



We have the  
**opportunity**  
of a lifetime.

Because when we solve water for our customers, we're solving so much more.

Clean water changes everything. Improving health. Increasing education. And leading to a better life for entire communities.

Today, technology is providing the opportunity to transform how we solve water.

Smart water networks identify water infrastructure problems earlier and more efficiently.

Billions of gallons of previously wasted water can go to those who need it.

Improved wastewater management means less polluted rivers, lakes and streams.

There is a smarter way forward.

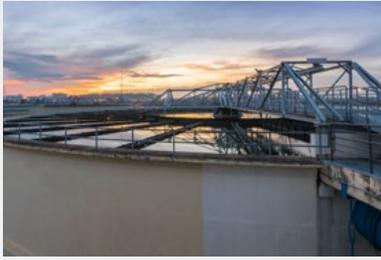
We're creating the technological platform to address these opportunities and more.

We have a chance to bring about real change.

Here's how we're pursuing the opportunity of a lifetime.



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# Sustainability Approach

## OPPORTUNITY

At Xylem, sustainability is at the center of who we are and what we do. We have the opportunity to embed sustainability throughout our business to not only impact our goal of solving water, but to safeguard and enhance the company's long-term growth.



# CEO MESSAGE

**Patrick K. Decker**  
President and  
Chief Executive Officer  
Xylem Inc.



**Water issues are intensifying all around the globe – demanding new and bold solutions.**

In rural schools within the Siem Reap and Preah Vihear provinces of Cambodia, children drink untreated water directly from the well, causing waterborne illnesses that impact school attendance and lead to unaffordable medical expenses. They're part of the more than 60 percent of the world's population who live in areas of water stress, where water supply cannot or will not be able to meet future demand.

In the aftermath of last year's devastating hurricanes, thousands of people in Puerto Rico and across the Caribbean struggle to find access to clean, safe water. In Houston, Texas, the city continues to rebound from the devastation caused by massive and deadly flooding. The human and financial toll of such storms is astounding – between 2005 and 2015 alone, damages from natural disasters around the world reached more than \$1.3 trillion.

And around the world, broken or outdated water infrastructure is costing communities billions of dollars and countless hours of time that could be redirected to other critical needs such as hunger, healthcare, education and so much more.

Water issues are intensifying all around the globe – demanding new and bold solutions.

At Xylem, we believe that if you can change water, you can change everything. And we know that while the world's water challenges are growing exponentially, so too are the opportunities to address and overcome them. That's why we're focused every day on finding a smarter way forward to solve water by harnessing the power of cutting-edge technologies and innovation.

Sustainability isn't just an initiative at Xylem; it's our core business strategy, and it drives our employees to come to work each day with a common purpose and passion – to redefine and advance the world's water systems and, in doing so, to improve the lives of people around the globe.

## **A SMARTER WAY FORWARD**

Advances in technology and in the generation of data are creating extraordinary, new possibilities to develop solutions to global water problems that just weren't feasible a decade ago. Most recently, these advances led to the launch of our Flygt Concertor, the world's first intelligent wastewater pumping system, and our Godwin NC 150S, the first in a series of smart dewatering pumps. We're also building an innovative global platform to analyze, draw insights and fuel new approaches that will help drive transformation across the water sector – and help make water safer, more accessible and more affordable for communities worldwide.

Xylem's technological capabilities took a leap forward with the 2016 acquisition of Sensus, a leader in smart metering, network communications and advanced data analytics. By plugging our vast array of smart products into Sensus' communication network, we will create a cloud-based, smart water network that enables customers to more easily identify and solve water waste issues through better optimization of Xylem solutions.

### Hear from Patrick Decker on the opportunities ahead for Xylem.



In 2018, we formed our Advanced Infrastructure Analytics (AIA) platform, which delivers powerful and unprecedented insights to customers across the water cycle. This platform of capabilities enables customers to increase their return on investment through diagnostic infrastructure assessments that identify and prioritize risks and problem areas. Pure Technologies, acquired in early 2018, serves as the foundation of AIA, providing a unique and disruptive platform of diagnostic, analytics and optimization solutions for water and wastewater networks.

We further developed the AIA business through the acquisition of EmNet and Valor Water Analytics. EmNet's network modeling and optimization solutions enable municipalities to better manage the urban water cycle to control flow and help prevent polluting of waterways or even buildings. Valor's core technology is its Hidden Revenue Locator, an automated software designed to locate forms of

revenue loss occurring on a utility's system of meters. The addition of these businesses – each underpinned by our intelligent products – gives us the ability to better predict, analyze and solve water issues, helping to decrease enormous amounts of waste in the management of water around the world, estimated to cost at least \$14 billion every year.

#### WALKING THE WALK

Beyond the technology solutions we provide to our customers, we are committed to reducing our own environmental footprint through a number of ambitious objectives. Recent progress includes:

- Nearly doubling the amount of waste diverted from landfill, 41.8 percent at the end of 2017, over the past three years and well ahead of a 20 percent diversion rate goal by 2019, thanks to a robust recycling program.
- Reducing GHG emissions intensity by nearly 19 percent since 2014, putting us close to our 20 percent goal by 2019. This reduction has been driven in large part by the number of Xylem sites utilizing green electricity.
- Decreasing water intensity by nearly 17 percent against a 2014 baseline largely through more water collection and reuse at facilities. The decrease moves us closer to a 25 percent reduction goal by 2019.

We also continued to progress our efforts to ensure a safe environment wherever we operate. We have achieved a nearly 22 percent reduction in injury frequency across the company since 2015. Furthermore, in 2017, more than 200 of our sites operated the entire year without a single recordable injury or a serious near-miss incident.

Advancing thought leadership in the water solutions arena and convening conversations around water transformation are also priorities. As an example, in 2017, we signed the CEO Water Mandate, a UN Global Compact initiative that mobilizes business leaders on water, sanitation and the UN Sustainable Development Goals. And we remain a signatory to the 10 principles of the UN Global Compact.



## INVESTING IN TALENT

As we evolve our vision to be the company that leads in smart water innovation, investments in our people are as important as investments in technology. This is why we continue to develop and provide tools, resources and training programs that are critical to helping our people grow and achieve their full potential through all phases of their careers at Xylem.

Our employees are also helping solve water through their work with Xylem Watermark, our signature corporate citizenship initiative. Watermark's roots are in community development in emerging parts of the world - often through projects with our global, nonprofit partners. In recent years, we've expanded Watermark to include projects in more of the locations where we work and live, ensuring a greater number of Xylem employees have the opportunity to participate and give back. In 2017, we logged 35,000-plus hours of volunteer work in water-related activities, including cleaning and restoring local waterways, leading water education programs in local schools, planting vegetation to protect shorelines and building water towers in areas that lack access to clean water.

This work was crucial during the catastrophic string of hurricanes that impacted communities from Texas to Florida to Puerto Rico and across the Caribbean in 2017. Flooding in South Asia also displaced millions in India,

Nepal and Bangladesh. Through the Watermark program, we put boots on the ground in many of these locations, helping to rebuild communities.

## A SMARTER FUTURE

There is so much at stake when it comes to a water secure future. That's why we're entering a bold new phase of growth and innovation for Xylem. We are committed to reimagining and transforming the water industry. We're doing this to help more people and more communities get access to the water they desperately need to live and flourish. And we're doing it because we have the vision, the technology and capacity for innovation, and the passion to lead change. While the challenges presented by the world's water crisis are great, so too are the opportunities for our company to make a meaningful and lasting impact. On behalf of my many colleagues at Xylem, we are honored and excited to take up this charge. Thank you for your continued support and interest in our work.

Patrick Decker  
President and Chief Executive Officer

# XYLEM AT-A-GLANCE

We are a leading global water technology provider helping our customers address their most challenging water and wastewater problems. Our name is derived from classical Greek and is the tissue that transports water in plants. This name highlights the engineering efficiency of our water-centric business by linking it with the best water transportation of all – that which occurs in nature.

**\$4.7 BILLION**  
2017 revenues

**\$6.86 BILLION**  
Total assets

**~16,200\* EMPLOYEES**  
\*This number is as of Dec. 31, 2017

**HEADQUARTERS RYE BROOK, New York, USA**

**19 COUNTRIES**  
Where we manufacture and assemble products

**150 COUNTRIES**  
Where we sell

**51\* COUNTRIES**  
Where we operate

\*This number is as of Oct. 31, 2017

## We participate in each of the water industry's core applications:



### TRANSPORT

Moving raw water from natural sources to treatment facilities and moving wastewater from its source to wastewater treatment facilities



### TREATMENT OF WATER

Treating water to make it safe to use and treating wastewater to make it safe to reuse or return to the environment



### TEST

Ensuring water meets requirements for use by customers or discharge into the environment, and ongoing monitoring of surface water and coastal environments



### MONITORING & DATA ANALYTICS

Using smart metrology and networked communications to optimize distribution networks for the delivery of water, electricity and natural gas, and provide data analytics



### USE

Putting water to work in industrial, commercial building, residential and agriculture applications

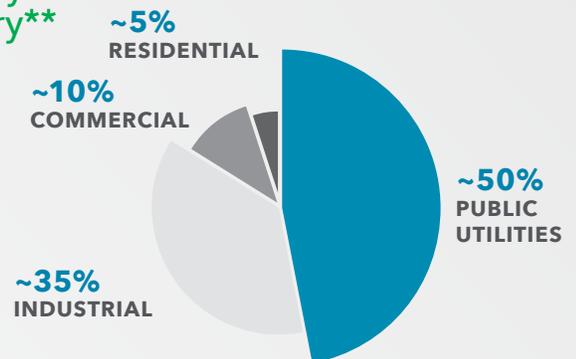
## Products

- Pumps and accessories
- Wastewater and water treatment solutions, including filtration, ozone, ultraviolet and biological systems
- Analytical instrumentation
- Monitoring and control systems
- Water pressure boosting systems for multiple applications
- Smart metrology for the water, electric and natural gas sectors
- Network communications for water, electric and natural gas distribution networks
- Advanced data analytics
- Advanced infrastructure diagnostics and analytics

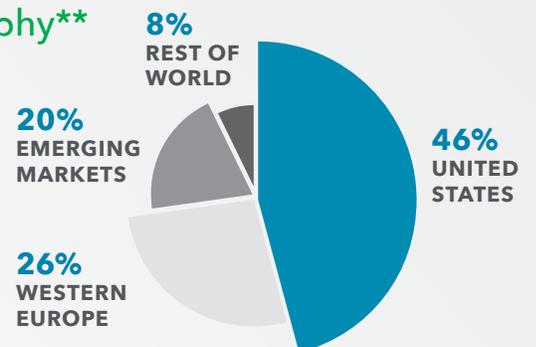
## Brands

- Aanderaa
- AC Fire Pump
- Bell & Gossett
- Bellingham + Stanley
- ebro
- EmNet
- Essence of Life
- Flojet
- Flygt
- Global Water
- Godwin
- Goulds Water Technology
- Hypack
- Jabsco
- Leopold
- Lowara
- MJK
- OI Analytical
- PureHM
- Pure Technologies
- Rule
- Sanitaire
- Sensus
- SI Analytics
- Smith-Blair
- SonTek
- Steady
- Tideland
- Valor Water Analytics
- Visenti
- Wachs Water Services
- Wedeco
- WTW
- YSI

## Sales by Industry\*\*



## Sales by Geography\*\*



\*\*Based on Xylem Pro Forma 2017 Revenues

# SUSTAINABILITY STRATEGY

Our strategy to address economic, social and environmental issues starts at the top with our Board of Directors and is implemented throughout the company with all employees helping to advance our sustainability practices and impact.

The Xylem Board of Directors has primary responsibility for overall risk and strategy oversight for the company, which includes areas that impact Xylem's sustainability efforts. The Board has delegated responsibility for direct oversight of the company's sustainability program to the Board's Nominating and Governance Committee, except for our offerings-related strategies, which are reviewed by the Finance, Innovation & Technology Committee. The Nominating and Governance Committee regularly receives updates on sustainability from management and provides updates to the full Board of Directors.

Our senior leadership team members, under the direction of our President and CEO Patrick Decker, lead businesses, sales teams and functional areas with the intent of building an enduring and successful company. Increasingly, these areas are better integrating sustainability into their strategies to accelerate innovation, sell our products

and services, and grow our business, while at the same time contributing to the local and global communities in which we operate. Ultimately, our growth strategies are designed to position Xylem as a leader in the global water technology space.

The Xylem Sustainability Steering Committee comprises representatives from multiple geographies, businesses and functions within Xylem who meet quarterly to guide and drive our sustainability efforts and monitor progress against our sustainability goals.

Our leaders, frontline managers and employees are accountable for safe, ethical, environmentally responsible and forward-looking actions that support our sustainability goals. To support them in this mission, Xylem provides training in the areas of environment and safety, Code of Conduct, continuous improvement – which includes Lean and Six Sigma curriculum – and career and leadership development.



# SUSTAINABILITY STRATEGY (Cont'd)

Xylem's Environment, Health, Safety & Sustainability (EHS&S) team includes more than 250 full and part-time employees working at the site level to enact sustainability practices and provide employee training – primarily in the areas of environmental protection and workplace safety. In the past year, Xylem also added roles in supply chain and product development with a specific focus on driving sustainable practices.

## CLIMATE CHANGE IMPACT

Climate change both positively and negatively impacts portions of our business in several ways.

According to research by the Intergovernmental Panel on Climate Change (IPCC), climate change will intensify risks associated with water availability and quality. Moreover, the transport, treatment and use of both clean water and wastewater are significant sources of greenhouse gas emissions. Xylem's Climate Change Policy outlines our commitment to developing mitigation and adaptation solutions to the water-related challenges associated with climate change through our products, operations, corporate citizenship and social investment, and stakeholder engagement.

“These challenges are too complex for any one entity to solve. We firmly believe that there is a role for governments at all levels, private industry, academia and individual innovators to play in creating the practical solutions and innovative technologies that will be needed to help communities across the globe both mitigate the impacts of climate change and adapt to its resulting effects, such as prolonged drought and increased flooding.”

- Xylem President & CEO Patrick Decker

## 2017 Recognition

External recognition provides useful progress markers on our sustainability journey. In the past year, Xylem's commitment to sustainability and progress-to-date was recognized in a number of areas.

- Xylem was ranked number 10 on *Barron's* 100 Most Sustainable Companies
- Xylem was named to America's Most JUST Companies list by *Forbes* and JUST Capital
- Engage for Good Gold Halo Award for Watermark volunteerism efforts
- 2017 Comfort Supplier of the Year
- MSCI Global Sustainability Index Series



- The FTSE4Good Index Series
- Euronext Vigeo Index: U.S. 50
- The NASDAQ OMX CRD Global Sustainability Index



- Two Bell & Gossett products won Product of the Year Awards from *Consulting Specifying Engineer Magazine*:
  - The fifth generation HYDROVAR earned a gold award.
  - The TECHNOLOGIC Intelligent Pump Controller received a silver award.
- For the second year in a row, U.S. rural cooperative utility executives honored Xylem's Sensus Advanced Metering Infrastructure solution as the "Best Smart Utility Solution" during the Rural Smart Grid Summit.
- Xylem's OI Analytical-branded 1080 Combustion Total Organic Carbon Analyzer was awarded the Gold Pittcon Today Excellence Award.
- CDP Climate Change 2017 Disclosure – C Rating Climate Change
- CDP Water 2017 Disclosure – B Rating

## SUSTAINABILITY STRATEGY (Cont'd)

Furthermore, in June 2017 following the announcement that the United States would withdraw from the Paris Climate Accord, Xylem issued a [statement](#) reiterating our commitment to doing our part, as a citizen of the global community, to advance the vital work of addressing the realities of climate change.

Xylem helps mitigate the effects of climate change by providing products that aid customers in reducing their own environmental footprint by reducing their energy and other resource consumption needs. Our company also helps customers to adapt to the effects of climate change, strengthening their communities' resilience, particularly with regard to the increasing number of extreme weather events, such as flooding events and drought conditions.

For example, Xylem's analytics products can help communities prevent or minimize the destruction of infrastructure when extreme weather events occur. The portfolio, which includes intelligent sensors, platforms and systems that measure water quality, level

and flow, provides real-time information that can act as an early warning system to enable communities to prepare for emergent problems. In addition, our Godwin dewatering pumps are used to help remove and/or redirect unwanted water caused by natural disasters such as hurricanes or floods.

Similarly, drought conditions drive higher demand for pumps used in agricultural and turf irrigation applications, such as those provided by our Goulds Water Technology and Lowara brands. We also provide treatment solutions to enable communities to recycle wastewater for direct and indirect potable water use. This includes the world's first large-scale ultraviolet/chlorine process to treat wastewater to drinking water standards at the Terminal Island Water Reclamation Plant in Los Angeles. Water reuse is a proven solution that can help meet growing water demand, while safeguarding existing water supplies.

Ultimately, our sustainability strategies are designed to position Xylem as a leader in the global water technology space.



# GOALS & PROGRESS

Goals continue to be incorporated into our business operating planning process. Progress is evaluated through various measures, including our goal deployment process. In the spirit of continuous improvement, we are reviewing the best ways to track our progress against some of the harder-to-measure metrics.

## LOOKING AHEAD

As our progress below illustrates, we are moving closer to achieving our current sustainability goals. In light of this progress, we have initiated a comprehensive review

of our sustainability approach with an aim to evolve our strategy and establish new long-term goals. Our new goals will continue to reflect our ambition to be a leader in sustainability, creating both economic and social value as a business enterprise. They will also be aligned with the global community's advancement toward achieving the UN Sustainable Development Goals and with the UN Global Compact Principles. We expect to announce these new goals during 2018.

Below is a summary of our progress as of the end of 2017:

## OFFERINGS\*

### Goal

Improve product energy efficiency of specific Xylem product lines

### Progress

**0.2% INCREASE IN AVERAGE PRODUCT EFFICIENCY SINCE 2016;**

2.8% improvement since 2012

### Goal

Increase Vitality Index (percentage of sales from products launched in the past five years) to 30% by 2020 to drive product innovation and efficiency; following the acquisition of Sensus, we increased our Vitality Index 2020 goal from 25% to 30%

### Progress

**24% OF SALES ARE FROM PRODUCTS LAUNCHED IN THE PAST FIVE YEARS**

## OPERATIONS\*

### Goal

Reduce Xylem water use by 25% by 2019

### Progress

**16.7% REDUCTION IN WATER USAGE INTENSITY THROUGH 2017**

### Goal

Reduce greenhouse gas (GHG) emissions intensity by 20% by 2019

### Progress

**18.7% REDUCTION IN GHG INTENSITY, NET OF RENEWABLE ENERGY, THROUGH 2017**

### Goal

Reduce waste sent to landfill by 20% by 2019

### Progress

**41.8% REDUCTION IN TOTAL WASTE TO LANDFILL THROUGH 2017\*\***

### Goal

Reduce injury frequency rate to less than 0.5 and injury severity rate to less than 6.0 by 2019

### 2017 Progress

**0.94 INJURY FREQUENCY**      **13.62 INJURY SEVERITY**

### Goal

Achieve 100% environmental compliance at all manufacturing and service sites

### Progress

**IN 2017, XYLEM DID NOT RECEIVE ANY NOTICE OF ENVIRONMENTAL NON-COMPLIANCE.**

\*from 2014 baseline

\*\*Per dollar of revenue

# GOALS & PROGRESS (Cont'd)

## EXTERNAL ENGAGEMENT AND ORGANIZATION & CULTURE

### Goal

Increase impact of Xylem Watermark®, our corporate citizenship program, through investments to nonprofit partners

### Progress

**10% INCREASE IN BENEFICIARIES FROM PROJECTS CONDUCTED IN CONJUNCTION WITH OUR NONPROFIT PARTNERS**

**16% INCREASE IN EMPLOYEE CONTRIBUTIONS VERSUS 2016**

### Goal

Position Xylem as a leading advocate for sustainable water policy worldwide

### Progress

In 2017, Xylem became a signatory to the **UN CEO WATER MANDATE** and issued a public statement of its unwavering commitment to the principles of the Paris Climate Accord.

