quarter by an increase of restructuring and realignment costs of $3 million. Excluding these items, adjusted operating income decreased $14 million, or (107.7)%, with adjusted operating margin decreasing from 3.5% to (0.3)%. The decrease in adjusted operating margin for the quarter was primarily due to cost inflation, unfavorable mix, unfavorable volume and increased spending on strategic investments. These impacts were partially offset by price realization and restructuring and productivity savings.

For the six months ended June 30, 2022, operating income for our Measurement & Control Solutions segment decreased $37 million, or 168.2%, as compared to the prior year, with operating margin decreasing from 3.0% to (2.3)%. Operating margin was negatively impacted by an increase of restructuring and realignment costs of $3 million. Excluding these items, adjusted operating income decreased $33 million, or 137.5%, with adjusted operating margin decreasing from 3.3% to (1.4)%. The decrease in adjusted operating margin for the period was primarily due to cost inflation and unfavorable volume and mix. These impacts were partially offset by price realization as well as restructuring and productivity savings.

Adjusted EBITDA was $34 million (adjusted EBITDA margin of 9.8%) for the second quarter of 2022, a decrease of $17 million, or 33.3%, when compared to adjusted EBITDA of $51 million (adjusted EBITDA margin of 13.9%) during the prior year. The decrease in adjusted EBITDA margin was due to the same factors as those impacting the increase in adjusted operating margin; however, adjusted EBITDA margin did not benefit from a year over year reduction in depreciation and amortization expense.

Adjusted EBITDA was $61 million (adjusted EBITDA margin of 9.2%) for the six months ended June 30, 2022, a decrease of $37 million, or 37.8%, when compared to adjusted EBITDA of $98 million (adjusted EBITDA margin of 13.6%) during the prior year. The decrease in adjusted EBITDA margin was due to the same factors as those impacting the increase in adjusted operating margin; however, adjusted EBITDA margin did not benefit from a year over year reduction in depreciation and amortization expense.

Corporate and other

Operating loss for corporate and other increased $8 million, or 80.0%, during the second quarter of 2022 compared to the prior year period. For the six months ended June 30, 2022, operating loss for corporate and other increased $7 million, or 30.4%, compared to the same prior period. The increases in operating loss in both periods are primarily due to spending on strategic investments and other initiatives, as well as timing of certain employee-related expenses as compared to prior year.

Interest Expense

Interest expense was $12 million and $25 million for the three and six months ended June 30, 2022 and $21 million and $42 million for the three and six months ended June 30, 2021, respectively. The decrease in interest expense is primarily driven by interest expense incurred during 2021 related to our senior note that was paid off in October 2021. See Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements for a description of our credit facilities and long-term debt and related interest.

Income Tax Expense

The income tax provision for the three months ended June 30, 2022 was $24 million resulting in an effective tax rate of 17.5%, compared to a $25 million expense resulting in an effective tax rate of 18.5% for the same period in 2021. The income tax provision for the six months ended June 30, 2022 was $40 million resulting in an effective tax rate of 17.0%, compared to a $52 million expense resulting in an effective tax rate of 20.7% for the same period in 2021. The effective tax rate for the three and six month period ended June 30, 2022 differs from the same period in 2021 due to the impact of tax settlement benefits in the current period as compared to tax settlement expenses in the prior year.

Liquidity and Capital Resources

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

	Six Months Ended June 30,		
(In millions)	**2022**	2021	Change
Operating activities	**$ 32**	$ 206	$ (174)
Investing activities	**(84)**	(69)	(15)
Financing activities	**(158)**	(162)	4
Foreign exchange (a)	**(26)**	(10)	(16)
Total	**$ (236)**	$ (35)	$ (201)

(a) The impact is primarily due to weakening of the Euro and Chinese Yuan partially offset by strengthening of the Russian Ruble.

Sources and Uses of Liquidity

Operating Activities

Cash generated by operating activities was $32 million for the six months ended June 30, 2022 as compared to $206 million in the comparable prior year period. The reduction in cash generated was primarily driven by higher working capital levels, reflecting increased safety stock and higher advanced payments to suppliers to mitigate supply chain volatility and higher accounts receivable driven by increased sales. Increased customer advances, as well as lower interest and income tax payments partially offset these items.

Investing Activities

Cash used in investing activities was $84 million for the six months ended June 30, 2022 as compared to $69 million in the comparable prior year period. The increase in spending was driven by higher capital expenditures driven primarily by investments in equipment and rental fleet.

Financing Activities

Cash used by financing activities was $158 million for the six months ended June 30, 2022 as compared to cash generated of $162 million in the comparable prior year period. The reduction in cash used was primarily driven by a decrease in share repurchases partially offset by higher dividend payments.

Funding and Liquidity Strategy

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

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

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

Based on our current global cash positions, cash flows from operations and access to the capital markets, we believe there is sufficient liquidity to meet our funding requirements and service debt and other obligations in both the U.S. and outside of the U.S. during the year. In addition, we believe our existing committed credit facilities and access to the public debt markets would provide further liquidity if required. Currently, we have available liquidity of approximately $1.9 billion, consisting of $1.1 billion of cash and $800 million of available credit facilities as disclosed in Note 10, "Credit Facilities and Debt", of our condensed consolidated financial statements. On October 1, 2021 our Senior Notes due 2021 were settled with cash on hand for a total of $600 million. Our next long-term debt maturity is March 2023.

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

Credit Facilities & Long-Term Contractual Commitments

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

Non-U.S. Operations

We generated approximately 54% and 56% of our revenue from non-U.S. operations for the both three and six months ended June 30, 2022 and 2021, respectively. As we continue to grow our operations in the emerging markets and elsewhere outside of the U.S., we expect to continue to generate significant revenue from non-U.S. operations and expect that a substantial portion of our cash will be predominately held by our foreign subsidiaries. We expect to manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the U.S. and other international subsidiaries when we believe it is cost-effective to do so. We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities, and reassess whether there is a need to repatriate funds held internationally to support our U.S. operations. As of June 30, 2022, we have provided a deferred tax liability of $4 million for net foreign withholding taxes and state income taxes on $485 million of earnings expected to be repatriated to the U.S. parent as deemed necessary in the future.

Critical Accounting Estimates

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

The uncertainty of the future impact of the COVID-19 pandemic and related macroeconomic impacts, such as the increasing cost of capital, may contribute to the deterioration of the forecasted future cash flows of our reporting units. If we do not achieve our forecasts, it is possible that the goodwill of the Advanced Infrastructure Analytics ("AIA") reporting unit could be deemed to be impaired in a future period. The risks and potential impacts of COVID-19 on the fair value of our assets are included in our risk factor disclosures referenced under “Item 1A. Risk Factors" in the Company's 2021 Annual Report.