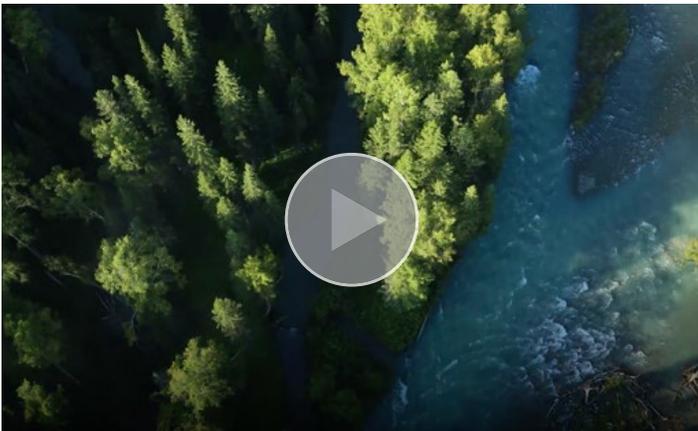
### Goal

Increase employee involvement in Xylem Watermark by 15% year-over-year

### Progress

**35,800+ EMPLOYEE VOLUNTEER HOURS,** a 70% increase versus 2016

At Xylem, we're committed to solving local and global water problems. See how we can unlock innovation based on gathering more and better data.



### The Value of Water Information

Why do we need more water data? By collecting and sharing more data, we can help solve local and global water problems...and we can unlock innovation based on what we know, creating more resilient cities and communities across the globe.

Xylem published two new white papers that outlined various challenges and opportunities in managing our water resources more sustainably: [Building Resilience: Creating Strong and Sustainable Cities and Communities](#) and [The Value of Water Information: Overcoming the Global Data Drought](#).

# STAKEHOLDER ENGAGEMENT

Xylem’s tagline is an inclusive invitation: Let’s Solve Water. Addressing the many water challenges our planet faces is a huge and vital undertaking that calls for collaboration and teamwork to leverage the technology-enabled solutions that are available today and will be developed tomorrow.

As the title of this report emphasizes, we believe this work represents the opportunity of a lifetime to have a positive, lasting impact on the global and local communities in which we operate. We utilize a variety of resources and tactics to foster two-way communications with our many stakeholders.

At Xylem, we identify a key stakeholder group as one that is critical to our business and strategy and a core partner in our growth and sustainability efforts. We work to engage our key stakeholder groups regularly, as well as considering broader society by including stakeholders such as certification and regulatory agencies, sustainability and financial rating agencies, and associations and non-governmental organizations. We reach out to and engage our stakeholders in many ways, with a focus on our key stakeholders.

For Xylem employees who work around the globe, we regularly distribute communications and conduct town halls and webcasts on our business strategy and results, as well as many different issues and topics of interest. These are translated into multiple languages to help foster a “one company” culture.

For customers and end users, we publish news about our products and services through a variety of media channels, original research, white papers and case studies, a customer-focused digital magazine, *Making Waves* and a quarterly magazine, *Mission: Water*, which features stories about scientists, environmentalists and the various challenges they work to solve. We also conduct voice-of-customer interviews and customer satisfaction surveys to learn more about their needs and their perceptions of our company and our products. In 2016, we rolled out the Net Promoter Score (NPS) tool as an additional means of measuring customer satisfaction, and we continue to employ that today.

We also collaborate with other business and industry leaders through a variety of forums. Xylem is a member of several water-industry and sustainability-related organizations, and we participate in and sponsor leading industry events.

## Stakeholder Group

## Primary Engagement Channels

### CUSTOMERS AND END USERS

- White papers, case studies, voice-of-customer interviews, customer satisfaction surveys, webinars, *Making Waves* customer digital magazine, news releases, *Mission: Water* magazine

### EMPLOYEES

- In 2017, we conducted a global employee survey in 20 languages with an 85% response rate. In addition, we provide a consistent supply of news about Xylem’s performance across multiple dimensions: feedback channels on our company intranet called Currents; Connect, Perform and Grow, our manager-employee appraisals; Xylem Integrity Line (a voluntary reporting system operated by an outside vendor that enables anonymous reports by phone or online) and Code of Conduct (available in 26 languages); Xylem Employee Ombudsperson program; and employee training and development.

### SHAREHOLDERS

- Annual report, quarterly earnings reports and webcast conference calls, news releases, and proactive shareholder outreach program on performance, plans, corporate governance and sustainability; company filings with the U.S. SEC; in April 2017 and September 2015, we held Investor Days

### SUPPLIERS

- Xylem Supplier Ombudsperson program, Supplier Code of Conduct (available in 18 languages) and Supplier Day events

### LOCAL COMMUNITIES

- Local operations outreach, Xylem Watermark field assessments and sponsorship of local community initiatives

### CERTIFICATION AND REGULATORY AGENCIES

- ISO- and OHSAS-certification audit and permit applications

### ASSOCIATIONS AND NGOS

- Memberships and partnerships with the UN Global Compact, Stockholm International Water Institute, Ceres, U.S. Water Alliance, Value of Water Coalition, U.S. Water Partnership, Business Roundtable, Bipartisan Policy Center, World Resources Institute, Wastewater Equipment Manufacturers Association, WasteReuse Association, Water Environment Federation, Water Environment & Reuse Foundation, Water Systems Council, Smart Cities Council, Hydraulics Institute, American Chamber of Commerce AmCham in Australia, British Pump Manufacturers Association, Smart Water Networks Forum
- Xylem Watermark partners: EarthEcho International, Mercy Corps, China Women’s Development Corporation, Planet Water Foundation, Water for People and Fundación Avina

# STAKEHOLDER ENGAGEMENT (Cont'd)

## 2017 STAKEHOLDER ACTIVITIES

Throughout 2017, we engaged in a variety of forums, conferences, programs and projects with our stakeholders to advance our shared mission of water sustainability. Here is a sampling of engagement activities in 2017:

At the Global Water Summit 2017, Xylem CEO Patrick Decker participated in the CEO Forum to discuss issues facing the global water sector, including the impact of globalization and the digital revolution, and share perspectives on the role of advanced technologies in advancing the water sector's migration to smart infrastructure.

At the Global Water Summit 2017, Mike Otten, director of Xylem's Systems Intelligence Center of Excellence participated in the digital strategy panel discussion. Topics included the internet of thing (IoT), scalability and security of digital platforms, and the role of water digitization in smart cities.

Xylem sponsored SMART CITIES NYC '17, the first conference and expo that curated the intersection of technology and urban life. Xylem President and CEO Patrick Decker participated in a panel discussion entitled, *Does Bigger Data Mean Better Living?*, during which speakers discussed the role of big data governance processes in relation to quality of life, economic development, and the city ecosystem.

## Charters, Principles, Initiatives and Associations

Xylem voluntarily subscribes to or endorses the following economic, environmental and social charters, principles or initiatives:

### UN GLOBAL COMPACT

### AMERICAN BUSINESS ACT ON CLIMATE PLEDGE

### CDP (formerly Carbon Disclosure Project)

### CEO WATER MANDATE

Xylem holds positions in, participates with or provides funding beyond routine membership dues to the following industry associations and advocacy organizations:

#### INDUSTRY

- American Chamber of Commerce AmCham (Australia)
- Bipartisan Policy Center Executive Council on Infrastructure
- British Pump Manufacturers Association
- Europump
- Hydraulic Institute
- International Water Association
- MAPI Sustainability Council and Environment, Safety & Health Council
- National Association for Environmental Management
- Smart Cities Council
- Stockholm International Water Institute
- U.S. Water Alliance
- U.S. Water Partnership
- Value of Water Coalition
- Water Environment Federation
- Water Systems Council

#### WATER ADVOCACY AND NGOS

- Ceres
- China Women's Development Foundation
- EarthEcho International
- Fundación Avina
- Mercy Corps
- Planet Water Foundation
- U.S. Chamber of Commerce Foundation Corporate Citizenship Center
- Water for People

#### SOCIAL/GOVERNANCE/ETHICS

- Corporate Executive Board
- Ethics Resource Center Ethisphere
- HR Policy Association
- MAPI Ethics & Compliance Council
- National Association of Corporate Directors
- Society of Corporate Compliance and Ethics
- Society of Corporate Secretaries & Governance Professionals

#### RESEARCH AND ACADEMIC

- IVL Swedish Environmental Research Institute
- Masdar Institute of Science and Technology
- Massachusetts Institute of Technology
- Singapore Public Utilities Board
- Stanford University

## STAKEHOLDER ENGAGEMENT (Cont'd)

Xylem participated in the American Water Works Association's annual ACE conference as well as the Water Environment Federation's annual WEFTEC conference. At WEFTEC, Xylem convened a *Smart Water Leaders Luncheon* for customers and industry stakeholders to discuss the role smart water will play in smart cities of the future.

Working with the Smart Cities Council, Xylem's Sensus business provided substantial in-kind donations for the five winning cities of the White House-sponsored **Smart Cities Council Readiness Challenge Grant**. The company donated a fully equipped FlexNet® communications network to each of the cities and conducted customized readiness workshops in each city.

At World Water Week 2017 in Stockholm, Sweden, Xylem co-convened a forum entitled: "Data Drought: An Assessment of Global Hydrological Monitoring Systems" along with Duke University, the Aspen Institute and the University of Oxford. The multi-stakeholder discussion assessed the severe decline in critical global water monitoring infrastructure, explored the challenges and solutions to up-scaling this

infrastructure as well as the implications of non-action, and defined the next-steps for collaboration. The session was led by Albert Cho, who at the time was vice president of strategy and business development for Xylem, and today, serves as vice president and general manager of Xylem's Advanced Infrastructure Analytics business.

Xylem co-convened a second workshop at this event entitled: "Powering the Water Renaissance: Emissions Reduction in Wastewater Management" with the European Water Association and IVL Swedish Environmental Research Institute. This session was co-led by Randolph Webb, manager, strategy and vertical marketing for Xylem's Europe Commercial Team, and Aleksandra Lazic, senior process engineer and team leader for Xylem's treatment business.

At World Water Week 2017, Albert Cho also participated in the "21st Century Technology: Bridging the Gap to Wastewater Reuse" workshop. The panel discussed the economic and environmental benefits of water reuse and how readily-available technologies can drive effective, financially successful reuse programs.

Xylem once again served as a founding sponsor of the Stockholm Water Prize, which was awarded to Professor Stephen McCaffrey from the University of the Pacific in California, USA.

For the 21st consecutive year, Xylem served as the Founding Sponsor of the Stockholm Junior Water Prize international competition. It also sponsors the country-level competition in the U.S., Sweden and China.

Xylem's Sensus business hosted its annual Sensus Reach<sup>SM</sup> Conference, which convenes thought leaders and industry experts to share best practices, learn from peers and determine how they can leverage technology to transform their infrastructure.



From left, Ryan Thorpe and Rachel Chang, two students from New York, hold the 2017 Stockholm Junior Water Prize award presented by Crown Princess Victoria of Sweden. Photo courtesy of Jonas Borg, Stockholm International Water Institute (SIWI).

# MATERIALITY & REPORTING

In creating this report, our goal is to address sustainability issues that have the most significant and material impact on our company's business performance and are important to our stakeholders – in particular, our customers, employees, shareholders, local communities and the broader society in which we operate.

While there are many important issues outlined by the Global Reporting Initiative (GRI), we believe that providing greater insight and transparency about the issues that are most relevant to Xylem's business and the impact we have on the world – through relevant stories, leadership messages and videos – will enhance our stakeholders' understanding of our business, our commitments and our progress.

In order to identify those significant issues, we collected and assessed data and other input from a variety of internal and external sources. Our internal stakeholders included key senior business and functional leaders, the Xylem Sustainability Steering Committee and our Environment, Health, Safety & Sustainability (EHS&S) team. We also relied on input from a cross section of external stakeholders, including the investment community, NGOs, customers and partners, and community leaders. We then evaluated GRI's G4 indicators through three different lenses – the collective stakeholder feedback, Xylem's strategic priorities and our enterprise risk management factors – to determine both their relative impact on our business and importance to stakeholders.

This robust analysis produced 17 material issues that we have organized into five categories: Strategic Business Model, External Engagement, Environmental Stewardship, Our People and Governance.

Consistent with our commitment to continue collecting input from internal and external stakeholders about these issues, their potential impact on Xylem's business now and in the future, and their relative importance to our business and stakeholders, we initiated a comprehensive review of our sustainability strategy in the first quarter of 2018. This comprehensive review includes outreach to multiple stakeholders to inform an updated materiality matrix and the formation of new, long-term sustainability goals that will be announced in 2018.



# MATERIALITY & REPORTING (Cont'd)

## 2017 XYLEM MATERIALITY MATRIX

**IMPACT TO BUSINESS**

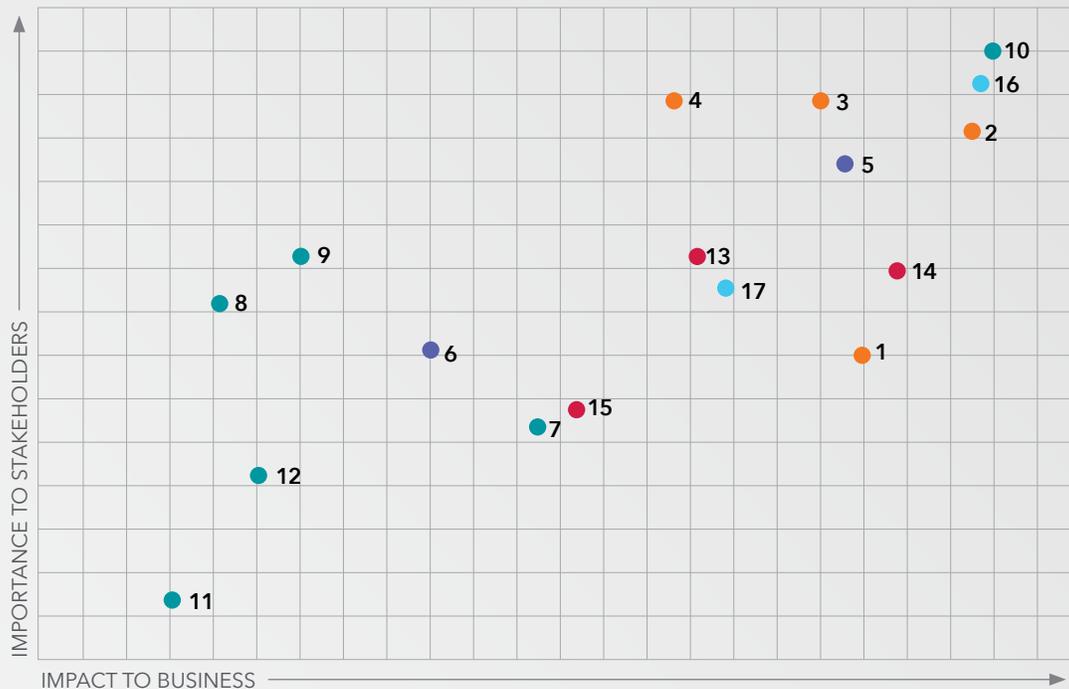
Xylem analysis across

- (1) Strategic Priorities
- (2) Enterprise Risk Management (ERM) Priorities

**IMPORTANCE TO STAKEHOLDERS**

Xylem analysis across five key stakeholder groups

- (1) Customers and End Users
- (2) Employees
- (3) Shareholders
- (4) Suppliers
- (5) Local Communities



**STRATEGIC BUSINESS MODEL**

- 1 Economic Value Creation
- 2 Innovation
- 3 Sustainable Products & Services
- 4 Community Impact

**EXTERNAL ENGAGEMENT**

- 5 Water Thought Leadership
- 6 Global & Local Citizenship

**ENVIRONMENTAL STEWARDSHIP**

- 7 Product Materials
- 8 Energy Efficiency of Our Facilities
- 9 Climate Change Mitigation
- 10 Water Stewardship
- 11 Biodiversity
- 12 Packaging & Waste

**OUR PEOPLE**

- 13 EHS&S at Xylem
- 14 Talent Development
- 15 Global Workforce

**GOVERNANCE**

- 16 Integrity & Transparency
- 17 Responsible Supply Chain

# REPORTING PRACTICES

We are committed to reporting on Xylem’s sustainability strategies and performance on an annual basis.

This report captures full-year sustainability results and progress for calendar year 2017. For the first year, our report and all data disclosed includes the operations of our Sensus and Visenti businesses, which were acquired in October 2016. Our previous report was released in June 2017, covering our results and progress for calendar year 2016.

This report has been prepared in accordance with the GRI Standards: Core option. The GRI Content Index outlines the indicators included in this report and a link to their location in the report. The GRI Content Index also indicates which disclosures have been externally assured.

While GRI does not require external assurance of all the data in a report, in 2018, Xylem engaged independent certification and verification providers, ERM-CVS, to conduct assurance of the environmental and safety metrics contained within our EHS metrics system. ERM-CVS provided an assurance statement for the following:

## ENVIRONMENT

- Total direct energy use (MWh)
- Total indirect energy use (MWh)
- Total Scope 1 and 2 GHG emissions (metric tons of CO<sub>2</sub>e)
- Scope 3 emissions associated with business travel – air, rental cars and use of hotels (metric tons of CO<sub>2</sub>e)
- Total water withdrawal (mega-liters)

## SAFETY

- Injury frequency (medical + lost work day cases x 200,000/number of working hours)
- Injury severity (number of lost work days x 200,000/worked hours)
- Number of medical cases
- Number of lost work day cases

See page 72 for the assurance statement from ERM-CVS.