Post-retirement Benefit Plans. As described in our 2021 Annual Report, the Company has initiated the process for a full buy-out of its largest defined benefit plan in the UK. Upon completion of the buy-out, expected in the remaining period of 2022, we anticipate a settlement charge of approximately £125 million (approximately $150 million), primarily consisting of unrecognized actuarial losses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the information concerning market risk as stated in our 2021 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

The following table presents information with respect to purchases of the Company's common stock by the Company during the three months ended June 30, 2022:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS) PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE (a)	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (b)	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (b)
4/1/22 - 4/30/22	—	—	—	**$182**
5/1/22 - 5/31/22	—	—	—	**$182**
6/1/22 - 6/30/22	—	—	—	**$182**

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

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

(b) On August 24, 2015, our Board of Directors authorized the repurchase of up to $500 million in shares with no expiration date. The program's objective is to deploy our capital in a manner that benefits our stockholders and maintains our focus on growth. There were no shares repurchased under this program for the three months ended June 30, 2022. There are up to $182 million in shares that may still be purchased under this plan as of June 30, 2022.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

XYLEM INC.
EXHIBIT INDEX

Exhibit Number	Description	Location
3.1	Fourth Amended and Restated Articles of Incorporation of Xylem Inc.	Incorporated by reference to Exhibit 3.1 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
3.2	Fourth Amended and Restated By-laws of Xylem Inc.	Incorporated by reference to Exhibit 3.2 of Xylem Inc.'s Form 8-K filed on May 15, 2017 (CIK No. 1524472, File No. 1-35229).
10.1	Annual Incentive Plan for Senior Leadership Team (Formerly "Annual Incentive Plan for Executive Officers") restated with administrative changes only, on July 11, 2022	Filed herewith.
10.2	Xylem Special Senior Executive Severance Pay Plan restated with administrative changes only, on July 11, 2022	Filed herewith.
10.3	Separation Agreement between Xylem Inc. and Colin R. Sabol	Filed herewith.
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
101.0	The following materials from Xylem Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022, formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Income Statements, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
104.0	The cover page from Xylem Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2022 formatted in Inline XBRL and contained in Exhibit 101.0.	

SIGNATURES

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

XYLEM INC.
(Registrant)

/s/ Geri McShane

Geri McShane
Vice President, Controller and Chief Accounting Officer

August 2, 2022

Restated, with administrative changes only, on July 11, 2022

XYLEM
ANNUAL INCENTIVE PLAN FOR THE SENIOR LEADERSHIP TEAM
(Formerly “Annual Incentive Plan for Executive Officers”)

1. Purpose

The purpose of this Xylem Annual Incentive Plan (“**AIP**”) for the Senior Leadership Team (“SLT”) is to provide incentive compensation in the form of a cash award to members of the SLT of Xylem Inc. (the “**Company**”) for achieving specific pre-established performance objectives and to continue to motivate participating SLT members to achieve their business goals, while tying a portion of their compensation to measures affecting shareholder value. The AIP seeks to enable the Company to continue to be competitive in its ability to attract and retain SLT members of the highest caliber. The AIP first became effective as of October 31, 2011.

2. Plan Administration

The Leadership Development and Compensation Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of the Company, as constituted by the Board from time to time, shall be comprised of non-employee directors who are independent under the requirements of the New York Stock Exchange and the rules of the Securities Exchange Commission.

The Committee shall have full power and authority to administer, construe and interpret the provisions of the AIP and to adopt and amend administrative rules and regulations, agreements, guidelines and instruments for the administration of the AIP and for the conduct of its business as the Committee considers appropriate.

The Committee shall have full power, to the extent permitted by law, to delegate its authority to any officer or employee of the Company to administer and interpret the procedural aspects of the AIP, subject to the terms of the AIP, including adopting and enforcing rules to decide procedural and administrative issues.

The Committee may rely on opinions, reports or statements of officers or employees of the Company and of counsel to the Company (inside or retained counsel), public accountants and other professional or expert persons.

The Board reserves the right to amend or terminate the AIP in whole or in part at any time; provided, however, that no amendments shall adversely affect or impair the rights of any participant that have previously accrued hereunder, without the written consent of the participant.

No member of the Committee shall be liable for any action taken or omitted to be taken or for any determination made by him or her in good faith with respect to the AIP, and the Company shall indemnify and hold harmless each member of the Committee against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Committee) arising out of any act or omission in connection with the administration or interpretation of the AIP, unless arising out of such person’s own fraud or bad faith.

3. Eligible Executives

Executives in salary Band A, which includes executive officers as defined by the Securities Exchange Act of 1934, Rule 3b-7, of the Company and its subsidiaries, shall be eligible to participate in the AIP.

4. Plan Year, Performance Periods, Performance Measures and Performance Targets

Each fiscal year of the AIP (the “**Plan Year**”) shall begin on January 1 and end on December 31. The performance period (the “**Performance Period**”) with respect to which incentive awards may be payable under the AIP shall be the Plan Year unless the Committee designates one or more different Performance Periods.

The Committee shall establish the performance measures (the “**Performance Measures**”) to be used which may include, one or more of the following criteria: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per share; (v) book value per share; (vi) return on shareholders’ equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales (including organic revenue); (xv) costs; (xvi) cash flow; (xvii) working capital (xviii) return on assets; (xix) total shareholder return; (xx) return on invested or total capital and (xxi) economic value added.

In addition, Performance Measures may be based upon other objectives such as negotiating transactions or sales, implementation of Company policy, development of long-term business goals or strategic plans, negotiation of significant corporate transactions, meeting specified market penetration goals, productivity measures, geographic business expansion goals, cost targets, customer satisfaction or employee satisfaction goals, goals relating to merger synergies, management of employment practices and employee benefits, or supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries and/or other affiliates or joint ventures; provided however, that the measurement of any such Performance Measures must be objectively determinable.

All Performance Measures shall be objectively determinable and, to the extent they are expressed in standard accounting terms, shall be according to generally accepted accounting principles as in existence on the date on which the applicable Performance Period is established and without regard to any changes in such principles after such date (unless the modification of a Performance Measure to take into account such a change is pre-established in writing at the time the Performance Measures are established in writing by the Committee).

The Committee shall establish the performance targets (the "**Performance Targets**") to be achieved which shall be based on one or more Performance Measures relating to the Company as a whole or to the specific businesses of the Company, subsidiaries, operating groups, or operating units, as determined by the Committee. Performance Targets may be established on such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies. The Committee also shall establish with respect to each incentive award an objective formula to be used in calculating the amount of incentive award each participant shall be eligible to receive. There may be a sliding scale of payment dependent upon the percentage levels of achievement of Performance Targets.

The Performance Measures and Performance Targets, which may be different with respect to each participant and each Performance Period, must be set forth in writing by the Committee within the first ninety (90) days of the applicable Performance Period or, if sooner, prior to the time when 25 percent of the relevant Performance Period has elapsed.

5. Certification of Performance Targets and Calculation of Incentive Awards

After the end of each Performance Period, and prior to the payment for such Performance Period, the Committee must certify in writing the degree to which the Performance Targets for the Performance Period were achieved, including the specific target objective or objectives and the satisfaction of any other material terms of the incentive award. The Committee shall calculate the amount of each participant's incentive award for such Performance Period based upon the Performance Measures and Performance Targets for such participant. In establishing Performance Targets and Performance Measures and in calculating the degree of achievement thereof, the Committee may ignore extraordinary items, property transactions, changes in accounting standards and losses or gains arising from discontinued operations. The Committee shall have authority or discretion to increase or decrease the amount or totally eliminate any such incentive award if it determines in its absolute and sole discretion that such action is appropriate in order to reflect the participant's performance or unanticipated factors during the Performance Period. The maximum payment that may be made with respect to incentive awards under the AIP to any participant in any one calendar year shall be $8,000,000; provided, however, that this limitation shall not apply with respect to any incentive award that is paid in a calendar year prior to the year it would ordinarily be paid because of a Change in Control or other transaction or event that provides for accelerated payment of an incentive award.

6. Payment of Incentive Awards

Approved incentive awards shall be payable by the Company in cash to each participant or to the participant's estate in the event of the participant's death, as soon as practicable (and in any event no later than 2 1/2 months) after the end of each Performance Period. No incentive award may be paid under the AIP until the Committee has certified in writing that the relevant Performance Targets were achieved.

If a participant is not an employee on the last day of the Performance Period, the following terms apply:

i. Termination due to Death, Disability, or Retirement: a prorated portion of the approved incentive award based on the participant's termination date shall be paid in cash to the participant as soon as practicable (and in any event no later than 2 ½ months) after the end of the Performance Period;.
ii. Due to a Change in Control: as described in Section 8.
iii. For all other circumstances, the Committee shall have sole discretion to determine what portion, if any, the participant shall be entitled to receive with respect to any award for the Performance Period; provided, however, that any payment in respect of an award shall be subject to the satisfaction of the applicable Performance Targets for the Performance Period.

The Committee shall have the authority to adopt appropriate rules and regulations for the administration of the AIP in the above termination cases. Notwithstanding the above, no incentive awards shall be paid under the AIP unless the AIP is approved by the requisite shareholders of the Company.

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

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

7. Other Terms and Conditions

Any award made under this AIP shall be subject to the discretion of the Committee. No person shall have any legal claim to be granted an award under the AIP and the Committee shall have no obligation to treat participants uniformly. Except as may be otherwise required by law, incentive awards under the AIP shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary. Incentive awards granted under the AIP shall be payable from the general assets of the Company, and no participant shall have any claim with respect to any specific assets of the Company.

Nothing contained in the AIP shall give any participant the right to continue in the employment of the Company or affect the right of the Company to terminate the employment of a participant.

The Company retains the right to deduct from any incentive awards paid under the AIP any Federal, state, local or foreign taxes required by law to be withheld with respect to such payment. In addition, if the Company in its reasonable judgment determines that a participant owes the Company any amount due to any loan, obligation or indebtedness, including amounts owed under the Company's tax equalization program or the Company's policies with respect to travel and business expenses, and the Participant has not satisfied these obligation(s), the Company may withhold and/or deduct funds equal to the amount of the obligation from payments under the AIP due to the Company from the participant to the maximum extent permitted by Code Section 409A.

If the participant is covered by the Company's Clawback Policy, the Awards granted under the AIP will be subject to the Policy and may be subject to recovery (in whole or in part) by the Company. The Policy may be amended from time to time by the Committee, including amendments to comply with applicable laws, regulations or stock exchange listing requirements.

8. "Change in Control" means the occurrence of any of the following:

i. A person or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) (other than the Company or a subsidiary of the Company or any employee benefit plan sponsored by the Company or a subsidiary) becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Act) of 30% or more of the outstanding common stock of Xylem Inc. (the "Stock");

ii. any person or group (other than the Company or a subsidiary of the Company, or any employee benefit plan sponsored by the Company or a subsidiary) purchases shares to acquire Stock (or securities convertible into Stock) through a tender offer or exchange offer where after consummation of the offer, the person in question will be the beneficial owner, directly or indirectly, of 30% or more of Stock;

iii. the consummation of (A) any consolidation, business combination or merger involving the Company, except where holders of Stock immediately prior to the consolidation, business combination or merger (x) continue to hold 50% or more of the combined voting power of the Company (or the corporation resulting from the merger or consolidation or the parent of such corporation) after the merger and (y) have the same proportionate ownership of Stock of the Company (or the corporation resulting from the merger or consolidation or the parent of such corporation), relative to other holders of Stock immediately after the transaction as immediately before, or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company;

iv. there is a change in a majority of the members of the Board of Directors of the Company within a 12-month period unless the election or nomination by the Company's stockholders of each new director during such 12-month period was approved by the vote of 2/3rds of the directors then still in office who (x) were directors at the beginning of the 12-month period or (y) whose nomination or election as directors was recommended or approved by a majority of the directors who were directors at the beginning of the 12-month period; or

v. approval by the Company's shareholders of a plan of complete liquidation or dissolution of the Company, other than a plan of liquidation or dissolution which results in the acquisition of all or substantially all of the assets by an Affiliate of the Company.

Upon the occurrence of a Change in Control, the Performance Measures for each Performance Period with respect to which incentive awards may be payable under the AIP shall be deemed to be achieved at the greater of (i) the Performance Target established for such Performance Measures or (ii) the Company's actual achievement of such Performance Measures as of the Change in Control. Payment of the incentive awards, for the full year, will be made to each participant, in cash, within five (5) business days following such Change in Control.

9. Governing Law

This AIP will be construed and governed in accordance with the laws of the State of New York.

XYLEM
SPECIAL SENIOR EXECUTIVE SEVERANCE PAY PLAN

1. Purpose

The purpose of this Xylem Special Senior Executive Severance Pay Plan ("**Plan**") is to assist in occupational transition by providing Severance Benefits for employees covered by this Plan whose employment is terminated under conditions set forth in this Plan.

The Plan first became effective as of October 31, 2011 following the spin-off of Xylem Inc. from ITT Corporation (the "**Predecessor Corporation**") on October 31, 2011. The Predecessor Corporation maintained a similar plan prior to the spin-off (the "**Predecessor Plan**"), and the Plan was created to continue service accruals under the Predecessor Plan. The Plan will remain in effect as provided in Section 9 hereof, and covered employees will receive full credit for their service and participation with the Predecessor Corporation as provided in Section 5 hereof.

2. Covered Employees

Covered employees under this Plan ("**Executives**") are active full-time, regular salaried employees of Xylem Inc., ("**Xylem**") and of any subsidiary company ("**Xylem Subsidiary**") (collectively or individually as the context requires "**Company**"; provided, however, that for purposes of service under the Predecessor Plan, Company will include the Predecessor Corporation) (including Executives who are short term disabled as of a Potential Change in Control within the meaning of the Company's short term disability plans) (other than Executives on periodic severance as of a Potential Change in Control) who are in Band A or were in Band A at any time within the two year period immediately preceding a Change in Control and such other employees of the Company who will be designated as covered employees in Band A under the Plan by the Leadership Development and Compensation Committee of Xylem's Board of Directors. Executives who are employed outside of the United States are eligible for country specific severance benefits (only) if the country specific severance benefits are higher than the severance benefits listed below.

"**Band A**" will have the meaning given such terms under the executive classification system of the Xylem Human Resources Department as in effect immediately preceding a Change in Control.

After the occurrence of a Change in Control, the terms "Xylem", "Xylem Subsidiary" and "Company" as used herein will also include, respectively and as the context requires, any successor company to Xylem or any successor company to any Xylem Subsidiary and any affiliate of any such successor company.