As part of our annual reporting process, we measure and evaluate our performance and communicate our progress and challenges. We normalize a number of our Environment, Health & Safety metrics based on revenues to allow for a consistent year-over-year comparison that is not impacted by acquisitions, divestitures, employee turnover and other similar factors. Restatements in data are noted in the section of the report where they appear.

The list of all entities within our company is contained in the consolidated financial statements section of the Form 10-K, which was filed on February 23, 2018. It includes the legal names of our nearly 150 subsidiaries, the jurisdiction of these organizations and the name under which they do business. This report includes results and accomplishments from all the entities listed in the Xylem Form 10-K for the year ended December 31, 2017.

For more information about the content included in this report, contact [xylem.sustainability@xylem.com](mailto:xylem.sustainability@xylem.com).

# Business Performance

## OPPORTUNITY

Business performance and sustainability are inextricably linked at Xylem. We have the opportunity to unlock bottom-line value for the company and our stakeholders by creating a smarter approach to solving water and acting in a socially responsible manner in all that we do.



# STRATEGY

Xylem is a world leader in water technology, providing equipment and services for water and wastewater applications along with a broad portfolio of products and services that addresses the full cycle of water with sustainable solutions.

In addition, we provide sustainable solutions for certain critical energy resource infrastructure. We expect global macro trends to fuel demand for our solutions. Strengthening global environmental and water quality regulations are increasing the need for more efficient solutions. Population growth, urbanization and a growing middle class in emerging markets are boosting demand for clean water while putting strains on aging infrastructure. At the same time, the impacts of climate change are disrupting water supplies with intensifying water scarcity in many parts of the world, as well as flooding from a growing number of extreme weather events.

These factors combine to produce a growing need for water and critical energy infrastructure solutions that are modern, efficient and resilient. Xylem is well-positioned to fulfill these long-term needs as our business strategy is built around creating technology-enabled solutions to increase water productivity, water quality and resilience - ultimately creating a more positive handprint in the world. We are optimizing the potential of our business and creating a sustainable enterprise through the following strategies:

- **Accelerating Growth** by prioritizing investments in key emerging markets, focused innovation and technology to enable smart infrastructure, strengthening customer relationships to drive commercial leadership and disciplined M&A. We focus on investments that will generate long-term, sustainable growth for the benefit of our stakeholders.
- **Driving a Continuous Improvement** culture and simplifying our organization to make the company more agile and generate cost savings to reinvest for growth. We are strengthening our Lean Six Sigma and global procurement



# STRATEGY (Cont'd)



capabilities and continue to optimize our cost structure through business simplification by eliminating structural, process and product complexity.

- **Developing Leadership and Talent** by focusing on employee development programs at various levels throughout the company. We also will continue to align individual performance to the objectives of the company and our shareholders.
- **Focusing on Execution and Accountability** by holding our colleagues accountable and streamlining our performance management and goal deployment systems.

Xylem also takes a balanced approach to capital deployment, managing leverage with investments in growth. We return capital to shareholders via dividend growth in line with earnings and opportunistic share repurchases. In 2017, we continued to focus on pushing our portfolio of solutions up the technology curve. We invested heavily in our core businesses and through acquisitions, which led to the creation of our Advanced Infrastructure Analytics (AIA) platform in early 2018. The collective capabilities of these businesses help utility customers identify problem areas across their water and critical energy resource networks, prioritize them based on condition assessments, and allocate resources to get the most return on investment and extend the life of their assets.

Pure Technologies, acquired in early 2018, serves as the foundation of the AIA platform and expands Xylem's disruptive platform of diagnostic, analytics and optimization solutions for clean and wastewater networks. Pure's leadership position in intelligent condition assessment and leak detection solutions, along with previously acquired businesses such as Sensus and Visenti, brings Xylem to the forefront of expertise in addressing the problems that come from aging infrastructure, such as non-revenue water, and eliminating inefficiencies in infrastructure capital and operating budgets.

Following our acquisition of EmNet and Valor Water Analytics, these businesses were added to our AIA platform. EmNet provides network modeling and optimization solutions that enable municipalities to manage their urban water cycle, including their wastewater and stormwater systems. EmNet's open architecture platform -

## STRATEGY (Cont'd)

BLU-X - provides big data analytics in real time, helping solve cities' wastewater and watershed challenges. EmNet's solution can indicate when to open and close valves in the wastewater system, enabling flow to be directed into pipes where capacity is available to prevent polluting of waterways or even buildings.

Valor's core technology is its Hidden Revenue Locator, an automated software designed to locate forms of revenue loss occurring on a utility's system of meters from inaccurate meters to theft. Valor's software-enabled solutions are another example of how we are leveraging advancements in technology and data analytics to help utility customers address

the growing challenge of non-revenue water and more effectively allocate their constrained budgets.

These advanced solutions, collectively, help utility operators to allocate their capital resources more effectively and efficiently, which in turn enables them to better address the issue of water affordability.

Given that EmNet was acquired in December 2017, and Pure Technologies and Valor Water Analytics were acquired in early 2018, the contents of this report do not include results from these businesses. We plan to include our newly acquired businesses in our Sustainability Report in future years.



# ECONOMIC IMPACT

A comprehensive discussion of Xylem’s 2017 financial performance can be found in our U.S. SEC 10-K filing beginning on page 29.

## 2017 FINANCIAL PERFORMANCE (GAAP)

Revenue  
**\$4.71**  
BILLION

Operating Expenses  
**\$4.15**  
BILLION

(includes cost of goods sold)

Operating Income  
**\$556**  
MILLION

Net Income  
**\$331**  
MILLION

Diluted Earnings  
**\$1.83**  
PER SHARE

## 2017 KEY FINANCIAL METRICS

Capital Expenditures  
**\$170**  
MILLION

Research & Development  
**\$180**  
MILLION

Dividends Paid  
**\$130**  
MILLION

Income Tax Expense  
**\$136**  
MILLION

Assets  
**\$6.86**  
BILLION

Total Debt  
**\$2.20**  
BILLION



# GOVERNANCE & RISK MANAGEMENT

Xylem is committed to strong and effective corporate governance. We have established governance practices and controls that promote transparency and accountability of management and our Board to our shareholders.

Strong governance starts with our highest governing body, the Xylem Board of Directors, which is led by our independent Chair. We believe having an independent Chair, whose sole job is to lead the Board, allows our CEO to focus his time and energy on the strategy and operations of our company. As of the end of 2017, our Board consisted of 10 members, all of whom were independent with the exception of our Chief Executive Officer.

Our Board is elected annually by our shareholders to oversee how Xylem's employees and management conduct business under the direction of the Chief Executive Officer and to assure that the interests of the shareholders in the long-term

health, success and financial strength of the company are being served. The core responsibility of the Board is to exercise its business judgment to act in what the Board reasonably believes are the best interests of Xylem and its shareholders to build long-term sustainable value. In considering the best interests of Xylem and its shareholders, the Board may also consider the effects of any action on Xylem's other stakeholders, including its employees, suppliers, customers and communities in which our offices or other facilities are located.

In 2017, we held 10 Board meetings and 20 Committee meetings to make decisions on key strategic issues affecting our company.



Xylem Board of Directors (l to r): Jerome A. Peribere, former President & CEO of Sealed Air Corporation; Steven R. Loranger, former Chairman, President & CEO of ITT Corporation; Jeanne Beliveau-Dunn, former Vice President & General Manager of Services, Cisco; Sten E. Jakobsson, former President & CEO of ABB AB; Markos I. Tambakeras, Xylem Chairman and former Chairman, President & CEO of Kennametal, Inc.; Robert F. Friel, Chairman, President & CEO of PerkinElmer, Inc.; Patrick K. Decker, President & CEO, Xylem Inc.; Curtis J. Crawford, Ph.D., President & CEO of XCEO, Inc.; Victoria D. Harker, Chief Financial Officer of TEGNA, Inc.; Surya N. Mohapatra, Ph.D., former Chairman, President & CEO of Quest Diagnostics Inc.

## GOVERNANCE & RISK MANAGEMENT (Cont'd)

Overall, Board and Committee meeting attendance was 96 percent in 2017.

Highlights of Xylem's corporate governance policies are summarized on page 1 of the company's 2018 Proxy Statement as filed with the U.S. SEC.



### BOARD MEMBER SELECTION AND EVALUATION

The Board regularly reviews Board size and composition, including diversity and tenure, as well as Committee structure through its Nominating and Governance Committee. This Committee, comprised entirely of independent directors, is responsible for oversight of the company's programs on sustainability, corporate citizenship, environment, health and safety, anti-harassment, business continuity, cyber risk, including data privacy and security, and ethics and compliance, including anti-corruption and trade compliance.

Our Nominating and Governance Committee is responsible for identifying and recommending qualified director candidates to the Board of Directors. The Committee seeks candidates who possess the attributes and experience necessary to provide a broad range of personal characteristics to the Board, including diversity, management skills, experience in technology and innovation, global business experience, and sustainability experience and commitment.

Our Board actively seeks to consider diverse candidates for membership on the Board, taking into account diversity in terms of viewpoints, professional experience, education and skills as well as race, gender and nationality. As part of its annual process to identify new candidates to join the Board of Directors, the Nominating and Governance Committee considers whether and to what extent a candidate's attributes and experiences will individually and collectively complement the existing Board, recognizing that Xylem's business and operations are diverse and global in nature.

In 2017, the Board elected Jeanne Beliveau-Dunn to the Board, bringing the total number of directors to 10. Ms. Beliveau-Dunn most recently served as Vice President and General Manager of Cisco's Technical Services, a global organization that supports Cisco's customers.

Our Board considers recommendations for Director candidates from many sources, including shareholders and third-party search firms, and uses the same criteria for evaluating candidates regardless of the source of the recommendations. The company also provides shareholders with a proxy access right, which permits a shareholder or group of shareholders meeting certain ownership requirements to nominate and include in our proxy materials a qualified Director candidate to be voted on by the shareholders at the annual shareholder meeting.

The Xylem Board of Directors conducts an annual self-assessment to evaluate the effectiveness and performance of the Board overall and each of our Committees. This includes an assessment of the Nominating and Governance Committee's work in overseeing the company's sustainability program and related activities. In addition, the Nominating and Governance Committee also engages an independent third-party consultant on a periodic basis to meet with each Board member to assist with the qualitative assessment of the Board. The independent consultant presents its findings to the full Board and facilitates a robust

# GOVERNANCE & RISK MANAGEMENT (Cont'd)

discussion focusing on opportunities for improvement. The consultant also provides feedback to individual directors, as applicable.



## BOARD COMMUNICATIONS

Xylem's Board of Directors values the views of our shareholders and believes that building positive relationships with our shareholders is critical to our long-term success. To help management and the Board understand and consider the issues that matter most to our shareholders, we regularly engage with our shareholders on a range of topics related to strategic and operational matters as well as sustainability, executive compensation and corporate governance. In 2017, we also held an Investor and Analyst Day where the company presented and discussed its long-term strategy and financial objectives. While the company's regular governance outreach and investor and analyst days remain key components of the company's shareholder engagement, the Board views engagement as a year-round conversation with shareholders about creating long-term sustainable value. Accordingly, the Board seeks to build a framework for deep, frequent and productive conversations with the company's shareholders.

Employees are informed of company decisions through regular print and digital newsletters and memos, as well as town halls and webcasts. Shareholders and other external audiences can learn about Xylem through webcasts, investor conferences, earnings calls, the Xylem website, news releases and our company public filings. Our Corporate Governance Principles, Committee Charters and Code of Conduct are publicly available on our website.

Xylem shareholders and other interested parties can contact individual Board members or the entire Board as a group by submitting an email to [Independent.Directors@xylem.com](mailto:Independent.Directors@xylem.com) or a letter directed to our company's Corporate Secretary at Xylem Inc., 1 International Drive, Rye Brook, New York 10573, USA, with a request to forward the letter to the intended recipient or recipients.

## CONFLICTS OF INTEREST

Xylem's Related Party Transaction Policy governs the treatment of any transaction or proposed transaction between Xylem and its Directors or senior executives. Transactions valued at more than \$120,000 involving Directors or its senior executives are required to be approved by our Board's Nominating and Governance Committee. In 2017, there were no related party transactions that were reportable under U.S. SEC rules and that needed to be approved by the Nominating and Governance Committee.

Proposed new Board memberships and relevant changes in affiliations are reviewed by the Corporate Secretary and the Nominating and Governance Committee for potential conflicts or other concerns.

## BOARD AND EXECUTIVE COMPENSATION

Our non-employee Director compensation program is designed to attract and retain experienced and knowledgeable directors and to provide equity-based compensation to align the interests of our directors with those of our shareholders. Each non-employee Director is compensated in two ways: a cash retainer and an equity, stock-based retainer. In 2017, our Board adopted a policy limiting the total annual compensation for non-employee Directors to \$750,000. This limit is inclusive of the value of both the annual cash retainer(s) and the grant date fair value of the annual equity award.

## GOVERNANCE & RISK MANAGEMENT (Cont'd)

Xylem's senior executives are compensated through a combination of base salary, annual performance-based incentive compensation and long-term performance-based equity awards, including performance share units, restricted stock units and stock options.

The target compensation mix for Xylem's most highly compensated officers is heavily weighted toward performance-based compensation. In 2017, 87 percent of CEO compensation and an average of 71 percent of compensation for other named executive officers was in the form of annual performance-based incentive compensation and long-term performance-based equity awards. This does not include any one-time at-hire awards or grants.

Xylem has developed share ownership guidelines designed to encourage senior executives and Board members to build their ownership positions in Xylem's common stock over time. All of our non-employee Directors and senior executives have met or are on track to meet these guidelines.

A successful, sustainable company is always looking ahead. While management has responsibility for managing risk, our Board has responsibility for risk oversight and our Audit Committee oversees our risk management processes and policies. Risk oversight is an ongoing process and inherent in the company's strategic and operational decision-making. We consider a wide range of risk factors that could impact our business, from inflation to information technology interruptions. Xylem's Board of Directors has primary responsibility for overall risk oversight, including the company's risk profile and management controls. An enterprise-level risk assessment process is conducted by top executives and reviewed by our Board on an annual basis. This

assessment includes feedback gathered from the risk-monitoring dashboards completed by the functional and business leaders, as well as the results of a survey of the company's broader top leadership group.

The Board has delegated responsibility for the oversight of certain categories of risks to designated Board Committees that report back to the full Board:

- The Audit Committee monitors the company's overall risk assessment and risk management program, including accounting, controls and financial disclosures.
- The Leadership Development and Compensation Committee reviews and assesses compensation program risks to ensure that our compensation programs balance appropriate business risk and rewards without encouraging unnecessary or excessive risk-taking behaviors. This Committee also exercises oversight of risk relating to succession planning for executive officers, including the CEO.
- The Nominating and Governance Committee is responsible for overseeing the company's sustainability, corporate citizenship, anti-harassment, environmental, health and safety, business continuity and cyber risk programs. This Committee also provides oversight of Xylem's ethics and compliance programs, including anti-corruption, anti-harassment and trade compliance.
- The Finance, Innovation and Technology Committee provides oversight of Xylem's technology and innovation strategy. It also reviews the company's capital spending and financing strategies, and M&A opportunities.

# SUPPLY CHAIN

As a company focused on sustainability, we strive to ensure that our suppliers share our values of respect, responsibility, integrity and creativity.

**~11,700**  
**SUPPLIERS**  
worldwide

**\$2.5**  
**BILLION**  
spent with suppliers

Suppliers aren't simply delivering components, raw materials and other resources; they are a reflection of our organization. The major categories for which we depend on suppliers are motors, castings, fabrications, electronics, polymerics and machining. These products are composed of plastics and metals such as nickel, copper and aluminum, and we take care to ensure that these materials come from reputable sources.

Where possible, our operations rely on local suppliers to optimize material flow and reduce cost without losing the benefits of scale. Our local spend is 71 percent of the total supplier spend. Non-local suppliers are requested to provide local supply chain solutions – such as on-site support teams

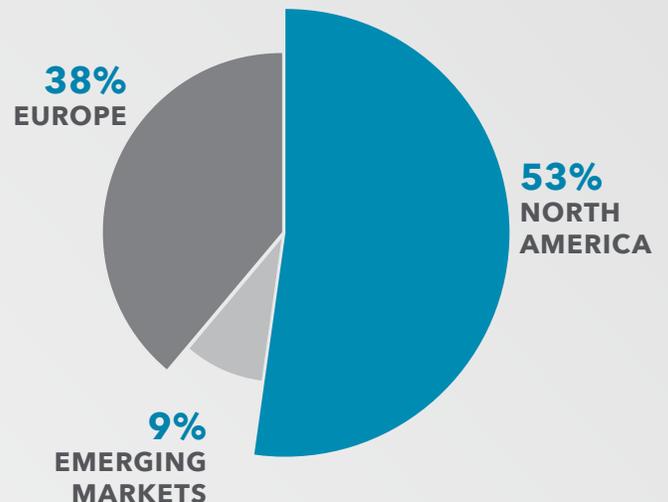
and local warehouse solutions – wherever necessary and applicable. In 2017, Xylem's global procurement group led and supported various initiatives to localize sourcing and manufacturing. These efforts were focused on sites in Calamba, Philippines; Vadodara, India; and Shenyang, China. Through more than 42 separate projects, we moved more than \$7.96 million in spending to local sources.

The most significant environmental impacts of our supply chain are the result of goods transportation and travel. A newly established relationship with a global travel provider and preferred transportation supply base provides us with a platform to optimize our spend, streamline tools and processes and greatly improve the customer experience. Beyond our localization efforts, the following sourcing programs – all implemented in 2017 – are helping reduce Xylem's environmental impact:

**A newly established relationship with a global travel provider and preferred transportation supply base provides us with a platform to optimize our spend, streamline tools and processes, and greatly improve the customer experience.**



## 2017 Spending by Region



# SUPPLY CHAIN (Cont'd)

- ECOVA energy management program consolidates utilities billing and allows Xylem to negotiate extended terms, reduce and eliminate late payments, fees and disconnect notifications.
- Green energy goals coincide with our ECOVA energy management program in Xylem's goal of attaining 100 percent green/renewable energy use at each of our major facilities. In regulated environments where the goal is not directly achievable, Xylem is purchasing renewable energy credits to apply as offsets.
- Integrated Facilities Management (IFM) assesses best practices in outsourced facilities management to consolidate our supply base while improving service quality and facility maintenance programs.
- National account agreements that increase safety and equipment familiarity and allow transfers of equipment among locations to optimize utilization across Xylem's material handling fleet.

We are also working to help our suppliers become more sustainable. Our green belt training program, offered at Xylem's expense, enables suppliers to learn ways to implement environmentally friendly practices alongside Xylem colleagues. The only prerequisite for joining the program is to identify one project that provides joint benefits to both Xylem and the supplier. In addition, we offer a water footprint calculation tool to help critical suppliers identify ways to limit water consumption.

## SUPPLIER CONDUCT

Our standard procurement Terms and Conditions require our suppliers to comply with Xylem's technical and commercial requirements, as well as all applicable legal regulations, human and labor rights, and with our Supplier Code of Conduct. In turn, we expect suppliers to hold their sub-tier suppliers to these same standards. Our Supplier Code of Conduct covers expectations of suppliers in the following areas:

- General contracting ethics
- Child labor
- Forced labor
- Hiring and employment practices
- Compensation and working hours
- Health and safety
- Environment
- Conflict minerals and chemical substances
- Improper payments
- Confidential information
- Supply chain transparency
- Compliance monitoring
- Supplier diversity
- Harassment
- Communication
- Human rights

## China Clear Sky Directive

Air pollution has moved near the top of the political agenda in China, with targets having now been set to reduce pollution in Beijing and Tianjin as well as 26 other cities in the country. Detailed instructions have been issued for everything from installing monitoring stations for car emissions at heavily used junctions to boiler remediation, including the elimination of all coal-fired stoves. Xylem has been able to work with its current supply base in the regions covered by the Clear Sky Directive to properly assess the necessary steps to meet environmental, health and safety regulations.



# SUPPLY CHAIN (Cont'd)

We want our suppliers to feel comfortable speaking up when they believe we are acting in a manner inconsistent with our values. As part of our new IFM sourcing initiative, for example, we are encouraging suppliers to submit improvement opportunities for Xylem's efforts to reduce energy, emissions, water or waste, and ideas for assisting us with our stated goal of solving water.

## SUPPLIER AUDITS

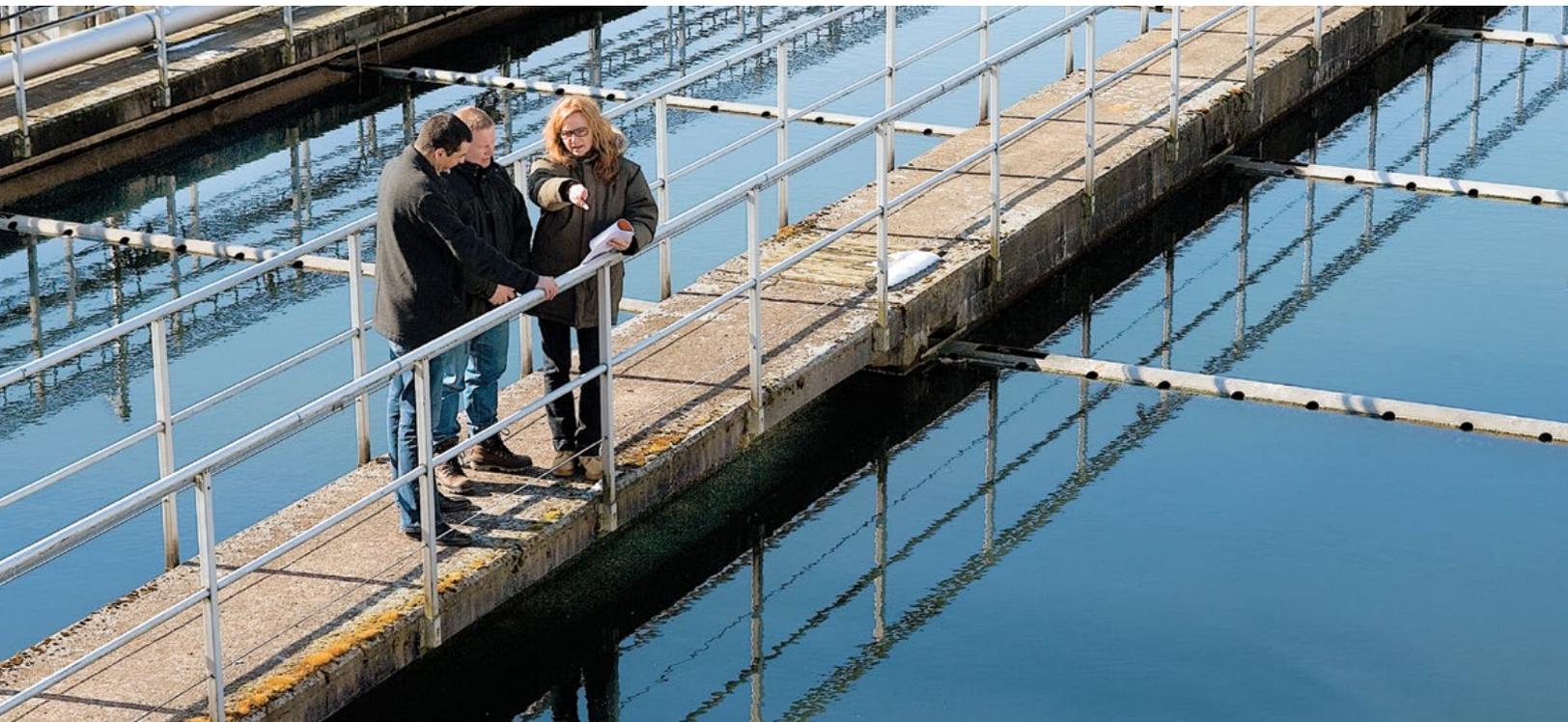
We expect all suppliers to adhere to our global sustainability standards. As part of our procurement process, any new Xylem supplier is required to align with our business standards in terms of product quality, process capabilities and sustainable actions. We have started implementing an audit process that prioritizes suppliers located in countries where human and labor rights issues could be a concern, and those located in water-stressed areas. Following an in-depth initial audit with a new supplier, we conduct selected and targeted follow-up audits, as well as random audits.

Audit questionnaires focus on the following areas:

- Environment
- Health and safety practices
- Human rights and labor rights
- Conflict minerals
- Business continuity planning
- Facility security

## CONFLICT MINERALS

As a manufacturer of heavy industrial goods, we use tin, tungsten, tantalum and gold (3TG) in many of our products. For example, we produce seals that contain tungsten and electronics that contain tin and gold. We have worked diligently over the past three years to comply with U.S. SEC requirements regarding the sourcing of these materials. In 2017, we continued utilizing a third-party service provider to assist us in reviewing our supply chain. We surveyed more than 3,350 in-scope suppliers and received a 46 percent response rate.



# Water & Infrastructure Solutions

## OPPORTUNITY

One of the most persistent sustainability issues of our time, solving water scarcity, is part of our mission at Xylem. We have the opportunity to develop a smarter way forward through smart water infrastructure solutions powered by cutting-edge technology.

# OPPORTUNITY

The world's water challenges continue to grow in scale and intensity seemingly by the day. In 2017, one in nine people across the globe lacked access to clean, safe water.

As the demand for water consumption increases at a historic pace, freshwater availability is declining due to pollution growth, climate change, increased urbanization, poor water infrastructure, overuse and other factors. Recently, the Union of Concerned Scientists issued an alarming environmental statistic: Over the past 25 years, the amount of freshwater available worldwide has fallen by 26 percent per capita.

We're at an inflection point, and there *is* a smarter way forward.

Xylem is defining the roadmap to a more water secure future through the advancement of intelligent, sustainable technologies used

in conjunction with our already expansive installed base of products. This is important because it gives us a broader view of the critical areas our clients must address all along the water cycle. With Xylem's advanced solutions enabled by technology and data analytics, our customers have greater predictability and more precise insights to inform their decisions about how to quickly and more effectively manage their operations, whether they oversee a utility, an industrial process, a commercial or residential building, or agricultural application. This is especially important for utility customers, many of whom work with constrained budgets while striving to improve service to their own customers and protect the environment.

Xylem has devoted significant resources in understanding many of the most critical water industry issues of the day and how our customers are currently managing those challenges. We're committed to bringing together the right portfolio of solutions, leveraging advanced technologies as well as software and data analytics-enabled services to make a significant impact.

## NON-REVENUE WATER

The process of transferring clean, treated water through a clean water network for end-users in the residential or commercial space can be problematic for utilities. One of the most common problems is leakage, which is primarily attributable to aging water infrastructure. Water leaking from aging pipes is wasteful and causes inefficiencies in a utility's ability to provide clean water supply for communities. This is referred to as real water losses. Theft or hacking of the water supply network is another problem, as well



# OPPORTUNITY (Cont'd)



as inaccurate meters, which leads to inaccurate billing. These problems result in apparent losses because the treated water is consumed but not properly accounted or paid for. Our technology and software-enabled solutions can help reduce both real and apparent losses, which can have a significant impact on budget-constrained utilities around the world.

## MANAGING WASTEWATER AND COMBINED SEWER SYSTEMS

Residential households, as well as industrial, commercial and agricultural practices, produce sewage and wastewater that can adversely impact the environment. This wastewater can become a serious issue during storms if wastewater networks do not have the capacity to handle additional stormwater, particularly when a community has a combined sewer system. A combined sewer system collects rainwater runoff, domestic sewage and industrial wastewater all in one pipe. Under normal conditions, all of the wastewater is collected and transported to a wastewater treatment plant for treatment and released to a water body. However, when the volume of this combined stream of wastewater exceeds the capacity of the combined sewer system, such as during heavy rainfall or snowmelt, utilities are often forced to “open the gates,” letting the untreated wastewater run into our rivers, streams and lakes, creating a hazardous environmental situation. Wastewater is also a significant problem in many areas of the world where the population is growing rapidly, and aging facilities operate through old networks in constrained spaces. This is a particular concern for growing cities. Xylem solutions can optimize urban wastewater networks to significantly reduce the risks of environmental damage.

## WATERSHED MANAGEMENT

With only a finite number of watersheds in the world to hold clean drinking water, it is critical to monitor water levels to ensure availability and quality. Traditionally, watershed monitoring has been done manually by workers in boats, which can create safety risks. The process is also highly inefficient as testing can only be done at certain times. Xylem can help customers address both of these challenges through remote monitoring solutions.

Combining our wide range of products with our ever-growing technological platform, Xylem is driving systemic change throughout the entire water cycle - not only to better solve for the evolving needs of our customers, but also to play a significant role in helping to solve one of the globe's most daunting long-term issues.

# CAPABILITIES: LEVERAGING TECHNOLOGY TO SOLVE WATER

To understand where our business is going, it helps to understand where we've been. Since Xylem became an independent company in 2011, our business has generally focused on providing advanced technologies and services related to the management of water and wastewater in a variety of end markets.

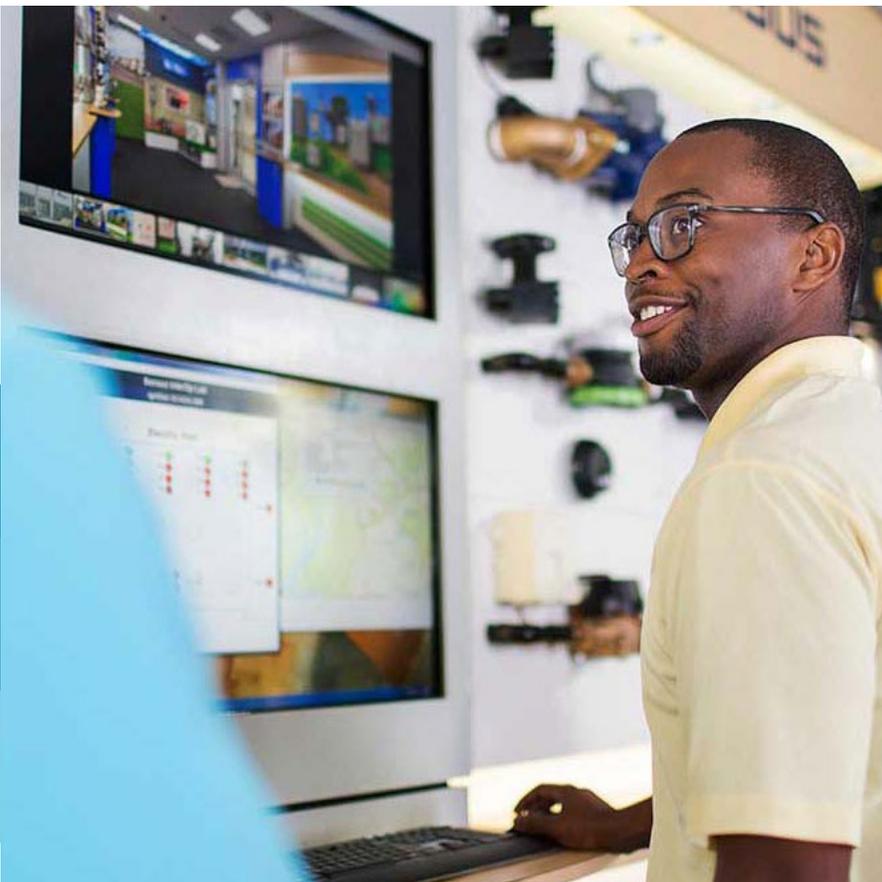
This meant we were a localized company, for the most part, with a large base of installed products across the globe. This has and continues to enable us to maintain relationships with water and wastewater treatment facilities and a wide variety of water users around the world. That local connection is a significant part of our foundation and differentiates us moving forward.

Today, many of our customers' monitoring products are only used periodically and on an inefficient, manual basis. Monitoring for a variety of parameters often requires

on-site inspections. Through technology, we're changing that line of sight by providing solutions that enable continuous, remote evaluation.

One solution that is playing an increasingly pivotal role for utilities is our FlexNet® communications network, which became a part of our portfolio with the acquisition of Sensus in 2016. This communications network provides Xylem's customers with the ability to monitor their water network, identify problems remotely and quickly, and deploy personnel to more efficiently solve key water issues, such as leaks that might affect the clean water supply for a community. Greater insight and visibility leads to smarter work, which ultimately means less waste in the water supply.

For example, Washington, Indiana, USA, is a small city that is enjoying significant growth. But with growth came the challenge of an aging utility infrastructure that struggled to support the needs of its growing community.



# CAPABILITIES (Cont'd)

Washington's outdated electric and water infrastructure made it difficult to track meters or monitor for issues such as water leaks and power outages. City leaders knew that an advanced metering infrastructure (AMI) solution was the right approach, particularly one that would unify water and electric metering under a single solution while integrating with the current billing system.

They chose Xylem's Sensus FlexNet® communication network and Sensus Analytics to securely collect and transmit customer usage data for more accurate and efficient billing. With FlexNet, staff are monitoring usage and can report issues to customers in near real time. In addition, Washington Municipal Utilities replaced 7,500 electric meters with our iCon A™ Generation 3 residential electricity meters and iCONAPX™ electricity meters. In conjunction with these upgrades, the utility

replaced 4,500 water meters with our own SR II® water meters and SmartPoint® 520M pit set modules.

Working together, we were able to provide a multi-faceted solution to help alleviate some very serious pain points for our customer. In the end, our customer is now able to spend more time and resources on taking care of the community it serves.

## LEADING INFRASTRUCTURE ANALYTICS

Xylem augmented its capabilities in 2017 by taking a close look at how we can disrupt the traditional ways of managing water infrastructure and improve the economics of managing water. We're investing heavily in building our Advanced Infrastructure Analytics (AIA) platform, which brings together a portfolio of advanced technologies to help customers to better understand the state of their network

## Strengthening Our Technological Approach Through Collaboration



As part of Xylem's strategic agenda to strengthen our technology and innovation capabilities, we recognize the essential nature of open innovation. In late 2016, Xylem joined as a new member of the MIT Industrial Liaison Program and as the first Research Affiliate with Abdul Latif Jameel World Water and Food Security Lab (J-WAFS), a collaborative research center promoting multi-disciplinary research at Massachusetts Institute of Technology (MIT), to solve critical challenges in food safety, urban water supply, agriculture and irrigation, and watershed protection.

Xylem's relationship with J-WAFS and the MIT research community has expanded to include three sponsored research projects: investigating new sensing technologies, data analytics and advanced transport methods. Each project includes the engagement of the MIT research community, partnering with faculty and students in the Departments of Mechanical Engineering and Computer Science and Artificial Intelligence, as well as numerous subject matter experts within Xylem. These multi-year projects aim to solve critical unknowns in these water technologies, address specific needs for Xylem, and ultimately create value for our customers.

Additionally, Xylem is a leading sponsor for the MIT Water Club, a student-led group that hosts events and summits throughout the year, and advances the discussions around water technologies, research and policy. Through this partnership, Xylem also provides sponsorship and mentorship for the MIT Water Innovation Prize. This annual competition invites subject matter experts from Xylem and other industrial partners to mentor startups and research labs as they develop pitches and business plans to compete for \$30,000 in prize money for the advancement of research and development of their innovative water technologies.

# CAPABILITIES (Cont'd)

infrastructure through condition assessments, identify and prioritize problem areas early in the cycle, and allocate resources accordingly to improve their return on investment and extend the life of their assets. This technology-enabled approach can reduce the capital burden that our customers and their communities face.

## PURE TECHNOLOGIES LEADING THE AIA PLATFORM

Pure Technologies, acquired in early 2018, serves as the foundation of this AIA platform and furthers Xylem's disruptive platform of diagnostic, analytics and optimization solutions for clean and wastewater networks, as well as critical energy resource infrastructure. Pure's leadership position in intelligent condition assessment and leak detection solutions brings Xylem to the forefront of expertise in addressing the problem of aging infrastructure to decrease non-revenue water and improve the capital efficiency of our customers' operations.

## EMNET AND VALOR WATER ANALYTICS EXPAND AIA EXPERTISE

Also included in our AIA platform are the acquired businesses of EmNet and Valor Water Analytics. EmNet provides network modeling and optimizations solutions that enable municipalities to manage their urban water cycle, including their wastewater and stormwater systems. EmNet's open architecture platform - BLU-X - provides big data analytics in real time, helping solve cities' wastewater and watershed challenges. EmNet's real-time analysis solutions can indicate when to open and close valves in the wastewater system, enabling flow to be directed into pipes where capacity is available to prevent polluting of waterways or even buildings.

Valor's core technology is its Hidden Revenue Locator, an automated software designed to locate forms of revenue loss occurring on a utility's system of meters from inaccurate meters to theft. Bringing Valor's solutions to our customers is another way we are helping utility customers address non-revenue water and more effectively use their constrained budgets.

Adding additional real-time monitoring and actionable insights to Xylem's portfolio enables us to offer end-to-end solutions to water challenges around the world. Leveraging advanced technologies and data analytics at scale, Xylem is working with customers to make a greater impact on critical water issues.

Watch this video detailing the Homestake Water Project, executed by our Pure Technologies team.



# APPLICATIONS

Our smart technology products and software-enabled solutions are creating a smarter way forward across the globe in the face of some of the world's most severe water and infrastructure challenges.

For example, our Sensus FlexNet communications network provides customers with real-time monitoring across their water network to quickly diagnose problems and enhance their operational efficiency.

As an example, we're working with Zhenjiang Waterworks Company, a large Chinese water utility, on a pilot project to help solve Zhenjiang's non-revenue water challenges. The project includes a suite of Xylem's water management technologies, including advanced water treatment, water monitoring, intelligent water metering and smart water platform. The agreement also includes Xylem's Visenti-branded smart water network management system and software for monitoring the 19-kilometer main pipeline near Jinxi Water Plant, 7-kilometer sub-pipelines in Taoyuan village of Zhenjiang and evaluating the risks of a 3-kilometer pipeline at Mengxi Road.