3. Definitions

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

"Change in Control" means the occurrence of any of the following:

(i) a person or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) (other than the Company or a subsidiary of the Company or any employee benefit plan sponsored by the Company or a subsidiary) becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Act) of 30% or more of the outstanding common stock of Xylem Inc. (the "Stock");

(ii) any person or group (other than the Company or a subsidiary of the Company, or any employee benefit plan sponsored by the Company or a subsidiary) purchases shares to acquire Stock (or securities convertible into Stock) through a tender offer or exchange offer where after consummation of the offer, the person in question will be the beneficial owner, directly or indirectly, of 30% or more of Stock;

(iii) the consummation of (A) any consolidation, business combination or merger involving the Company, except where holders of Stock immediately prior to the consolidation, business combination or merger (x) continue to hold 50% or more of the combined voting power of the Company (or the corporation resulting from the merger or consolidation or the parent of such corporation) after the merger and (y) have the same proportionate ownership of Stock of the Company (or the corporation resulting from the merger or consolidation or the parent of such corporation), relative to other holders of Stock immediately after the transaction as immediately before, or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company;

(iv) there is a change in a majority of the members of the Board of Directors of the Company within a 12-month period unless the election or nomination by the Company's stockholders of each new director during such 12-month period was approved by the vote of 2/3rds of the directors then still in office who (x) were directors at the beginning of the 12-month period or (y) whose nomination or election as directors was recommended or approved by a majority of the directors who were directors at the beginning of the 12-month period; or

(v) approval by the Company's shareholders of a plan of complete liquidation or dissolution of the Company, other than a plan of liquidation or dissolution which results in the acquisition of all or substantially all of the assets by an Affiliate of the Company.

"**Code**" means the Internal Revenue Code of 1986, as amended.

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

Good Reason excludes an isolated, insubstantial and inadvertent action not taken in bad faith that is resolved by the Company or an Affiliate within 30 days of receiving notice.

"**Potential Change in Control**" means any execution of an agreement, the commencement of a tender offer or any other transaction or event that if consummated would result in a Change in Control.

4. Severance Benefits Upon Termination of Employment

If an Executive's employment with the Company is terminated due to a Qualifying Termination, he or she will receive the severance benefits set forth in Section 5 hereof ("Severance Benefits"). "**Qualifying Termination**" means a termination of an Executive's employment with the Company either;

(i) by the Company without Cause (A) within the two (2) year period commencing on the date of the occurrence of a Change in Control or (B) prior to the occurrence of a Change in Control and either (1) following the public announcement of the transaction or event which ultimately results in such Change in Control or (2) at the request of a party to, or participant in, the transaction or event which ultimately results in a Change in Control; or

(ii) by an Executive for Good Reason within the two (2) year period commencing with the date of the occurrence of a Change in Control.

5. Severance Benefits

Severance Benefits for Executives (i) in Band A at the time of a Qualifying Termination or at any time during the two (2) year period immediately preceding the Change in Control or (ii) designated as a covered employee in Band A in accordance with Section 2 hereof:

A. Accrued Rights – The Executive's base salary through the date of termination of employment, any annual bonus earned but unpaid as of the date of termination for any previously completed fiscal year, reimbursement for any unreimbursed business expenses properly incurred by the Executive in accordance with Company policy prior to the date of the Executive's termination of employment and such employee benefits, if any, as to which the Executive may be entitled under the employee benefit plans of the Company, including without limitation, the payment of any accrued or unused vacation under the Company's vacation policy.

B. Severance Pay – The sum of:

(i) three (3) times (for hire or promotion date prior to May 1, 2012) or two (2) times (for hire or promotion date on or after May 1, 2012) the current annual base salary rate paid or in effect (whether or not deferred) with respect to the Executive at the time of the Executive's termination of employment, and

(ii) three (3) times (for hire or promotion date prior to May 1, 2012) or two (2) times (for hire or promotion date on or after May 1, 2012) the most recent annual bonus paid to or earned (target annual bonus for new hire without a full performance year) by the Executive (whether or not deferred) in respect of the Company's most recent completed fiscal year prior to the date of the Executive's termination of employment.

C. Benefits

(i) Continued health and life insurance benefits for a three (3) year period (for hire or promotion date prior to May 1, 2012) or two (2) year period (for hire or promotion date on or after May 1, 2012) following the Executive's termination of employment at the same cost to the Executive, and at the same coverage levels, as provided to the Executive (and the Executive's eligible dependents) immediately prior to his or her termination of employment. In the event the Company changes health and/or life insurance programs, coverage levels, benefit providers and/or modifies benefit contributions, the Executive would be treated consistent with other Band A executives. In the event continuation of health and/or life insurance is not permissible, the Company may provide alternative benefits or payments as described under the subheading "General" below.

(ii) Payment of a lump sum amount ("**Savings Plan Lump Sum Amount**") equal to three (3) times (for hire or promotion date prior to May 1, 2012) or two (2) times (for hire or promotion date on or after May 1, 2012) the following amount: the product of (x) the current annual base salary rate and annual bonus as determined above as "Severance Pay" and (y) the current aggregate percentage used to determine company contributions which the Executive would have been eligible for under the Xylem Retirement Savings Plan and Xylem Supplemental Retirement Savings Plan (or corresponding savings plan arrangements outside of the United States or any successor plans thereto) in respect of the plan year during which the Executive's termination of employment occurs.

D. Outplacement – Outplacement services for one year.

General

If, for any reason at any time the Company is unable to treat the Executive as being eligible for ongoing participation in any Company employee benefit plans in existence immediately prior to the termination of employment of the Executive, and if, as a result, the Executive does not receive a benefit or receives a reduced benefit, the Company will provide such benefits by making available equivalent benefits from other sources or making cash payments providing equivalent value (as reasonably determined in good faith by the Company) in a manner consistent with Section 15 below.

Notwithstanding any other provision of the Plan to the contrary, all prior service and participation by an Executive with the Predecessor Corporation will be credited in full towards an Executive's service and participation with the Company.

6. Form of Payment of Severance Pay and Lump Sum Payments

Severance Pay and the Savings Plan Lump Sum Amount will be paid in cash within thirty (30) calendar days after the date the employment of the Executive terminates. The timing of payments will be subject to Section 15, in all respects.

7. Termination of Employment — Other

The Severance Benefits will only be payable upon an Executive's termination of employment due to a Qualifying Termination; provided, that if, following the occurrence of a Change in Control, an Executive is terminated due to the Executive's death or disability (as defined in the long-term disability plan that the Executive is entitled to participate (whether or not the Executive voluntarily participates in such plan)) and, at the time of such termination, the Executive had grounds to resign with Good Reason, such termination of employment will be deemed to be a Qualifying Termination.

8. Administration of Plan

This Plan will be administered by the Company's Human Resources Department, who will have the exclusive right to interpret this Plan, adopt any rules and regulations for carrying out this Plan as may be appropriate and decide any and all matters arising under this Plan, including but not limited to the right to determine appeals. Subject to applicable Federal and state law, all interpretations and decisions by the Company will be final, conclusive and binding on all parties affected thereby.

Notwithstanding the preceding paragraph, following a Change in Control, any controversy or claim arising out of or relating to this Plan, or the breach thereof, will be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules and the entire cost thereof will be borne by the Company. The location of the arbitration proceedings will be reasonably acceptable to the Executive. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The Company will pay all legal fees, costs of litigation, prejudgment interest, and other expenses which are incurred in good faith by the Executive as a result of the Company's refusal to provide any of the Severance Benefits to which the Executive becomes entitled under this Plan, or as a result of the Company's (or any third party's) contesting the validity, enforceability, or interpretation of this Plan, or as a result of any conflict between the Executive and the Company pertaining to this Plan. The Company will pay such fees and expenses from the general assets of the Company.

9. Termination or Amendment

Xylem may terminate or amend this Plan ("**Plan Change**") at any time except that following the occurrence of (i) Change in Control or (ii) a Potential Change in Control, no Plan Change that would adversely affect any Executive may be made without the prior written consent of such Executive affected thereby; provided, however, that (ii) above will cease to apply if such Potential Change in Control does not result in the occurrence of a Change in Control.