In 2017, our Visenti business successfully completed installations in Singapore, the Middle East, Australia and Europe. In fact, Visenti's analytics platform powers two of the world's largest smart water network deployments. For PUB, Singapore's National

Water Agency, a network of sensors connected to Visenti's analytics platform has been installed in the water supply network system to help Singapore monitor in real-time the water quality, water flow and water pressure in its water supply network. This has enabled PUB to respond faster to any anomalies detected and mitigate the potential impact to PUB's operations and water supply to its customers.

## PRODUCT APPLICATIONS

2017 witnessed some of the most devastating natural weather events on record, including Hurricanes Harvey, Irma and Maria, and severe flooding in India, Nepal and Bangladesh. Natural disasters are a severe pain point for many of Xylem's customers and they exact a huge economic, social and environmental toll on individuals and communities.

Xylem is taking a leadership role in helping communities prepare for water-related challenges and disasters. This is the purpose of [\*Building Resilience: Creating Strong and Sustainable Cities and Communities\*](#), a report published by Xylem in 2017. It outlines



[Read here](#) about how we're putting our smart water expertise to use in the wake of natural disasters.

the challenges communities face as they anticipate, prepare for, respond to and recover from natural disasters and environmental challenges. Through a variety of case studies, the report illustrates how advanced technologies can help communities ensure water security, strengthen critical infrastructure, drive response and recovery, and engage community stakeholders to build resilience.

Water reuse, or recycled water, can help meet growing water demands, particularly in the wake of droughts. Xylem's advanced water reuse solutions produce high-quality potable water at a lower life-cycle cost than developing a new water supply, with valuable environmental benefits. In 2015, Xylem was commissioned to deliver a unique water reuse system as part of Los Angeles' Terminal Island Water Reclamation Plant expansion. Xylem's Wedeco MiPRO photo Advanced Oxidation Process (AOP) was selected to ensure that the purified water complies with California's stringent groundwater recharge regulations for indirect potable

reuse in the safest, most cost-effective way. In 2017, the Terminal Island Water Reclamation Plant expansion was completed and now purifies and recycles more than 12 million gallons of water per day for beneficial use.

#### **TURNKEY WASTEWATER APPLICATIONS**

When disaster strikes, Xylem has the solutions to help communities recover quickly and sustainably. For instance, following an historic 16 inches of rainfall in Memphis, Tennessee, that eroded the soil supporting a 96-inch sewer main carrying wastewater, Xylem installed a turnkey bypass solution to maintain sewer services. The project included the construction of a 2,400-foot-long, 40-foot-wide road through swampland to access the site. A team of nearly 200 Xylem engineers, along with Memphis Public Works and contractor personnel, completed the bypass in just six days.

Helping our utility customers bring safe, clean water to end-users through a variety of Xylem's treatment technologies continues to be an important priority.

Xylem's ultraviolet (UV) disinfection solutions employ leading-edge technology to help mitigate increasing contaminants in the earth's water supply. Xylem partnered with the City of Columbus, Ohio, in 2017 to deliver our disinfection solutions for two of the city's major drinking water plants. The energy-efficient UV technologies serve as an additional treatment barrier for *Cryptosporidium* - a dangerous chlorine-resistant parasite - in each facility to ensure safe, reliable, affordable drinking water for the residents of Columbus. We also partnered with the City of West Palm Beach on a similar project, installing our Wedeco-branded UV treatment technology, which will deliver safe, clean drinking water for 110,000 Floridians.



# PRODUCT EFFICIENCIES

Roughly 98 percent of the environmental impact of water pumps and mixers is related to energy consumption in the usage phase. More efficient products can positively impact our customers' environmental footprint. Even small gains in efficiency over time can have a tremendous impact during a product's lifetime.

Our product development process includes a step in which we evaluate new products from a sustainability perspective – considering recyclability, use of less harmful materials, energy efficiency and other factors. By considering sustainability early in the design phase, we are better positioned to create products that are more energy- and cost-efficient to manufacture and operate – something that is not always possible later in the process.

In 2017, the average efficiency of product lines was 61.4 percent, slightly up from 61.2 percent in 2016. Our 2017 performance represents a 2.8 percent improvement since 2012.

Our Vitality Index – the percentage of total sales from products launched in the last five years – is another key product efficiency indicator. We increased our Vitality Index 2020 goal from 25 percent to 30 percent following the acquisition of Sensus in 2016, and we're pleased with our progress toward that goal. At the end of 2017, the Vitality Index was 24 percent, up 5 percent from 2016. Improving our Vitality Index is not only an indicator of how well we are meeting customer needs, it also means we're successfully selling products that are more sustainable, as new products are almost always more energy-efficient.

We're constantly looking to create new products that set the industry standard in efficiency. In 2017, we unveiled a new series of dewatering pumps under our Godwin brand. The Godwin S Series Dri-Prime pump reduces emissions by 90 percent and fuel consumption by 10 percent. Furthermore, in an industry first, it can be monitored and controlled from any smartphone, tablet or desktop computer, anywhere in the world. The new Godwin series also features Xylem's unique Flygt N-Technology for more efficient wastewater transport. The pump offers self-cleaning capability and sustained hydraulic efficiency.



Godwin S Series Dri-Prime Pump

# Operational Impact

## OPPORTUNITY

With over 350 facilities in more than 50 countries, we have the opportunity to reduce our environmental impact on the planet by doing more with less. That's why we've set lofty goals in terms of operational impact, and we're well on our way to achieving each of them.



# EH&S OVERVIEW

The end use of Xylem products is to promote sustainable water management, but we're equally committed to optimizing the efficient manufacturing of our products. To help us manage and continuously improve the sustainability of our own environmental footprint, we have set five-year goals to reduce greenhouse gas emissions, water and waste to landfill.



We're making good progress toward these goals with the help of a cloud-based EH&S software solution. This system assists us in tracking our progress in reducing our environmental footprint. It enables us to establish our baseline, and identify trends in consumption, costs and emissions. We utilize this system to identify conservation opportunities via our Treasure Hunts and Energy Audits, and estimate cost and resource savings. Finally, the system enables us to track progress in specific projects, including cost and savings, and to share best practices across the organization.

Xylem also holds itself to the high standards required for ISO and OHSAS certification. Several of our global manufacturing sites meet ISO 14001 standards for environmental management, ISO 50001 for energy management and/or OHSAS standards for health and safety management. We are proud of this achievement as it demonstrates our commitment to transparency in our operations.

Xylem investigates all significant incidents occurring at our sites and completes root cause analysis to identify and prevent recurrence of the causes of the incidents.

## XYLEM 2019 OPERATIONAL GOALS

(2014 Baseline)

**20%**  
REDUCTION IN  
GHG EMISSIONS  
INTENSITY

**25%**  
REDUCTION IN  
WATER INTENSITY

**20%**  
REDUCTION IN  
WASTE TO  
LANDFILL

**100%**  
REGULATORY  
COMPLIANCE

At all manufacturing/service sites

# EH&S OVERVIEW (Cont'd)

In addition, we discuss incidents in a variety of forums, including town halls and operational reviews, and all incidents are reviewed with site teams, which include plant managers, general managers, supervisors and EHS globally. These reviews provide the site teams with additional prevention and response education.

One of our sustainability goals is to record zero regulatory compliance notices of violation at manufacturing and service sites. Achieving this goal will enable us to meet our compliance obligation, while also minimizing the reputational or financial risk associated with permit violations at our sites.

In 2017, Xylem had zero environmental notices of non-compliance or fines. We experienced 14 minor spills at our facilities resulting in a collective 150.5 gallons of fluid spilled, and two minor spills at customer sites resulting in a collective 101.3 gallons of fluid spilled. None of these incidents were reportable to local authorities.

### PRECAUTIONARY PRINCIPLE

We believe that we have a responsibility to help mitigate the effects of climate change, which is why we adhere to the precautionary principle. This means that even in the absence of scientific consensus, we will avoid actions or policies that we believe could cause harm to the health of people or the planet.

## ISO 14001-CERTIFIED SITES

### MANUFACTURING SITES

Buenos Aires, Argentina	Herford, Germany
Calamba, Philippines	Hoddesdon, UK
Cegled, Hungary	Laatzten, Germany
Chihuahua, Mexico	Ludwigsburg, Germany
Emmaboda, Sweden	Montecchio, Italy
Essen, Germany	Nanjing, China

Shenyang, China
Stara Tura, Slovakia
Strzelin, Poland
Vadodara, India
Yellow Springs, Ohio, USA

### SALES AND SERVICE FACILITIES

Austria (3 sites)
Ireland (2 sites)
Norway (9 sites)
Sweden (12 sites)
United Kingdom (11 sites)

### DISTRIBUTION CENTERS

Emmaboda, Sweden

### OFFICES

Schaffhausen, Switzerland  
Sundbyberg, Sweden

## OHSAS 18001-CERTIFIED SITES

### MANUFACTURING SITES

Calamba, Philippines	Hoddesdon, UK
Emmaboda, Sweden	Laatzten, Germany
Essen, Germany	Ludwigsburg, Germany
Herford, Germany	

Nanjing, China
Shenyang, China
Stara Tura, Slovakia
Vadodara, India

### SALES AND SERVICE FACILITIES

Ireland
United Kingdom

### DISTRIBUTION CENTERS

Emmaboda, Sweden

### OFFICES

Schaffhausen, Switzerland

## ISO 50001-CERTIFIED SITES

### MANUFACTURING SITES

Laatzten, Germany	Ludwigshafen, Germany	Shenyang, China
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# ENERGY & EMISSIONS

Electricity consumption is the largest contributor to greenhouse gas (GHG) emissions associated with our operations. By inspiring our global sites to make reductions in energy use and increase investments in renewable energy, we aim to lower our GHG emissions intensity levels.

## XYLEM GOAL

**20%  
REDUCTION IN  
GHG EMISSIONS  
INTENSITY  
BY 2019**

We're making significant progress, from identifying our highest-emitting activities to engaging employees across our company to adopt a more energy-efficient mindset – all of which will help move us closer to achieving our GHG intensity goal.

Some of our most successful initiatives to engage employees in energy-reduction efforts have been “Energy Treasure Hunts” at selected facilities. During these events, cross-functional teams of employees identify possible day-to-day energy-efficiency improvements. The goal is to

find opportunities to reduce energy use, costs and greenhouse gas emissions related to energy.

Many of these opportunities are low- or no-cost improvements and relatively easy to implement, such as the installation of more efficient lighting and mechanical systems, ovens, motors, belts and drives, fans and pumps, refrigeration systems and office equipment. Treasure Hunts have been conducted at 31 Xylem sites around the world, starting with our highest resource-consuming facilities.

In 2017, we began using Eco Project Deck, a software that allows us to track all projects from Treasure Hunts, from the simple to the most complex. Through Eco Project Deck, we've determined that our energy Treasure Hunts have led to 128 recommended projects, 66 percent of which are underway. Through 2017, the projects are expected to avert 800 tons of CO<sub>2</sub> emissions and save 955,000 kilowatt hours. We also estimate a reduction of 3,000 liters of liquid fuels and 2,000 cubic meters of natural gas.



Xylem corporate office with LED lighting.

## ENERGY & EMISSIONS (Cont'd)

### RENEWABLE ENERGY

One of the simplest ways to reduce our overall GHG emissions is through the purchase of renewable or “green” energy credits and renewable energy. As of year-end 2017, 57 Xylem manufacturing facilities and sales offices purchase renewable electricity – up from 23 in 2016. Combined, these sites purchased 15,024 CO<sub>2</sub>-equivalent metric tons in renewable energy, electricity and gas during 2017, a 57 percent increase over the previous year.

In addition to purchasing renewable electricity, our sales office in the Netherlands offsets its natural gas consumption through certified green natural gas credits. Through the Gold Standard Foundation’s Fairtrade Carbon Credit program, companies such as Xylem are able to invest in green energy; increase the resilience of producer groups to the negative impacts of climate change; and help provide a more sustainable future for communities through diversifying community income streams, teaching new skills and creating local employment.

We remain committed to reducing air quality emissions. We are working to move away

from using paints that contain volatile organic compounds (VOCs) and toward water-based painting systems in our operations. Where this is not possible, we are generally destroying VOCs or using materials with lower VOC content.

### 2017 ENERGY & EMISSIONS PERFORMANCE

Our energy and emissions reduction initiatives resulted in a 7.6 percent decrease in GHG emissions intensity from 2016 to 2017. This represents a nearly 18.7 percent decrease from our 2014 baseline. A significant driver of our progress over the past couple of years has been the increase in renewable energy credit purchases.

In 2017, Xylem engaged ERM-CVS, an independent certification and verification provider, to conduct assurance of the environmental metrics contained within our EHS metrics system. ERM-CVS provided an assurance statement for total direct energy use, total indirect energy use, total direct GHG emissions, total indirect GHG emissions, and total water withdrawal. [Read](#) the assurance statement from ERM-CVS.



## ENERGY &amp; EMISSIONS (Cont'd)

## Emissions Intensity\*

Total Greenhouse Gas (GHG) Emissions Intensity** (metric tons CO <sub>2</sub> equivalent/annual revenues in millions USD)	2016	2017
Scope 1 and 2 Emissions Intensity	19.92	19.25
Scope 1 and 2 Emissions Intensity, Net of Renewable Energy	17.36	16.04
Percentage Decrease Relative to 2014 Baseline	12.0%	18.7%

\*Values in this table have been restated.

\*\*A normalized metric based on annual revenues to allow for a consistent year-over-year comparison that is not impacted by acquisitions, divestitures, employee turnover and the like.

## Direct and Indirect Emissions\*

Level	Definition	2016	2017
Scope 1	Direct GHG Emissions; those that come from sources owned or controlled by Xylem	35,105	37,325
Scope 2	Indirect Emissions; those resulting from the offsite generation of electricity, heating and cooling, or steam by third-party providers and purchased by Xylem	39,893	53,258
Scope 3	Indirect Emissions Due to Business Travel	7,755	9,425**

\*Values in this table have been restated.

\*\*Increase due to 20% increase in air travel emissions and Xylem's use of hotels now included in the calculation

## Scope 1 Emissions\*

Direct Greenhouse Gas (GHG) Emissions by Type (metric tons CO <sub>2</sub> equivalent)	2016	2017
Natural Gas Used	9,774	12,539
Stationary Source Gaseous Propane	1	3
Stationary Source Liquid Propane	377	524
Stationary Source Fuel Oil	713	1,577
Cryogenic CO <sub>2</sub>	0.2	1.3
Refrigerant Use	267	519
<b>Total Stationary GHG Emission</b>	<b>11,132</b>	<b>15,164</b>
Mobile Source Gasoline	869	791
Mobile Source Diesel	23,043	21,321
Mobile Source Liquid Propane	61	48
<b>Total Mobile GHG Emissions</b>	<b>23,973</b>	<b>22,161</b>
<b>Total Direct GHG Emissions</b>	<b>35,105</b>	<b>37,325</b>

\*Values in this table have been restated.

## ENERGY &amp; EMISSIONS (Cont'd)

## Scope 2 Emissions\*

Indirect Greenhouse Gas (GHG) Emissions by Type (metric tons CO <sub>2</sub> equivalent)	2016	2017
Purchased Electricity	39,116	51,635
Purchased Heat	778	1,623
<b>Total Indirect GHG Emissions</b>	<b>39,893</b>	<b>53,258</b>

\*Values in this table have been restated.

## Energy Consumption\*

Direct Energy† by Type (Megawatt hours – MWh)	2016	2017
Renewable Electricity Generated <sup>1</sup>	112	115
Natural Gas Used <sup>2</sup>	53,919	69,173
Stationary Source Gaseous Propane <sup>3</sup>	7	16
Stationary Source Liquid Propane <sup>4</sup>	1,799	2,504
Stationary Source Fuel Oil <sup>5</sup>	2,829	6,260
<b>Total Stationary Energy Usage</b>	<b>58,666</b>	<b>78,069</b>
Mobile Source Gasoline	3,305	3,011
Mobile Source Diesel	85,656	79,255
Mobile Source Liquid Propane <sup>6</sup>	2	2
<b>Total Mobile Energy Usage</b>	<b>88,964</b>	<b>82,268</b>
<b>Total Direct Energy Usage (Stationary + Mobile)</b>	<b>147,630</b>	<b>160,336</b>
Indirect Energy§ by Type (Megawatt hours – MWh)		
Purchased Electricity	130,900	160,634
Purchased Heat	2,527	4,959
<b>Total Indirect Energy Usage</b>	<b>133,427</b>	<b>165,593</b>
Total Energy Consumption (Megawatt hours – MWh)		
Consumption (Megawatt hours – MWh)	281,056	325,929

\*Values in this table have been restated.

†Natural gas, diesel fuel oil, gasoline, propane gas and renewable sources used in our facilities and/or by company cars and service trucks.

§Electricity and heat purchased from energy companies that use various fossil, renewable and non-fossil energy sources to produce and provide these energy products.

<sup>1</sup>Correction of 2016 reporting errors

<sup>2</sup>Adjustment of 2016 reporting (estimated versus actual number from invoices)

<sup>3</sup>Correction of 2016 reporting error at one facility - incorrect conversion from kilogram to ft<sup>3</sup>

<sup>4</sup>Correction of 2016 reporting errors with Mobile LPG

<sup>5</sup>Correction of 2016 reporting error with Mobile Source Diesel

<sup>6</sup>Correction of 2016 reporting errors with Stationary LPG

## Air Emissions

	2016	2017
Volatile Organic Compound (VOC) Emissions (metric tons)	90	91

# WATER

Managing water consumption is a top priority for Xylem. In 2017, we signed the CEO Water Mandate. This UN Global Compact initiative mobilizes business leaders on water, sanitation and the Sustainable Development Goals.

## XYLEM GOAL

**25%  
REDUCTION IN  
WATER INTENSITY  
BY 2019**

Endorsers of the CEO Water Mandate commit to continuous progress against six core elements of water stewardship, and in doing so, better understand and manage their own risks. In addition to our large-scale manufacturing processes, rather routine tasks that occur at hundreds of locations around the world also require the use of water. These activities include the use of water tanks to test products after repair and at high-pressure washing stations where we clean products coming back from customer sites. The scale and variety of these activities means that the solutions for reducing our usage are not one-size-fits-all. For example, at some facilities we have begun to collect rainwater for use in test tanks and use recycled water for landscaping and sanitation.

We have a number of tools at our disposal to help us limit our water consumption:

- The Eco Project Deck is now being used at all of our facilities to identify areas for improvement.

- The Global Water Tool, developed by the World Business Council for Sustainable Development, is used to determine which Xylem sites are located in water-stressed or water-scarce areas; this tool is being used at manufacturing sites, sales and service facilities and large office-only facilities.
- Tools to help decrease water use across our supply chain, including a water footprint calculation tool and a pilot sustainability audit program for suppliers in water-stressed basins.

Capital investments also can make a difference in water conservation techniques. At our Montecchio Maggiore site in Italy, for example, we closed the water loop for process and condition cooling through a new chiller instead of using groundwater. The new chiller helped achieve a reduction in water consumption of 50 percent.

Water Usage*	2016	2017
Total Water Withdrawal (megaliters)	365.6	414.5
Water Intensity (megaliters/annual revenues in millions USD)	0.0971	0.0881
Percentage Decrease Relative to 2014 Baseline	8.1%	16.7%

Water Reuse*	2016	2017
Total Volume of Water Recycled and Reused (megaliters)	19.3	15.7
Percentage of Water Recycled and Reused (total water recycled and reused/total water withdrawal)	5.3%	3.8%

Wastewater Treatment*	2016	2017
Wastewater Treated and Released <sup>1</sup> (megaliters)	52.4	90.3

\*Values in this table have been restated.

<sup>1</sup> Correction of 2016 reporting errors based on the definition of treatment.

### MANAGING OUR FOOTPRINT WITH OUR OWN PRODUCT

We also are utilizing one of our own new products, HydroInfinity, at our own facilities, especially those located in water-stressed areas. HydroInfinity uses patented technology to treat contaminated water, chemical-free to independently verified drinking water standard. Electronic sensors and remote monitoring enables continuous monitoring of the water quality.



HydroInfinity Clean Water System

In Cape Town, South Africa, where the water shortage problem has reached near-catastrophic level, we installed an effluent water source point on the premises and have completed the installation of storage tanks, a Xylem Lowara pump and pipe-work on site. In addition, two 5,000-liter vertical

tanks for rainwater harvesting have been installed. As water scarcity intensified, we connected the HydroInfinity unit, which treats water with UV and ozone technology, for distribution of water for staff, and to save purified water for possible timeframes when water is cut. Water consumption at the Cape Town office dropped by 2 cubic meters in just one month. The aim is to further reduce consumption by 10 cubic meters by the middle of 2018.

In addition, we also installed a HydroInfinity at our Hoddesdon, UK, facility. Here, the HydroInfinity system is being used to provide drinking water to the plant's 140 employees, reducing the facility's reliance on municipal water.

Moving forward, we have plans to install HydroInfinity systems in a variety of Xylem facilities around the world. Here are a few examples of our future installations:

- Montecchio, Italy: We look to harvest rainwater with the HydroInfinity system to pump into the plant, saving approximately 3,000 cubic meters per year in municipal water usage.

- Strzelin, Poland: HydroInfinity will enable us to improve the quality of water we are using to test pumps. We will use rainwater treated with the HydroInfinity for tank refilling, which will decrease our environmental footprint by saving approximately 300,000 liters of water per year, which is about 7 percent of our total water consumption at the site.
- Chihuahua, Mexico: HydroInfinity will be adapted to support water treatment in the sanitation process for pumps that are supplied to a beverage company, reducing water usage by at least 370 cubic meters to 455 cubic meters per year.

### 2017 WATER PERFORMANCE

Our water-reduction initiatives resulted in a 9.3 percent decrease in water intensity from 2016 to 2017. This is a 16.7 percent decrease from our 2014 baseline. Additional 2017 water-reduction projects include the installation of a dry cooling system at our Montecchio, Italy, plant; eliminating water leakage at our Slaton, Texas, plant; and the sale and closure of two manufacturing facilities. And at our global manufacturing facility in Emmaboda, Sweden, we've reduced water consumption by 33,000 cubic meters (m<sup>3</sup>) per year, or 30 percent, since the installation of two reversible heat pumps connected to three hardening machines. We continue to work toward our goal to achieve a 25 percent reduction in water intensity by 2019. An ongoing challenge is to identify tangible water-reduction initiatives that can be deployed across our many facilities where water use varies greatly.

Xylem also recognizes the risk caused by neglecting wastewater management. All Xylem sites meet or exceed national, local and our own requirements for the return of clean and safe wastewater back into public water streams. To help meet these standards, a number of our manufacturing sites have installed onsite wastewater treatment systems. In 2017, we treated and released over 90.3 megaliters back into the environment.

# MATERIALS & WASTE

## XYLEM GOAL

**20%**  
REDUCTION IN  
WASTE TO LANDFILL  
BY 2019  
ACHIEVED

Xylem has already met its 2019 goal for waste reduction. Even though we've reached our 2019 goal, we are continuing to focus on reducing waste generation through Lean Six Sigma initiatives and other practices that eliminate scrap and waste from our operations. When we do need to dispose of waste, we work with our waste contractors to direct more of it toward recycling and reuse, and

less to landfills and incinerators. Total waste decreased 14.1 percent from 2016 to 2017 and we recorded a 9.3 percent decrease in total hazardous waste. We have reduced waste to landfill by 41.8 percent against our 2014 baseline.

### Waste Management\*

Waste by Type and Disposal Method (metric tons)	2016	2017
Non-Hazardous Waste Recycled	25,495	21,780
Non-Hazardous Waste to Non-Landfill <sup>1</sup>	2,176	1,373
Non-Hazardous Waste to Landfill	2,891	3,030
<b>Total Non-Hazardous Waste</b>	<b>30,562</b>	<b>26,183</b>
Hazardous Waste Recycled	293	259
Hazardous Waste to Non-Landfill <sup>2</sup>	1,004	846
Hazardous Waste to Landfill	98	160
<b>Total Hazardous Waste</b>	<b>1,395</b>	<b>1,265</b>
<b>Total Waste Recycled</b>	<b>25,788</b>	<b>22,039</b>
<b>Total Waste to Non-Landfill</b>	<b>3,180</b>	<b>2,219</b>
<b>Total Waste to Landfill</b>	<b>2,989</b>	<b>3,190</b>
<b>Total Waste</b>	<b>31,957</b>	<b>27,448</b>
<b>Percentage Decrease Relative to 2014 Baseline</b>	<b>41.4%</b>	<b>41.8%</b>

\*Values in this table have been restated

<sup>1</sup>Requalification of waste to non-landfill

<sup>2</sup>Requalification of waste to non-landfill



## Carbide Tools Recycling

Recycling of carbide tools is both environmentally beneficial and profitable. Making new tools from recycled solid carbide requires 70 percent less energy than making them from virgin raw materials. Because these raw materials are scarce and finite, and because carbide tools are widely used in our production for metal cutting operations, Xylem's Montecchio, Italy, manufacturing facility made carbide recycling a priority in 2017. Our approach for improvement involves several steps:

- Xylem is installing collection points within the plant
- Roles and responsibilities for workers in helping to facilitate the recycling process have been determined
- Training of our workers across the facility is well underway

To date, 17 workers have been trained for carbide recycling. We're already seeing the benefit. In the first month of implementation, the total volume of carbide tools collected doubled. Through internal cross-functional collaboration at the plant, carbide recycling is now a standard procedure for everyone at Montecchio.

# Xylem People



## OPPORTUNITY

Xylem's 16,000+ employees are the backbone of our success, and we have the opportunity to help each member of our workforce realize his or her full potential by further developing a world-class culture.

# GLOBAL WORKFORCE

As we evolve to a more technology-driven business to meet our customers' smart water needs on a global scale, collaboration among our workforce throughout the world is more important than ever before. As an organization, our future success will not be driven by any one business, but rather a diverse set of technology-driven solutions, strong brands and talent that come together as one company. Even still, our core principles remain the same. We take pride in cultivating a culture that

values diversity, recognizes and rewards talent, develops skills for tomorrow's challenges and fosters good health and well-being.

The majority of our workforce is employed in manufacturing, product management, customer service and engineering positions. The remainder fills leadership, management, business-building and support roles in finance, sales and marketing, IT, human resources and legal.

## 2017 EMPLOYEE POPULATION PROFILE

Employee Categories	AGE GROUP As a Percentage of U.S. Employees			MINORITY GROUP As a Percentage of U.S. Employees			GENDER As a Percentage of Global Employees		
	<30	30-50	>50	African-American	Hispanic	Asian-American	Minority Other	Female	Male
Top Management	0.0%	1.3%	1.1%	0.1%	0.1%	0.2%	0.1%	0.33%	1.01%
Middle Management	0.2%	6.7%	6.3%	0.4%	0.6%	0.5%	0.2%	2.97%	13.53%
Non-Management	9.6%	38.8%	36.0%	6.1%	7.4%	4.9%	1.0%	21.7%	60.46%
<b>Total</b>	<b>9.8%</b>	<b>46.8%</b>	<b>43.4%</b>	<b>6.6%</b>	<b>8.1%</b>	<b>5.6%</b>	<b>1.3%</b>	<b>25.0%</b>	<b>75.0%</b>

## WORKFORCE PROFILE

**16,200**  
EMPLOYEES

**350+**  
GLOBAL  
LOCATIONS

**17%**  
U.S. EMPLOYEES  
REPRESENTED  
BY UNIONS

**25%**  
WOMEN AS A  
PERCENTAGE  
OF TOTAL  
WORKFORCE

**150+**  
COUNTRIES  
WHERE XYLEM  
PRODUCTS  
ARE SOLD

**24%**  
TOP MANAGEMENT  
POSITIONS HELD  
BY WOMEN

## EMPLOYEES BY REGION

**38%**  
AMERICAS

**16%**  
ASIA, MIDDLE  
EAST AND AFRICA

**46%**  
EUROPE

# EMPLOYEE ENGAGEMENT

In order to achieve our strategic goals for solving water, it is essential that our employees share ideas, feel conviction and passion in their daily jobs and enable us to operate with speed and efficiency for our customers.

It's why we're passionate about continuing to build a Xylem culture – a “One Company” approach – across our family of brands and hundreds of locations around the globe.

Engagement begins by listening to our employees and surveys are a key tool. We use both large-scale surveys and small pulse surveys in our various business units and geographic markets. Feedback is vital to our continuous improvement as a company, building on Xylem's strengths and taking action on issues that might be holding us back. Following the 2016 acquisition of Sensus, we conducted high-level assessments with the integration leadership team on cultural similarities, differences and gaps between the two

organizations. In 2017, we took the next step, issuing a global employee survey requesting feedback on Xylem's culture.

Engagement in the survey confirmed what we already knew to be true: we have a passionate workforce. We were pleased to receive an 85 percent response rate to the survey. Well over 13,000 employees engaged in the survey, including an impressive turnout among the roughly 4,000 colleagues at our manufacturing and service facilities who filled out paper surveys.

We gleaned some key findings from the survey and our leadership team is listening closely to both what we're doing well and opportunities for improvement. Among the areas that our employees cited us as doing well:

- Doing what's right: Xylem employees are confident in the company's commitment to employee safety and ethical decisions and conduct.
- Building a continuous improvement culture: Xylem employees feel the company learns from our mistakes, is willing to confront and solve problems, and that we come up with new or better ways to get work done.



## EMPLOYEE ENGAGEMENT (Cont'd)

- Job satisfaction: Xylem employees are confident that their work makes good use of their skills and competencies and is contributing to our strategic goals. They also reported positive feedback regarding knowing what is expected of them each day and having freedom to use personal judgment to get the job done.

Our greatest area of opportunity, according to employees, is acting as one company. This is why we are so focused in 2018 on creating a consistent and collaborative culture. Our future success depends heavily upon growing as a company in this key area. A significant portion of our Global Leaders Meeting, held in November 2017, was devoted to this topic. At the enterprise level, we've already prioritized specific focus areas for improvement and our approach is guided by several principles:

- A commitment to focus on the highest-impact items that are affecting colleagues across the company

- Involving colleagues from across the organization in designing an action plan that is both robust and realistic
- Communicating regularly with employees on our approach and progress

At a local level, managers are sharing survey results with their teams to encourage rich dialogue at every level of the organization on what the results mean and what resonates most for particular Xylem employees. We expect to conduct a global employee engagement survey every 18 to 24 months in order to establish a regular rhythm of obtaining feedback and assessing our progress .

### ATTRACTING TALENT AND RECOGNIZING PERFORMANCE

Attracting and retaining the best employees is fundamental to our success, and as we evolve into more of a technology-oriented company, we're competing for talent more broadly. To support our efforts, we centralized talent acquisition activities in 2017 into a new Talent Acquisition Center of Excellence, which brings together our North American business recruiters under one leader. Globally, we are implementing a new applicant tracking system that streamlines the process for both internal and external candidates, the hiring managers, the HR team and the talent acquisition team.

Xylem takes a total rewards approach to attracting, motivating and retaining talented colleagues worldwide. Our total rewards philosophy integrates programs for compensation, benefits, recognition and work-life balance. While individual program components may differ by country, job role or level, our culture and commitment to results remain constant.

We also encourage our managers to conduct Stay Interviews with their direct reports. The concept of a Stay Interview is to maintain open lines of communication related to individual employee satisfaction and engagement to provide real-time feedback.



## EMPLOYEE ENGAGEMENT (Cont'd)

### DIVERSITY & INCLUSION AT XYLEM

Diversity in all its forms allows us to compete more effectively around the world and drive exceptional customer satisfaction, innovation and company performance. We are committed to reflecting the diversity of the communities where we live and work, and the customers we serve. Among our executive ranks, 85 percent are local nationals. With operations in more than 150 countries, we believe in the power of an environment where everyone feels involved, respected, valued and connected... an environment where everyone is free to bring their authentic selves and ideas.

We view diversity as key to leadership development. When selecting participants for internal development programs, we ensure that groups are balanced across a number of factors including gender, ethnicity, tenure and function with the company, geography and more. We have also built concepts such as inclusion and leveraging of differences into our training programs for top leaders.

In 2017, Xylem launched its first employee affinity group, the Emerging Leaders Network (ELN), which is an internal, self-governed network designed to enable skills and knowledge development, and professional networking to drive their success at Xylem. The network offers an online platform for employees to interact, rotating webinars covering content tailored to mid-career professionals, internal and external volunteer activities, and in-person events held in conjunction with meetings and conferences. By the end of 2017, two ELN groups were active with more than 40 participants: one in Schaffhausen, Switzerland, and one in the Company's headquarters office in Rye Brook, New York. The ELN continues to grow and develop in other locations and we will continue to encourage the organic formation of other affinity groups as we continue to cultivate an inclusive culture. We also launched a Women of Xylem Resource Group with active local chapters in several locations.

It is our policy to ensure equal employment, advancement opportunity, incentives and discipline without distinction or discrimination based on gender, ethnicity, race, gender identity, age, religious or political beliefs, disability, sexual orientation, protected veteran status or other protected classifications.

In addition, as a U.S. Government contractor, Xylem is committed to taking affirmative action to hire and advance minorities, women, qualified individuals with disabilities and covered veterans. In 2017, the ratio of basic salary and remuneration of women to men by employee category in the U.S. was 98 percent average for non-exempt employees and 95 percent average for exempt employees.



# TALENT DEVELOPMENT

Developing the skills and capabilities of our people is a key part of our strategic priority to build a world-class workforce. We offer a variety of ways to support our employees' professional growth, and continuous training is a key part of this effort.

Talent development at Xylem is grounded in frameworks of integrated talent management and our Connect, Perform, Grow (CPG) approach. CPG creates a platform for our people to facilitate regular feedback throughout the year.

The purpose of these programs is to provide a platform for collaborative review and development of employee results against goals, objectives and outcomes, advanced goals as well as employee behavior and competencies. We strive to ensure that these goals and objectives are aligned with Xylem's strategic and operational objectives. It's not a one-time exercise; ongoing development guides employees through every stage of their careers at Xylem.

## TRAINING FOR EVERY PHASE OF THE EMPLOYEE LIFE CYCLE

Employee training is offered through a segmented approach to development focused in three areas: early-in-career, managers and supervisors, and leadership. Through this approach, we ensure that training for our employees never stops during their Xylem journey. In recent years, Xylem has placed a particular emphasis on implementing a number of early-in-career programs that target young professionals. We classify these programs into two groups: entry-level programs and fellowship programs.



## 2017 TRAINING BY THE NUMBERS

**79,000**  
HOURS OF  
IN-PERSON AND  
WEB-BASED  
TRAINING  
HOURS

**182,000**  
HOURS  
COMPLETED  
IN LEARNING  
MANAGEMENT  
SYSTEM

**19%**  
TOP  
MANAGEMENT  
INTERNAL  
PROMOTION  
RATE

**347**  
MANAGERS  
COMPLETED  
CAREER  
FRAMEWORKS  
TRAINING

**520**  
EMPLOYEES  
COMPLETED  
LEADING FOR  
CONTINUOUS  
IMPROVEMENT  
TRAINING

## TALENT DEVELOPMENT (Cont'd)

### ENTRY-LEVEL PROGRAMS

Our Engineering Leadership Development Program (ELDP) targets recent university graduates with a passion for technology and engineering to partake in a rotational program, which includes three different eight-month assignments, including access to senior mentors, skills development programs and an end-of-program presentation to senior leaders. Approximately nine participants are selected per year.

The Operations Leadership Development Program (OLDP) targets recent university graduates with a passion for operations and manufacturing to participate in a rotational program, which includes three one-year assignments in roles intended to stretch the participants capabilities, including the opportunity for an international assignment and an end-of-program presentation to senior leaders. Approximately six participants are selected per year.

Finally, our Customer Solutions Center (CSC), based in Charlotte, North Carolina, targets recent university graduates with a passion for sales and application engineering to partake in a two-year

assignment with job-specific training and the opportunity to transition into new roles at the end of the program. Approximately 12 participants are selected per year.

### FELLOWSHIP PROGRAMS

Our Strategy Fellows program targets high-potential early-in-career employees who have a passion for leadership and strategy to partake in a year-long program with trainings in global locations, group and individual strategy projects, access to senior mentors, and an end-of-program presentation to senior leaders. Approximately 15 participants are selected per year. Additionally, our Innovation & Technology Fellows Program targets high-potential early-in-career employees who have a passion for engineering and technology to partake in a year-long program with trainings in global locations, a group project, access to senior mentors, and an end-of-program presentation to senior leaders. Approximately 15 participants are selected for this program per year.

### TRAINING FOR MANAGERS AND SUPERVISORS

Our Manager Development Program (MDP) is designed to help people managers cultivate and strengthen leadership skills and develop a network of peers across the organization. The MDP focuses on leadership and skill training in three core areas: self-development, team development and organizational development. The program consists of an in-person kickoff for groups of 25 participants, followed by a 12-month blended learning curriculum. It includes virtual online learning, webinars with senior leaders (called Leader-led Discussions), virtual teamwork activities and two consecutive Manager as Coach programs. As with all Xylem training, active learning is an important part of this program. We don't just teach models; we provide opportunities for participants to practice the skills we are teaching.