10. Offset

Any Severance Benefits provided to an Executive under this Plan will be offset in a manner consistent with Section 15 by reducing (x) any Severance Pay hereunder by any severance pay, salary continuation pay, termination pay or similar pay or allowance and (y) any other Severance Benefits hereunder by corresponding employee benefits, or outplacement services, which the Executive receives or is entitled to receive, (i) under the Xylem Senior Executive Severance Pay Plan; (ii) pursuant to any other Company policy, practice, program or arrangement; (iii) pursuant to any Company employment agreement or other agreement with the Company; or (iv) by virtue of any law, custom or practice excluding, however, any unemployment compensation in the United States, unless the Executive voluntarily expressly waives (which the Executive will have the exclusive right to do) in writing any such respective entitlement.

11. Excise Tax

If it is determined that any Payment would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the aggregate of all Payments will be reduced so that the Present Value of the aggregate of all Payments does not exceed the Safe Harbor Amount; provided, however, that no such reduction will be effected if the Net After-tax Benefit to the Executive of receiving all of the Payments exceeds the Net After-tax Benefit to the Executive resulting from having such Payments so reduced. In the event a reduction is required pursuant hereto, the order of reduction will be first all cash payments on a pro rata basis, then any equity compensation on a pro rata basis, and lastly medical and dental coverage.

For purposes of this Section 11, the following terms have the following meanings:

(i) "**Net After-tax Benefit**" will mean the Present Value of a Payment net of all federal state and local income, employment and excise taxes imposed on Executive with respect thereto, determined by applying the highest marginal rate(s) applicable to an individual for the Executive's taxable year that the Qualifying Termination occurs.

(ii) "**Payment**" means any payment or distribution or provision of benefits by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise, but determined without regard to any reductions required by this Section 11.

(iii) "**Present Value**" will mean such value determined in accordance with Section 280G(d)(4) of the Code.

(iv) "**Safe Harbor Amount**" will be an amount expressed in Present Value which maximizes the aggregate Present Value of Payments without causing any Payment to be subject to excise tax under Section 4999 of the Code or the deduction limitation of Section 280G of the Code.

All determinations required to be made under this Section 11, including whether and when a reduction is required and the amount of such reduction and the assumptions to be utilized in arriving at such determination, will be made by a nationally recognized accounting firm mutually agreed to by the Executive and the Company (the "Accounting Firm") which will provide detailed supporting calculations both to the Company and the Executive within ten (10) business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company; provided that for purposes of determining the amount of any reduction, the Executive will be deemed to pay federal income tax at the highest marginal rates applicable to individuals in the calendar year that any such Qualifying Termination occurs.

All fees and expenses of the Accounting Firm will be borne solely by the Company. If the Accounting Firm determines that no excise tax is payable by the Executive, it will so indicate to the Executive in writing. Any determination by the Accounting Firm will be binding upon the Company and the Executive.

12. Miscellaneous

The Executive will not be entitled to any notice of termination or pay in lieu thereof.

Severance Benefits under this Plan are paid entirely by the Company from its general assets.

This Plan is not a contract of employment, does not guarantee the Executive employment for any specified period and does not limit the right of the Company to terminate the employment of the Executive at any time.

If an Executive should die while any amount is still payable to the Executive hereunder had the Executive continued to live, all such amounts will be paid in accordance with this Plan to the Executive's designated heirs or, in the absence of such designation, to the Executive's estate.

The numbered section headings contained in this Plan are included solely for convenience of reference and will not in any way affect the meaning of any provision of this Plan.

If, for any reason, any one or more of the provisions or part of a provision contained in this Plan will be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision or part of a provision of this Plan not held so invalid, illegal or unenforceable, and each other provision or part of a provision will to the full extent consistent with law remain in full force and effect.

The Plan will be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of law provisions thereof.

The Plan will be binding on all successors and assigns of the Xylem Inc. and an Executive.

13. Notices

Any notice and all other communication provided for in this Plan will be in writing and will be deemed to have been duly given when delivered via email, by hand, or overnight courier or three (3) days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address will be effective only upon receipt.

If to the Company:

Xylem Office of General Counsel at
General.Counsel@xylem.com

If to Executive:

To the most recent address of Executive set forth in the personnel records of the Company.

14. Adoption and Amendments

This Plan was initially adopted by Xylem Inc. on October 31, 2011 (the "**Adoption Date**") and subsequently amended on each of March 26, 2012, October 14, 2014, February 24, 2016, and July 11, 2022 (administrative updates only).

15. Section 409A

This Plan is intended to comply with Section 409A of the Code and will be interpreted in a manner intended to comply with Section 409A of the Code. Notwithstanding anything herein to the contrary, (i) if at the time of the Executive's termination of employment with the Company the Executive is a "specified employee" as defined in Section 409A of the Code (and any related regulations or other pronouncements thereunder) and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Executive) until the date that is the earlier of (a) the 1st day of the 7th month following the Executive's termination of employment with the Company and (b) the Executive's death, at which point all payments deferred pursuant to this Section 15 will be paid to the Executive in a lump sum and (ii) if any other payments of money or other benefits due hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits will be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits will be restructured, to the extent possible, in a manner, determined by the Company, that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due under this Plan constitute "deferred compensation" under Section 409A of the Code, any such reimbursements or in-kind benefits will be paid in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv). Each payment made under this Plan will be designated as a "separate payment" within the meaning of Section 409A of the Code. The Company will consult with Executives in good faith regarding the implementation of the provisions of this Section; provided that neither the Company nor any of its employees or representatives will have any liability to Executives with respect to this Section.

PRIVILEGED

Xylem Inc.
1 International Drive
Rye Brook, NY 10573

Personal and Confidential

Date: May 4, 2022

To: Colin Sabol

From: Claudia Toussaint and Shan Jarvis

Subject: Separation Memorandum

The purpose of this Separation Memorandum (the "Memorandum") is to confirm our mutual understanding regarding your severance arrangements and separation from employment from Xylem Inc. ("Xylem" or the "Company") as set forth in this Memorandum and the accompanying Separation Agreement and General Release (the "Release"), and in accordance with the terms of the Xylem Inc. Senior Executive Severance Pay Plan (the "Severance Plan"). The Severance Plan accompanies these documents and is incorporated herein. We suggest that you review the Severance Plan carefully, along with the Memorandum and the Release, and have them reviewed by your attorney, particularly since these documents specify eligibility requirements for the receipt of severance pay, and other important provisions. Upon the execution of the Release and expiration of the review and revocation period set forth therein, Xylem agrees to make the payments and provide the benefits to you as set forth herein.

Expiration of Service and Severance Arrangements

Termination Date – Your last day of employment will be November 1, 2022 or an earlier date as mutually agreed in writing by you and the Company ("Termination Date"). Effective May 4, 2022, you will step down from the SVP & President, M&CS role and continue to report to and support the CEO as Strategic Advisor to the Chief Executive Officer until Termination Date.

Severance Pay – You will be eligible for Severance Pay of 24 months' salary continuation ("Severance Payments"). Xylem will make these Severance Payments on the Company's regular payroll schedule (currently bi-weekly) for the period from the Termination Date through 24 months thereafter ("Severance Period")**.** Provided you do not become eligible for disability payments on or prior to your Termination Date, you will continue to receive the Severance Payments at the rate of your current annual base salary of $522,180 through the "Severance End Date", which is the earlier of (i) 24 months from the Termination Date or (ii) the date your Severance Payments end in accordance with the "Right to Terminate Benefits" section of the Severance Plan. In the event that you become disabled on or prior to your Termination Date, your entitlement to any short-term disability and/or long-term disability benefits shall be determined in accordance with the applicable short-term or long-term disability plans, and the treatment of any such benefits in coordination with the Severance Payments will be in accordance with the terms of such disability plans.

You will not be entitled to receive any other pay or any other compensation from Xylem except as described in this Memorandum.

Annual Incentive (Bonus)

You will receive a pro-rated bonus payout based on the Annual Incentive Plan's actual performance for fiscal year 2022 and your Termination Date. The Actual performance will be based 100% on the Company's financial performance. Payment will be provided to you in early March 2023.

Long Term Incentive Awards

Details regarding your long-term incentive grants are provided in Exhibit A of the attached Separation Agreement and General Release. You will receive the net vested shares after settlement of shares in respect of your tax liability.

You will continue to have access to your equity grants and holdings through Xylem's plan administrator, Morgan Stanley. Their contact information is www.stockplanconnect.com or 1-800-477-7522, ext. 8850. Kim Rehm can also assist with any questions. Kim can be reached at kimberly.rehm@xylem.com or 1-914- 323-5742.

Paid Time Off ("PTO")

You will not accrue PTO during the Severance Period. In your final regular paycheck, you will be paid a lump sum for any unused but accrued PTO for 2022 as of your Termination Date. The PTO payout will not be impacted by any changes in the Company PTO policy that may occur after the effective date of this Memorandum and Agreement.

Outplacement Services

The Company will arrange for you to receive Outplacement Services through the offices of Lee Hecht Harrison ("LHH") for a period of 12 months, as per the terms of Xylem's current agreement. We encourage you to engage these services as soon as possible in an effort to expedite your securing an alternate position. Services must be initiated no later than 90 days after your Termination Date.

Workday

You will continue to have access to the Workday Employee Self-Service Portal for 3 years after your Termination Date. You can access the portal at https://wd5.myworkday.com/wday/authgwy/xylem/login.htmld. We encourage you to update your address, as necessary, so that important documents, including year-end W-2 forms, are sent to the correct address in the future.

Benefit Plans

Benefit Plan Eligibility – Your eligibility for certain employee benefit plans outlined in subsequent paragraphs of this Memorandum is subject to the actual terms of the applicable plan documents. You will not be entitled to any benefits or perquisites beyond those specifically described in this Memorandum. In the event of revisions to any or all of the subject benefit plans, your benefits will not be diminished except in accordance with the changes that are generally applicable to all similarly-situated benefit plan participants.

Xylem Retirement Savings Plan ("RSP") – Your contributions and Company matching and core contributions to the RSP will cease as of your Termination Date. Please contact Fidelity at 1-800-835-5095 or online at www.netbenefits.com to review your distribution options.

Xylem Supplemental Retirement Savings Plan ("SRSP") – Company contributions will cease as of your Termination Date. The balance will be automatically disbursed on the first business day of the month following six (6) months from your Termination Date and will be paid to you on the next regular payroll date, subject to applicable tax withholding. The balance is not rollover-eligible. The disbursement will be included as ordinary income on your Form W-2 from Xylem.

Medical, Dental and Vision Plans – You are eligible to continue coverage under the same terms as an active employee through the last day of the month in which your Severance End Date occurs, as long as all terms and conditions of the Agreement and Release have been met. Premium contributions will be deducted from your Severance Payments.

After the Severance End Date, you may elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"). Within 45 days of the coverage termination date, you will receive COBRA Election paperwork directly from PayFlex, our COBRA administrator. If you wish to continue your coverage, please complete the COBRA Enrollment Form and return it to PayFlex within the timeframe indicated in the letter you will receive.

To continue coverage under COBRA, you will be required to make monthly payments to our COBRA Administrator. Should you want to contact PayFlex regarding COBRA, the number is 844-PAYFLEX.

Group Life Insurance Conversion – Your Company-paid Group Life Insurance coverage terminates on your

Severance End Date. However, you may elect to convert this life insurance coverage to an individual policy issued by The Hartford. If you are interested in converting your policy, please contact Shan Jarvis on/about 45 days prior to the Severance End Date so that her team can provide you the conversion details. **Conversions must be completed within 31 days of your Severance End Date.**

Health Savings Account ("HSA") – If enrolled, your HSA account belongs to you and will remain active for as long as you prefer. You will continue to have access to your account at www.mybenefitwallet.com. There will be a nominal monthly administrative fee after your Termination Date. For assistance with your account, please contact Benefit Wallet directly at 1-877-472-4200.

Disability Insurance – Your coverage for both Short-Term and Long-Term Disability ends on your Termination Date. You may convert your coverage under the Long-Term Disability Plan to an individual policy issued by The Hartford if you have been participating in this plan for at least the prior 12 consecutive months. If you are interested in learning more, please complete the attached conversion form and submit it to The Hartford as directed on the form. You may also contact The Hartford directly at 1-877-320-0484 to learn more. **Conversions must be completed within 31 days of your Termination Date.**

There is no conversion available under the Short-Term Disability Plan.

Business Travel Accident Insurance Plan – Coverage terminates on your Termination Date.

Employee Assistance Program ("EAP") – Your coverage in the EAP ends 30 days after your Termination Date.

Payroll Deductions

To the extent applicable, payroll deductions currently authorized by you, as well as appropriate tax withholding, will continue until your Severance End Date. If you wish to change your deductions after your Termination Date but before the Severance End Date, please make this change through Workday.

Miscellaneous

Conference Attendance – Your attendance at the Reach conference, October 9 - 12 will be at the CEO's request.

Company Equipment – Please plan on returning all Company-provided equipment such as credit cards, access badges and office keys, computer, smartphone, tablet and any other Company equipment by your Termination Date. If you are unable to return the equipment in person, instructions will be provided to you on how to send them back via UPS.

Final Expenses – If you have an outstanding Company-issued credit card and/or cash expenses due to you for reimbursement, please be sure to clear these items through your Concur expense account by your Termination Date.

The parties hereby indicate their agreement with the terms and conditions of this Memorandum and the attached Agreement and Release by signing and dating this Memorandum in the space provided below.

EMPLOYEE: Colin Sabol

/s/ Colin R. Sabol — May 5, 2022
Employee Signature — Date

EMPLOYER: Xylem Inc.

/s/ Shan Jarvis

Shan Jarvis, Vice President, Global Compensation & Benefits, Xylem Inc.

PRIVILEGED

Xylem Inc.
1 International Drive
Rye Brook, NY10573

Personal and Confidential

Date: May 4, 2022

To: Colin Sabol

From: Shan Jarvis

Subject: Separation Documents

Enclosed please find the Separation Memorandum ("Memorandum") and Separation Agreement and General Release ("the Release"). These documents set out the terms and benefits we are offering you relative to the termination of your employment from Xylem Inc., and the conditions under which you will be eligible to receive severance benefits from Xylem Inc.

These are confidential legal documents, which we encourage you to read very carefully. You are also encouraged to have them reviewed by an attorney of your choice. You have 21 calendar days during which to consider the Release, although you may sign and return it sooner if you choose to do so. Additionally, you also have 7 calendar days to revoke the Release after signing it. Should you decide to accept the benefits described in the Memorandum, please sign both copies, and return them to me no later than May 5, 2022. We will then forward a signed copy back to you for your records.