## TALENT DEVELOPMENT (Cont'd)

As individuals settle into their roles at Xylem, we continue to develop their knowledge and talents through online learning courses available via our Learning Management System.

Around the world, we are providing our colleagues with additional educational opportunities. Across the company globally, our sales teams are participating in the instructor-led programs called “The Counselor Salesperson (CSP)” and “Coaching the Counselor Salesperson (CCSP),” both of which are facilitated by Wilson Learning. At the end of 2017, we had more than 800 sales managers and representatives attend the CSP and more than 90 attend the CCSP trainings.

In China, the Leadership Academy of Xylem China Learning Institute provides various leadership training programs to enable people managers to develop and lead their teams to achieve business goals in a changing and challenging business environment. Additionally, a high potential

manager development program called “Eagle and Seagull” is designed to develop and retain high potential managers, and to build a sustainable talent pool. Three cohorts have completed this program since 2015 with a total of 56 participants. Of these participants, more than 20 have moved on to new and expanded roles with some earning multiple role expansions.

### TRAINING FOR LEADERS

The Executive Development Program is an in-depth program designed for leaders who report to our Senior Leadership Team. Building upon Xylem’s vision to become a high-performing operating company with a common culture, the program focuses on building enterprise leadership approaches and empowering leaders to take charge of our company’s transformation. We kicked off our fifth cohort of this program in January 2018 with another 20 participants. Nearly 50 percent of the those who completed the training have been promoted or had their current roles expanded.



# SAFETY

Xylem’s safety philosophy is to “accept only zero” – meaning that we strive for a zero-incident workplace and one in which our employees return home at the end of each day uninjured.

## XYLEM GOALS

**<0.5**  
INJURY  
FREQUENCY  
BY 2019

**<6.0**  
INJURY SEVERITY  
BY 2019

We have taken several proactive measures to ensure that safety is top of mind for all employees. Safety-related responsibilities are defined in employees’ job descriptions, reinforced through site communications and measured regularly with recognition for outstanding performance. In 2017, we made progress at both the site and enterprise levels – and we are on track to achieve more positive results as safety becomes further integrated into our culture.

### RISK REDUCTION INDEX

In 2017, we focused the Safety Scorecard on risk reduction and renamed it the Risk Reduction Index (RRI). We have raised the bar on the crucial elements and have removed the injury frequency and injury severity from the calculation. Each of our sites now tracks safety according to the RRI. In addition, safety continues to be integrated into every area of Xylem’s business. At the end of 2017, environment, health and safety (EHS) was included in our Continuous Improvement maturity matrix. Looking

ahead, sites will be assessed, and we will generate a score accordingly that demonstrates the safety acumen of the site.

### RECOGNIZING OUTSTANDING SAFETY RESULTS

Our CEO Safety Excellence Award recognizes one manufacturing facility and one sales and service team each year for outstanding safety performance. Assessment of performance is strongly weighted toward leading program attributes versus trailing indicator performance. Scoring for 2017 entries, like previous years, was conducted by an independent third party and is based on a combination of objective (quantitative) and subjective (qualitative) criteria, including indicator rates and program vitality attributes. In addition, 208 Xylem sites were recognized in 2017 for Zero Incidents or operating throughout the year without recordable injuries or serious near-misses. The number of sites recognized this year represents a 10 percent increase in the number of sites recognized in 2016. Further, more than

## INJURY FREQUENCY AND SEVERITY RATES

### Injury Frequency

(medical + lost work day cases x 200,000/number of hours worked)



### Injury Severity

(lost work days x 200,000/number of hours worked)



40 sites were recognized for improving their safety performance by reducing the injury frequency at the site by 50 percent or more over their performance in the previous year.

**MEETING HIGH STANDARDS**

As another marker of our commitment to workplace safety, 20 Xylem sites have been OHSAS 18001-certified. In addition to satisfying the requirements for OHSAS 18001 certifications, these sites also provide training and promote our “Accept Only Zero” philosophy. This program includes online access to more than 80 safety education courses in multiple languages and access to tools that help managers and employees easily and quickly recognize safety and ergonomic hazards, and take corrective actions to eliminate root causes.

**REDUCING RISKS**

Despite our best efforts, incidents occasionally happen. When an injury does occur, we investigate and determine the root causes of the incident. We also examine and identify which parts of the organization are experiencing increased incidents and what activities are being conducted when injuries occur. We also provide additional support to sites with increased injury rates as needed.

Risk Profiling is a program that incorporates the standard Job Safety Analysis (JSA) process into a visual management tool. We utilize a common JSA tool to assess specific work cells and score them before and after improvements are implemented. The assessment process engages both management and employees working in that particular work cell. The visual aspect of the program enables all employees to see the current status of that work cell regardless of the facility they are in. The program was deployed at all manufacturing sites in one business unit during the pilot period. We plan to expand the Risk Profile program across the entire organization over the next year.

Another tool for improving safety is the “Get Well” program, which targets sites with the highest injury rates. The program includes a variety of interventions such as employee surveys, in-depth safety data analysis, safety Kaizen events and site visits. These are used to develop site-specific “safety visions,” a safety strategy and appropriate improvement plans. These improvement plans are closely tracked and monitored for implementation by site management and Xylem’s EHS management.

**2017 CEO Safety Excellence Award**

In 2017, more than 30 Xylem sites submitted applications for the CEO Safety Excellence Award, including 14 from the manufacturing sector and 19 from sales and service representing 13 countries. This was more than double the number of applicants in the prior year.

The 2017 CEO Safety Excellence Award manufacturing site winner was Xylem’s facility in Nanjing, China. The Nanjing team was recognized for its comprehensive approach to creating a culture of safety that includes risk control analysis of all new equipment and layouts, 100 percent employee participation in the “I am an EHS Guard Today” program to create a shared sense of responsibility, and a commitment to sharing the details of any near miss or recorded incident. The site has been consistently recognized by the municipal government as a “Top Safety Company.”

The 2017 CEO Safety Excellence Award sales and service team winner was Xylem’s Italy Commercial Team. This team of employees has been injury-free since 2014. The leadership teams here perform surprise inspections of technicians who are working at customer locations and those technicians attend 2-hour monthly meetings to share work procedures, risk assessments and preventive actions.



# ETHICS

The cornerstone of Xylem’s ethics policy is our Code of Conduct. Our Code of Conduct requires all of our Directors, officers and employees to act ethically and honestly.

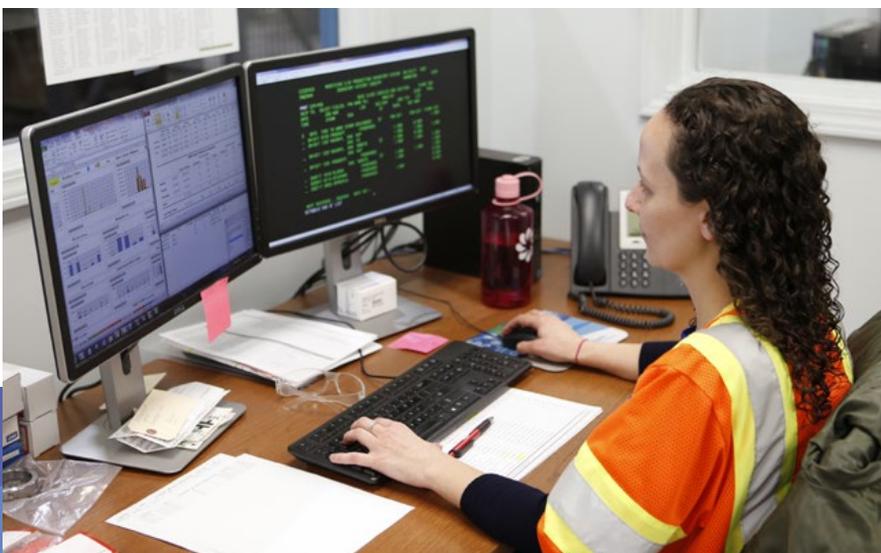
We expect every interaction, every transaction and every business opportunity to be handled in a manner consistent with our Code of Conduct, our policies and all applicable laws. We ensure compliance with multiple layers of accountability and make it easy for employees to speak up when they see something wrong.

In 2017, we made several enhancements to our ethics program, including the global launch of our new Xylem Integrity Line (XIL), which encompasses a reporting hotline and web-based interface to replace the legacy reporting system. The XIL facilitates easier issue reporting by users and it enhances our issue response and investigation management capabilities. In tandem with our launch of the XIL, we embarked on a global “speaking up” campaign to remind

our colleagues about the importance of raising issues of concern and asking questions when they see conduct that may potentially be inconsistent with our company values. Included in our campaign were new “speaking up” posters promoting the importance of colleagues saying something if they see something.

In addition, we expanded Xylem’s ombuds-person program, increasing the number of local ombudspersons around the company’s global operations by 25 percent in 2017, and thus increasing the number of direct touchpoints employees have with our ethics and compliance program throughout the organization.

Our Code of Conduct went into effect for Pure Technologies, EmNet and Valor Water Analytics employees on day one following our acquisition of those businesses, and we are continuing to fully roll out all ethics policies across our expanded organization. The Code of Conduct is posted publicly in 26 languages and is available to employees on our company intranet and to third parties on our public website. In addition, our Supplier Code of Conduct is posted publicly in 18 languages and is incorporated into our standard contracts.



### TRAINING

Every other year, we conduct global Code of Conduct training for all employees, and we provide training to all new employees and at targeted locations throughout Xylem on a continuous basis. Through Code of Conduct training, Xylem employees gain a deep understanding of our core values of respect, responsibility, integrity and creativity and the types of behaviors, actions and decisions that will enable them to support these values. Additional topics covered in the Code of Conduct training are carefully selected by reviewing current ethics and compliance trends within the company and analysis of our hotline reporting and other data.



Training is conducted through a combination of on-line and in-person video delivery to ensure all employees are aware of Xylem's commitment. After training, Xylem employees certify that they understand how the Code applies to their jobs and how to comply with its provisions. Company-wide Code of Conduct training was conducted in 2016 with 96 percent completion and we will update the training for all employees in 2018. In all, Xylem conducted more than 4,300 person-hours of live ethics and compliance training during 2017, up 18 percent versus 2016.

### REPORTING MECHANISMS

Xylem endeavors to create a corporate culture where employees are expected to report misconduct, where they have many ways to report concerns and where retaliation for reporting is not tolerated. Our reporting concerns policy encourages employees to report misconduct through:

- The Xylem Integrity Line, a toll-free, 24-hour-a-day confidential reporting helpline available to employees, suppliers or customers with language support in over 180 languages.
- Local ombudspersons who receive and impartially address employee Code of Conduct questions or ethical concerns and are required to take all reasonable and legally permissible steps to protect the identity of all those who report possible violations in good faith.
- Consultation with management, Human Resources or our team of ethics and compliance professionals, including our Chief Ethics and Compliance Officer.

We build awareness about our policy and reporting mechanisms through robust employee engagement, which includes ethics and compliance newsletters, "speaking up" posters translated into 21 languages at our locations, live training and an employee intranet portal dedicated to Xylem's ethics and compliance program.

At Xylem headquarters and in each of our regions, we have established Ethics and Compliance Review Boards. These boards, staffed by senior managers and compliance leaders, meet at least quarterly to oversee local compliance with our Code of Conduct and compliance policies, manage compliance trainings, drive employee engagement, and monitor any ethics and compliance investigations. The boards ensure that every concern that is raised receives appropriate management attention and is resolved in a fair and expeditious

manner. They also facilitate learnings from across the organization.

The number of ethics concerns raised in 2017 was generally in line with benchmarking for a company of Xylem’s size and industry. Our total number of questions and concerns raised decreased 10 percent from 2016 to 2017.

**ANTI-CORRUPTION**

Xylem trains employees on applicable anti-corruption laws and regulations, primarily through our Anti-Corruption Policy, Gifts, Hospitality & Travel Policy and Anti-Corruption Manual, and our Code of Conduct.

In addition, designated employees around the world in Finance, Legal, Compliance, and Sales and Marketing are provided with additional, in-depth anti-corruption training either in person or online. Xylem conducts an annual risk assessment of all its Growth Centers and regional Commercial Teams, which includes risks related to bribery and corruption. This risk assessment is monitored and updated regularly. Xylem’s internal audit department also conducts regular audits of select sites to determine compliance with the U.S. Foreign Corrupt Practices Act and Xylem’s internal policies, and to assess the effectiveness of our anti-corruption program.



Operating as a global company, corruption and bribery also present risks to Xylem in areas where we leverage third parties rather than having a Xylem-owned office. We mitigate this risk by conducting robust due diligence of select third parties. As part of the approval process, third parties certify that they will comply with all applicable anti-corruption and anti-bribery laws. We renew our due diligence on a periodic basis and offer training for third parties to help them understand how to remain compliant.

**Ethics and Compliance Reporting**

	2016	2017
Number of Questions and Concerns Raised (through Xylem’s complaint handling and resolution process)	67	60
Percent of Substantiated Reported Complaints	36% (24)	43% (26)
Percent of Unsubstantiated Reported Complaints	46% (31)	35% (21)
Percent of Other* Complaints	18% (12)	22% (13)
Percent of Credible Reported Complaints Investigated	100%	100%
Percent of Substantiated Cases Resolved (through discipline, training, process enhancement, etc.)	100%	100%

\*Other Complaints refer to reports transferred to other departments for appropriate handling or where there was not enough information to conduct an investigation

**ANTI-TRUST**

Xylem operates in many highly competitive markets around the world where it must submit competitive bids to win business. It is therefore critical that our employees understand and comply with the various anti-trust and competition laws in all of the locations where we do business. This is accomplished through a combination of policies and



procedures, comprised of an anti-trust/competition law policy, a competition law compliance manual and our Code of Conduct, and a robust training program, consisting of a bi-annual, on-line training for designated employees as well as targeted live trainings where appropriate. In 2017, Xylem did not pay any non-compliance fines.

**HUMAN RIGHTS**

With a global presence, we want to serve as a positive influence in the communities where

we operate and where our employees live, demonstrating by our actions that human rights violations are both avoidable and unacceptable. Xylem fully supports and adheres to the principles of both the Universal Declaration of Human Rights and the United Nations Global Compact wherever we operate. The Xylem Human Rights Policy outlines our commitment to human rights, dignity and fairness. In particular, we are committed to:

- Providing safe and secure conditions for those working on our company's behalf
- Safeguarding the environment
- Protecting the rights of indigenous people
- Following all applicable wage and hour laws, including upholding our employees' right to exercise freedom of association and collective bargaining
- Strictly prohibiting human trafficking and the use of child or forced labor, including prison or bonded labor
- Treating each other fairly and equitably

While Xylem does not conduct dedicated human rights training for employees, our Code of Conduct states that all Xylem employees and businesses will conduct business in a manner that respects and advances human rights "at all times and in all locations, regardless of local business customs." To ensure that every facet of our business upholds these standards, we seek business partners who share these commitments.

# Community

## OPPORTUNITY

Through our Watermark program, we have the opportunity to put our capabilities and expertise in solving water to work in order to protect safe water resources and educate in communities across the globe.



# CORPORATE CITIZENSHIP

When we talk about a sustainable future, we embrace the proposition that everyone should have access to their fair share of food, shelter, healthcare and water. Across the globe, 2.1 billion people lack clean drinking water at home, and approximately 4.5 billion people lack safely managed sanitation.

These conditions have serious consequences for community development. Women and children spend more than 200 million hours collecting water daily, often preventing or drastically limiting time for more productive endeavors such as taking care of their families or attending school. The long-term consequences are significant. Every year, 443 million school days are lost worldwide due to water-related illnesses.

These statistics underscore the need to address the sixth UN Sustainable Development Goal, which calls for the availability and sustainable management of water and sanitation for all by 2030. A big part of the solution is for companies like Xylem to help drive sustainable development. This means growing our business and carrying out our mission of helping to enable a water-secure future. In 2017, Xylem and our employees demonstrated continued commitment by introducing more efficient products, engaging young people in the search for innovative solutions, and embracing the importance of water on a personal level through volunteer activities and contributions to Xylem Watermark, our corporate citizenship and social investment program.



The mission of Xylem Watermark is to provide and protect safe water resources for communities in need around the world and educate people about water issues.

## XYLEM 2017 SUSTAINABLE COMMITMENTS

**\$1.5**  
MILLION IN NATURAL  
DISASTER SUPPORT  
RELIEF ACROSS  
THE GLOBE

**100,000**  
XYLEM EMPLOYEE  
VOLUNTEER HOURS  
PLEGDED FROM 2016-2018  
WITH MORE THAN 56,000+  
COMPLETED THROUGH THE  
END OF 2017

**400+**  
XYLEM WATERMARK-  
SPONSORED EVENTS

## CORPORATE CITIZENSHIP (Cont'd)

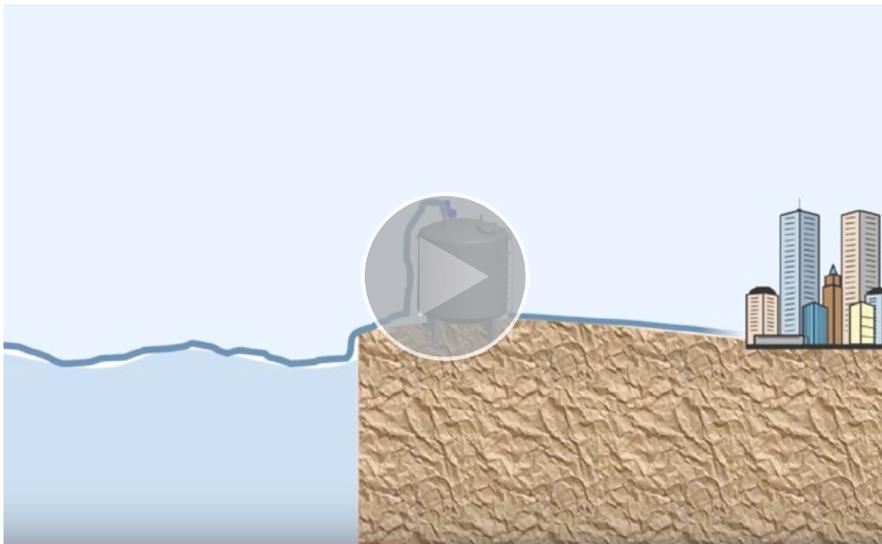
We do this in two main ways: We work with nonprofit partners on sustainable development projects that provide and protect safe water resources for communities in need around the world and we engage our employees to volunteer their time and money to support water solutions in their own communities. In 2017, Xylem Watermark was honored by Engage for Good with the Gold Halo Award in the Employee Engagement category.

2017 was an especially tough year across the globe due to some of the worst natural disasters on record: Hurricanes Harvey, Irma and Maria and the severe flooding in South Asia. In addition to monetary donations through Watermark, hundreds of Xylem employees contributed to volunteer activities in the affected areas.