While your acceptance of the terms of the Memorandum and Release is voluntary, to receive these benefits you must return the signed Release on or before the date indicated in that document.

Please call me should you have any questions related to this matter. Lastly, please sign one copy of this letter below, signifying your receipt of this information.

Sincerely,

Shan Jarvis

Shan Jarvis

Vice President, Global Compensation & Benefits

Enclosures

EMPLOYEE: Colin Sabol

/s/ Colin R. Sabol May 5, 2022

Employee Signature Date

Separation Agreement and General Release

This Separation Agreement and General Release ("Release") is made and entered into by and between Xylem Inc. ("Xylem" or the "Company") and Employee (referred to herein in the first person). Capitalized terms herein are defined as specified in this Release or the Separation Memorandum ("Memorandum") entered into between Xylem and me (the "Memorandum") to which this Release is attached and incorporated by reference. In consideration of the mutual promises contained herein, it is agreed as follows:

1. I will be employed with Xylem through the Termination Date set forth in the Memorandum.
2. I agree to the following:
    a) I am not eligible and will not receive any compensation, fringe benefits, employee benefits, any pay in lieu of notice, or any severance or termination pay except as provided in the Memorandum. I agree and acknowledge that the payments and benefits set forth in the Memorandum constitute good and sufficient consideration for all of my promises, obligations, and covenants set forth in the Memorandum and in this Release.
    b) On behalf of myself and my heirs, executors, administrators, personal and legal representatives, successors and assigns, I waive, release and forever discharge Xylem, its current and former subsidiaries, affiliates, divisions and related entities and their predecessors, successors and assigns, and all of their past and present officers, directors, shareholders, agents, representatives, administrators, employees, insurers, attorneys, and benefit plans (collectively "Releasees") from any and all claims, demands, debts, liabilities, obligations, expenses (including attorney's fees and costs), promises, covenants, controversies, grievances, claims, suits, actions or causes of action, in law or in equity, known or unknown to me, foreseen or unforeseen, contingent or not contingent, liquidated or not liquidated, which I may have had in the past, may have now, or may in the future claim to have against Releasees, arising with respect to any incident, event, act or omission occurring at any time prior to my signing of this Release. This Release shall not operate as a release or waiver of claims or rights that may arise after the date of its execution, for vested benefits or other applicable benefit plan entitlements, for indemnification pursuant to Company policy or applicable law, for coverage under any directors' and officers' liability or any fiduciary liability insurance policies in accordance with the terms of such policy, or any rights I may have as a shareholder in a public company (collectively, the "Reserved Rights") and this Release shall not affect my right to seek enforcement of the terms and conditions of the Memorandum, this Release or the Reserved Rights.
    c) This Release specifically includes, but is not limited to, any and all claims and causes of action arising under tort or contract law, other common law claims, including without limitation wrongful discharge claims, and claims under specific statutes prohibiting discrimination based on sex, color, race, national origin, religion, disability, veteran status, age, gender identity, sexual orientation, marital status, genetic information, citizenship status or other protected characteristics including without limitation, the Americans With Disabilities Act, the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Civil Rights Acts of 1866 and 1871, the Equal Pay Act, Fair Labor Standards Act of 1938, the Worker Adjustment and Retraining Notification Act of 1988, the Employee Retirement Income Security Act of 1974, the Family Medical Leave Act of 1993; (all as amended); or any other federal, state, city, or local laws. This Release specifically includes but is not limited to all claims and causes of action under these laws and any contractual or tort claims arising under common law, including but not limited to wrongful discharge.
    d) In consideration of the benefits provided to me under the Memorandum and this Release, I agree to waive, and will not assert any of the claims or causes of action I have waived in this Release, before any federal or state court, any federal or state agency, or in any public or private arbitration. This prohibition does not apply if it would be a violation of applicable law or regulation. If this prohibition does not apply, however, and a charge or lawsuit is filed by or on behalf of me, I agree not to seek or accept any personal relief, award, monetary damages or other benefits in connection with or based on such charge or lawsuit. This paragraph is not intended to limit my right to commence and maintain legal action for the sole purpose of enforcing the Memorandum, this Release or the Reserved Rights.
    e) I also agree to waive, release and forever discharge the Releasees from any and all claims, causes of action and/or lawsuits that may arise from any incident, event, act or omission occurring prior to my Termination

Date or during my Severance Period, as those terms are defined in the Memorandum, except for the purpose of enforcing the Memorandum, this Release or the Reserved Rights.

3. Long-Term Incentives: Outstanding long-term incentive equity-based awards from the Company are set forth in Exhibit A attached hereto. Upon and following the Termination Date, each such award will be treated in accordance with the terms of applicable grant agreements (including, without limitation, any such applicable terms requiring execution of this Release) with respect to termination of my employment.
4. Except as may be required under applicable law or the rules of a stock exchange or national securities quotation system, I agree to keep the Memorandum and this Release confidential and not disclose their contents to anyone except my immediate family, my financial or legal consultants, and appropriate governmental agencies that may subpoena this information. If I receive a subpoena that calls for the production of this Release, the Memorandum or related documents, I will advise Xylem in writing before I respond to any subpoena, and give Xylem an opportunity to move to quash any such subpoena.
5. I agree not to disparage, slander, defame or otherwise intentionally injure the reputation of Xylem or its Subsidiaries (as defined in 6 b) below) (collectively, the "Xylem Entities"), their officers, directors, employees, agents, representatives, products or services. I agree that any restricted covenants that I agreed to with respect to my employment with Xylem Entities, including but not limited to obligations with respect to confidentiality, will remain in effect following my Termination Date. I agree to keep confidential and not disclose, without Xylem's prior written consent, any proprietary information concerning matters relating to the business or strategy of the Xylem Entities, including trade secrets and other intellectual property, products, services, methods of manufacture, pricing or business models. I agree that for 24 months following my Termination Date, I will not, directly or indirectly, or by action in concert with others: (i) solicit or induce or attempt to solicit or induce, any person who is employed as an employee by Xylem Entities, to leave his or her employment with Xylem Entities and/or to perform services of any kind for any other person, firm or corporation, (ii) divert or take away, or call-on, solicit or attempt to call-on or solicit, any of the Xylem Entities' current customers or clients, including those whom I called or who I solicited, or with whom I became acquainted while engaged as an employee of the Xylem Entities, and (iii) engage in, become affiliated with, or become employed by any business competitive with Xylem Entities. I agree that Xylem shall be entitled to enforce these covenants through an injunction or otherwise through specific performance (in addition to any other remedies) as money damages will not be sufficient.

6. Xylem agrees to the following:
   f) Xylem waives, releases and forever discharges me and my heirs (collectively "Sabol Releasees") from any and all claims, demands, debts, liabilities, obligations, expenses (including attorney's fees and costs), promises, covenants, controversies, grievances, claims, suits, actions or causes of action, in law or in equity, known or unknown, foreseen or unforeseen, contingent or not contingent, liquidated or not liquidated, which they or any of them may have had in the past, may have now, or may in the future claim to have against any Sabol Releasees arising out of, in relation to or with respect to any incident, event, act or omission occurring at any time prior to the signing of this Release. The release in this paragraph 6(a) shall not operate as a release or waiver of claims or rights that may arise after the date of the execution of this Release or any rights under the agreements and plans described in paragraph 5 (collectively, the "Xylem Reserved Rights") and the release in this paragraph 6(a) shall not affect Xylem's right to seek enforcement of the terms and conditions of the Memorandum, this Release and/or the Xylem Reserved Rights.
   g) From and after the date of this Release, Xylem Inc. agrees, and agrees to cause each of its direct and indirect wholly or partially owned subsidiaries and other affiliates worldwide (collectively, "Subsidiaries"), to jointly and severally indemnify and hold harmless Employee in respect of his service as an officer and/or director of Xylem Inc. and any of its Subsidiaries to the same extent Employee is indemnified by Xylem Inc. or its Subsidiaries as of the date hereof pursuant to the governing documents of Xylem Inc. or its Subsidiaries or any agreement between Xylem Inc. or its Subsidiaries and Employee, for acts or omissions occurring at or prior to the date of this Release.
   h) Xylem, including on behalf of its Subsidiaries, agrees not to slander, defame or otherwise intentionally injure my reputation.

7. I acknowledge: (i) I have been advised in writing to consult with an attorney of my own choice regarding this Release and the Memorandum and have had an opportunity to do so; (ii) I have been advised in writing I have at least 21 calendar days from my receipt of this Release and the Memorandum to review and consider them;
(iii) I fully understand those terms and conditions; (iv) I am voluntarily and of my own free will executing this Release and the Memorandum on the date reflected below and I was not subjected to any duress or undue influence in connection with my decision to execute them; and (v) during a period of 7 calendar days following my execution of this Release and the Memorandum, I may revoke such executions and this Release and the Memorandum shall not be effective or enforceable until such 7 calendar-day period has expired. Should I desire to revoke this Release and the Memorandum, my revocation must be made in writing and sent to the attention of Shan Jarvis, Vice President, Global Compensation & Benefits, via email to shan.jarvis@xylem.com within the 7 calendar-day revocation period.
8. This Release and the Memorandum, which is incorporated herein, contain the entire agreement between me, Xylem, and all Releasees relating to the subject matter thereof. I represent and acknowledge in signing this Release and the Memorandum, I have not relied upon any representation or statement, oral or written, not otherwise set forth herein. No amendment to this Release or the Memorandum shall be binding unless it is in writing, expressly designated as an amendment, dated, and signed by the parties.
9. Nothing in this Release or the Memorandum constitutes an admission of liability by Xylem or any Releasees or me, and this Release and/or the Memorandum will not be used by me, Xylem or any other entity or person as evidence in any administrative or legal proceeding or trial, except to enforce the terms of this Release, Memorandum and/or the Reserved Rights.
10. This Release and the Memorandum shall be construed in accordance with the laws of the State of Indiana. Should any provision of this Release or the Memorandum be determined invalid or unenforceable, the validity of the remaining provisions shall not be affected and shall remain in full force and effect to the maximum extent permitted by law. Any claim or dispute involving the Memorandum and/or Release shall be resolved in Indiana state courts or federal courts, both located in Marion County, Indiana. The parties mutually agree to waive a jury trial in any such proceeding.
11. The Memorandum and Release may be assigned to the successors and assigns of Xylem Inc.
12. In the event of my death during the Severance Period, the unpaid amount of Severance Pay remaining shall be paid in a discounted lump sum to such beneficiary or beneficiaries designated by me in writing, or if such designation has not been made, to my estate.
13. I have carefully read this Release and the Memorandum, fully understand their provisions, and my signature below indicates my understanding and agreement with their terms and conditions.

A scanned copy of the signed Release and Memorandum must be emailed to Shan Jarvis, Vice President, Global Compensation & Benefits at Shan.Jarvis@xylem.com.

EMPLOYEE: Colin Sabol

/s/ Colin R. Sabol May 5, 2022
Employee Signature Date

EMPLOYER: Xylem Inc.

/s/ Shan Jarvis

Shan Jarvis, Vice President, Global Compensation & Benefits Xylem Inc. 1 International Drive, Rye

Brook, NY 10573

Exhibit A
Long-Term Incentive Awards

Termination Date: November 1, 2022 or earlier date as mutually agreed by you and the Company Age as of Termination: 55

Years of Service as of Termination Date: 16 Stock Options

Unvested stock options are forfeited and cancelled upon termination on the Termination Date. Vested stock options must be exercised by **3 years after the Termination Date**.

Grant Date	Grant Price	Shares Granted	Exercised	Available for Exercise	Cancelled Shares
2/21/2017	$48.33	17,606	10,000	**7,606**	0
2/21/2018	$75.18	14,552	0	**14,552**	0
2/20/2019	$74.07	16,120	0	**16,120**	0
2/27/2020	$80.66	18,715	0	**16,594**	2,121
3/1/2021	$102.23	12,931	0	**7,113**	5,818
3/1/2022	$86.76	15,106	0	**3,323**	11,783

Restricted Stock Units (RSUs)

Unvested RSUs are forfeited and cancelled upon termination on the Termination Date.

Grant Date	Type	Units Granted	Vested Units	Cancelled Units
2/27/2020	RSU	3,719	3,298	421
3/1/2021	RSU	2,935	1,615	1,320
3/1/2022	RSU	3,458	761	2,697

Performance Share Units (PSUs)

Prorated portion of PSUs will vest and be paid out based on actual performance on the original vesting date.

Grant Date	Type	Units Granted	Prorata Vesting	Payout Date	Cancelled Units
2/27/2020	PSU-TSR	3,719	3,512	2/27/2023	207
2/27/2020	PSU-ROIC	3,719	3,512	2/27/2023	207
3/1/2021	PSU-TSR	2,935	1,794	3/1/2024	1,141
3/1/2021	PSU-ROIC	2,935	1,794	3/1/2024	1,141
3/1/2021	PSU-ESG	2,935	1,076	3/1/2026	1,859
3/1/2022	PSU-TSR	3,458	961	3/1/2025	2,497
3/1/2022	PSU-REVG	1,729	480	3/1/2025	1,249
3/1/2022	PSU-ROIC	1,729	480	3/1/2025	1,249

The information above is a summary of the treatment of Employee's long-term incentive grants upon termination on the Termination Date. If there is a conflict between this summary and the applicable plan documents and grant agreements, the plan documents and grant agreements will govern.

As an insider of Xylem, you are subject to the Xylem's Trading Windows through your Termination Date. Xylem's trading window is anticipated to re-open on May 6th. After your Termination Date, you will no longer be subject to Xylem's Trading Windows. However, please note that per the Company’s Insider Trading policy (Policy 40-04) and Securities and Exchange Commission regulations you are not permitted to trade any securities at any time, including after your Termination Date, on the basis of material, non-public information.

EXHIBIT 31.1

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

I, Patrick K. Decker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended June 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Patrick K. Decker
Patrick K. Decker
President and Chief Executive Officer

Date: August 2, 2022

EXHIBIT 31.2

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

I, Sandra E. Rowland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xylem Inc. for the period ended June 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Sandra E. Rowland

Sandra E. Rowland
Senior Vice President and Chief Financial Officer

Date: August 2, 2022

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the “Company”) for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrick K. Decker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Patrick K. Decker
Patrick K. Decker
President and Chief Executive Officer
August 2, 2022

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Xylem Inc. (the "Company") for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandra E. Rowland, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ Sandra E. Rowland

Sandra E. Rowland
Senior Vice President and Chief Financial Officer
August 2, 2022

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