Beyond Watermark, Xylem finds opportunities to lend our support. In 2017, Xylem was a [sponsor](#) of the International Junior Science Olympiad (IJSO), where more than

300 students aged 15 years or younger from 50 different countries tested their scientific knowledge and skills on the theme of "Water and Sustainability." In conjunction with this international competition, which was held for the first time in the Netherlands, Xylem launched the Xylem Water Prize, which invited participating students to produce a video answering the question, "How do you solve water?" All submissions were evaluated by an international judging panel. The panel awarded a group of students from India with the Xylem Water Prize. Team India, comprised of students 15-years-old and younger, won for its video outlining the students' idea for a floating, solar-powered desalination plant.

We are also the founding sponsor of the International Stockholm Junior Water Prize, the most prestigious student competition for water-related research, and a sponsor of the U.S. Stockholm Junior Water Prize.



In 2017, Xylem launched our Xylem Water Prize competition in conjunction with the International Junior Science Olympiad. See Team India's winning video entry.

# WATERMARK PARTNERSHIPS

Xylem Watermark got its start as a program focused on community development, and that legacy continues today. We work with six nonprofit partners who provide access to clean water, sanitation solutions, education and disaster relief around the world. These partnerships are an essential way we continue to solve water and, together, we accomplished much during 2017.



## Planet Water Foundation

Constructs innovative aqua towers to provide clean water, as well as Water, Sanitation and Hygiene (WASH) education to schools and communities in Southeast Asia & Latin America.

**74**  
**AQUA TOWERS CONSTRUCTED**  
**IN SEVEN COUNTRIES**

**74,000+**  
**BENEFICIARIES**



## Fundación Avina

Builds water cisterns and water towers that provide access to clean water to schools and communities in Brazil's semi-arid region and in Amazonian communities.

**2 NEW**  
**CISTERNS CONSTRUCTED**



## EarthEcho International

Organizes the Water Monitoring Challenge™ to build awareness and involvement in protecting water resources around the world. As the leading sponsor of the EarthEcho Water Monitoring Challenge, Xylem helps to support the participation of 44,000 global participants who utilize more than 6,400 water quality testing kits.

- More than 250 Xylem employees used these water quality testing kits in nine countries to help nearly 600 students learn about the water quality in their own communities.



## MercyCorps

Protects clean water through disaster risk reduction and responding to water-related emergencies around the world.

**89,000+**  
**BENEFICIARIES**  
(from earthquake, flood and hurricane relief)



## Water for People

Provides access to clean water and WASH education to schools and communities in West Bengal, India.

**4**  
**SCHOOLS IMPACTED**  
**19**  
**SURROUNDING COMMUNITIES**  
**IMPACTED**

**1,200**  
**STUDENTS & TEACHERS**

**AND**  
**2,700**  
**COMMUNITY MEMBERS**  
**PROVIDED WITH ACCESS**  
**TO DRINKING WATER**



## China Women's Development Foundation

Supplies schools throughout China with improved sanitation and clean water sources.

**8**  
**WATER PROJECTS IMPLEMENTED**  
**IN SCHOOLS ACROSS CHINA**

**3,000**  
**BENEFICIARIES**

# WATERMARK PARTNERSHIPS (Cont'd)



Xylem provides funding, as well as Xylem experts and volunteers who help our partners implement their programs. We perform continuous evaluation of partners' progress and impact. With all projects, we seek solutions that will benefit communities over the long term. Our work with Planet Water is a powerful illustration of this approach.

Water, Sanitation and Hygiene (WASH) curriculum, which is designed to teach healthy habits to children, has become a critical component of the programs implemented by Xylem Watermark's nonprofit partners. WASH programs in schools significantly reduce hygiene-related disease, increase student attendance and learning achievement, and contribute to dignity and gender equality.

In 2017, we sponsored Planet Water's Project24 initiative for the third consecutive year, helping our partner install six clean water filtration systems in five communities. Our volunteers also helped to provide WASH education in those communities. Since beginning our partnership in 2010, Xylem WASH education initiatives, water tower builds, and school and community water projects in partnership with Planet Water have touched the lives of more than 300,000 people in Cambodia, China, Colombia, India, Philippines and Thailand.



St. Joseph's Home in Montana, Cape Town, South Africa

# WATERMARK EMPLOYEE VOLUNTEERISM

In 2017, we made significant progress toward our 3-year pledge to log at least 100,000 employee volunteer hours for water-related activities through 2018. In 2017, we logged another 35,000+ hours to bring us to 56,000+ hours in the first two years of our pledge. The hours logged in 2017 represent a 70-percent increase over 2016. Through this effort, we're encouraging our colleagues to roll up their sleeves and help solve water within their own communities.

We're increasing engagement by starting at the top of our organization, with each of our senior leaders leading teams in a Watermark activity. To make it easy for employees to get involved, we have organized activities such as Walks for Water, water source cleanups and community education programs. Employees can also propose or participate in projects on their own. Through an online portal, MyWatermark, Xylem employees can connect with colleagues, sign up for projects and track their volunteer time.

Xylem volunteer "counselors" conducted lessons on the water cycle, water conservation, water pollution and water consumption, as well as a water sampling and analysis exercise.



## DISASTER RELIEF EFFORTS

The destructive forces of Hurricanes Harvey, Irma and Maria, as well as the severe flooding in South Asia, were some of the worst natural weather disasters on record, impacting millions across the world and creating billions of dollars in damages. Through our Watermark program, Xylem was at the ready to provide help. Our actions included monetary contributions from the company, employee donations matched by the company and a number of employee volunteer activities in the affected areas.

## RESPONSE TO HURRICANE MARIA

In the aftermath of the devastating effects of Hurricane Maria, the strongest storm seen by Puerto Rico in 85 years, access to clean water was one of the most urgent challenges faced by Puerto Ricans. Without a safe drinking water supply, families resorted to drawing water from wells polluted with untreated water or from streams contaminated with sewage. In partnership with Planet Water Foundation, Xylem sent a team of volunteers to Puerto Rico to build water-filtration towers in some of the most damaged places on the island - technology that would bring safe, clean water to communities most in need. In all, the team from Xylem built 12 water towers, each tower providing 10,000 liters of clean drinking water, enough to sustain 1,000 individuals daily.

In the wake of Hurricane Maria, Xylem sent volunteers to Puerto Rico to help build water-filtration towers. See how we were able to give back in Puerto Rico's time of need.

# WATERMARK EMPLOYEE VOLUNTEERISM (Cont'd)

As the towers went up, a Puerto Rican 12th-grade student helped our volunteers understand just how important this work was and is to the island, telling the team: "We've been watching the river flow by, and now you have given us the gift of mother nature for free and have made it sustainable. You guys are angels." Often, it's the giving back to those who need it most that makes the greatest impact on us at Xylem. Hurricane Maria and the resilient citizens of Puerto Rico helped us remember that in 2017.

## RESPONSE TO HURRICANES HARVEY AND IRMA

Hurricane Harvey flooded the Greater Houston area in the fall of 2017 and was followed shortly thereafter by Hurricane Irma, which caused devastation in the Caribbean islands and severe damage in the southeastern U.S. In addition to monetary contributions to both the American Red

Cross and Mercy Corps to support those organizations' on-site efforts, Xylem sent approximately 100 employees from other parts of the U.S. to spend a week of paid volunteer time in the affected areas. Our colleagues worked with local non-profit agencies on several rebuilding projects. As part of these local efforts, Xylem volunteers built five houses through Habit for Humanity for families impacted by the hurricane. Xylem also developed a mentoring relationship with YesPrep, which is an open-enrollment public charter school system serving students in grades six through 12 in Houston's most underserved communities. Xylem provided a financial contribution to help the students who were directly impacted by the hurricane and, with the support of our colleagues located in Houston, we launched a water education program that will be used on a continuing basis by the science department.

## RESPONSE TO EXTREME FLOODING IN SOUTH ASIA

A severe monsoon flooded much of South Asia, displacing or impacting millions in India, Nepal and Bangladesh. Xylem donated \$100,000 and matched employee donations 2-for-1 to Mercy Corps and its local partners' efforts to implement water, sanitation and hygiene initiatives on the ground. Xylem also provided funds to the Planet Water Foundation for the construction of two aqua towers near a disaster relief center in Maharashtra, India, where thousands sought refuge from the floods.



## GLOBAL MONTH OF SERVICE 2017

Our engagement efforts paid off in a big way during our Global Month of Service, held in October. Throughout the month, employees helped advance our mission of solving water through donations, service projects and grants to community organizations.

**99**  
GLOBAL EVENTS

**28**  
COUNTRIES

**\$5,000**  
IN COMMUNITY GRANTS  
(bringing the 2017 total to \$22,000)

**9,500**  
HOURS VOLUNTEERED

# WATERMARK EMPLOYEE VOLUNTEERISM (Cont'd)

## MAKE YOUR MARK

For the second consecutive year, Xylem launched the “Make Your Mark 30-day Challenge” on World Water Day, which continued through Earth Day. During this time, employees helped advance our mission of solving water through donations, volunteering in local projects and supporting community organizations alongside our nonprofit partners. Some of the volunteer efforts held around the world included:

- Planet Water Foundation’s Project24, during which Xylem employees helped to build 10,000-gallon aqua towers in Cambodia, Colombia, India, Indonesia and the Philippines to provide clean water to schools that previously did not have access to safe water and sanitation.
- At the Xylem Innovation Official Opening in Montecchio, Italy, Xylem Watermark volunteers answered questions, collected donations and raised awareness of Xylem Watermark and water-related issues. The

event included a presentation on Watermark’s goals and future initiatives being planned for the program.

- As part of Xylem’s Reward and Recognition program, five volunteers traveled to remote communities in India with our nonprofit partner, Water For People, to map water resources, assess and monitor water and sanitation solutions, and to provide WASH education to communities in need. In addition, five volunteers spent a week in Cambodia constructing Planet Water’s AquaTowers and deploying water, sanitation and hygiene programs. Finally, five volunteers traveled to Miami, Florida, to work with young people on educational and water monitoring programs, and to participate in the University of Miami’s Citizen Science initiative.
- Xylem Watermark volunteers from Yellow Springs, Ohio, joined Little Miami River Kleeners in the annual Fall Little Miami River Kleen Sweep. Volunteers removed 20 tires and countless bags of garbage from the river.
- In Cape Town, South Africa, a group of 60 Xylem employees, region consultants and distributors joined together to visit Saint Joseph’s School for children with special educational needs. The group educated students on the importance of clean water, and worked with the children to build self-sustainable farming systems, which provide food with a low usage of water.
- Twenty Xylem volunteers partnered with Keep Brazos Beautiful (KBB), an organization in Texas that works to educate and engage citizens on the importance of keeping the community clean, green and beautiful. KBB hosted the “Texas Trash-Off,” providing volunteers with an opportunity to clean up trash near local creeks that flow into the Navasota River, which feeds into the Gulf of Mexico.



# ESSENCE OF LIFE

Xylem understands that food security and development are impossible without agriculture, and agriculture is impossible without water. This is another example of the interdependencies that exist among the UN Sustainable Development Goals.

We cannot achieve food security and promote sustainable agriculture without providing access to clean water. That's one of the fundamental reasons that we established Essence of Life, a portfolio of affordable, field-serviceable irrigation systems that meet the needs of farmers in emerging markets.

Essence of Life seeks to empower farmers in the developing world who have been underserved by existing farming innovations. Farmers make up one-third of the world's population. And 1.5 billion of those farmers are "smallholders," those who farm their own food and cultivate less than about 5 acres of land. But much of this land – and therefore, farmers' time and energy – is underutilized due to lack of water access.

Through a "hybrid value chain" concept, Essence of Life is changing this. Hybrid value chains combine the strengths of private businesses and NGOs with government and business partnerships to break down barriers and create new markets.

To develop new products, we conduct extensive field visits, interview hundreds of farmers and establish relationships with key citizen sector organizations in India, Africa, Latin America and Asia. With these partners, we conduct focused technology and product testing. These interactions enable us to zero in on critical consumer needs, realizing the spoken, unspoken and anticipated needs of our rural customers.



# GRI Content Index

GRI Standards		
Disclosure Number	Disclosure Title	2018 Response
<b>GRI 102: General Disclosures</b>		
<b>Organizational profile</b>		
102-1	Name of the organization	Approach – Xylem-At-A-Glance
102-2	Activities, brands, products, and services	Approach – Xylem-At-A-Glance
102-3	Location of headquarters	Approach – Xylem-At-A-Glance
102-4	Location of operations	Approach – Xylem-At-A-Glance
102-5	Ownership and legal form	Xylem Inc. (XYL) is a publicly traded company listed on the New York Stock Exchange.
102-6	Markets served	Approach – Xylem-At-A-Glance
102-7	Scale of the organization	Approach – Xylem-At-A-Glance
102-8	Information on employees and other workers	Xylem People – Global Workforce
102-9	Supply chain	Business Performance – Supply Chain
102-10	Significant changes to the organization and its supply chain	Approach – Reporting Practices Business Performance – Business Strategy
102-11	Precautionary Principle or approach	Operational Impact – EH&S Overview
102-12	External initiatives	Approach – Stakeholder Engagement
102-13	Membership of associations	Approach – Stakeholder Engagement
<b>Strategy</b>		
102-14	Statement from senior decision-maker	Approach – CEO Message
<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behavior	Xylem People – Ethics
<b>Governance</b>		
102-18	Governance structure	<a href="#">Corporate Governance Highlights</a>
<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups	Approach – Stakeholder Engagement
102-41	Collective bargaining agreements	2017 Xylem 10-K p.10
102-42	Identifying and selecting stakeholders	Approach – Stakeholder Engagement
102-43	Approach to stakeholder engagement	Approach – Stakeholder Engagement
102-44	Key topics and concerns raised	Approach – Stakeholder Engagement
<b>Reporting practice</b>		
102-45	Entities included in the consolidated financial statements	Approach – Reporting Practices
102-46	Defining report content and topic Boundaries	Approach – Materiality
102-47	List of material topics	Approach – Materiality

## GRI CONTENT INDEX

Disclosure Number	Disclosure Title	2018 Response
102-48	Restatements of information	Approach – Reporting Practices Operational Impact
102-49	Changes in reporting	Approach – Reporting Practices
102-50	Reporting period	Approach – Reporting Practices
102-51	Date of most recent report	Approach – Reporting Practices
102-52	Reporting cycle	Approach – Reporting Practices
102-53	Contact point for questions regarding the report	Approach – Reporting Practices
102-54	Claims of reporting in accordance with the GRI Standards	Approach – Reporting Practices
102-55	GRI content index	Approach – Reporting Practices
102-56	External assurance	Approach – Reporting Practices
<b>GRI 201: Economic Performance</b>		
103-1	Explanation of the material topic and its Boundary	Business Performance – Business Strategy Business Performance – Economic Impact
103-2	The management approach and its components	Business Performance – Business Strategy Business Performance – Economic Impact
103-3	Evaluation of the management approach	Business Performance – Business Strategy Business Performance – Economic Impact
201-1	Direct economic value generated and distributed	Business Performance – Economic Impact
201-2	Financial implications and other risks and opportunities due to climate change	Business Performance – Business Strategy Water & Infrastructure Solutions – Opportunity Operational Impact – EH&S Overview
<b>GRI 202: Market Presence</b>		
103-1	Explanation of the material topic and its Boundary	Business Performance – Business Strategy Business Performance – Economic Impact Xylem People – Global Workforce
103-2	The management approach and its components	Business Performance – Business Strategy Business Performance – Economic Impact Xylem People – Global Workforce
103-3	Evaluation of the management approach	Business Performance – Business Strategy Business Performance – Economic Impact Xylem People – Global Workforce
202-2	Proportion of senior management hired from the local community	Xylem People – Employee Engagement
<b>GRI 203: Indirect Economic Impacts</b>		
103-1	Explanation of the material topic and its Boundary	Community
103-2	The management approach and its components	Community
103-3	Evaluation of the management approach	Community
203-2	Significant indirect economic impacts	Community
<b>GRI 204: Procurement Practices</b>		
103-1	Explanation of the material topic and its Boundary	Business Performance – Supply Chain
103-2	The management approach and its components	Business Performance – Supply Chain
103-3	Evaluation of the management approach	Business Performance – Supply Chain
204-1	Proportion of spending on local suppliers	Business Performance – Supply Chain

## GRI CONTENT INDEX

Disclosure Number	Disclosure Title	2018 Response
<b>GRI 205: Anti-corruption</b>		
103-1	Explanation of the material topic and its Boundary	Xylem People – Ethics
103-2	The management approach and its components	Xylem People – Ethics
103-3	Evaluation of the management approach	Xylem People – Ethics
205-1	Operations assessed for risks related to corruption	Xylem People – Ethics
205-2	Communication and training about anti-corruption policies and procedures	Xylem People – Ethics
205-3	Confirmed incidents of corruption and actions taken	Xylem People – Ethics
<b>GRI 206: Anti-competitive Behavior</b>		
103-1	Explanation of the material topic and its Boundary	Xylem People – Ethics
103-2	The management approach and its components	Xylem People – Ethics
103-3	Evaluation of the management approach	Xylem People – Ethics
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	2017 Xylem 10-K p. 21, 100 Xylem People – Ethics
<b>GRI 301: Materials</b>		
103-1	Explanation of the material topic and its Boundary	Water & Infrastructure Solutions – Product Efficiencies
103-2	The management approach and its components	Water & Infrastructure Solutions – Product Efficiencies
103-3	Evaluation of the management approach	Water & Infrastructure Solutions – Product Efficiencies
301-1	Materials used by weight or volume	Xylem does not actively track this data.
301-2	Recycled input materials used	Xylem does not actively track this data.
<b>GRI 302: Energy</b>		
103-1	Explanation of the material topic and its Boundary	Water & Infrastructure Solutions – Opportunity Water & Infrastructure Solutions – Product Efficiencies Operational Impact – EH&S Overview Operational Impact – Energy & Emissions
103-2	The management approach and its components	Water & Infrastructure Solutions – Opportunity Water & Infrastructure Solutions – Product Efficiencies Operational Impact – EH&S Overview Operational Impact – Energy & Emissions
103-3	Evaluation of the management approach	Water & Infrastructure Solutions – Opportunity Water & Infrastructure Solutions – Product Efficiencies Operational Impact – EH&S Overview Operational Impact – Energy & Emissions
302-1	Energy consumption within the organization	Operational Impact – Energy & Emissions
302-2	Energy consumption outside of the organization	Water Solutions – Product Efficiencies

## GRI CONTENT INDEX

Disclosure Number	Disclosure Title	2018 Response
302-3	Energy intensity	Energy intensity for 2017 is 69.3 megawatt hours per annual revenues in millions USD. This ratio includes direct consumption sources (renewable electricity generated, natural gas, propane, and fuel oil) and mobile sources (gasoline, diesel, and propane) in addition to indirect consumption sources (purchased heat, electricity and energy).
302-4	Reduction of energy consumption	Operational Impact – Energy & Emissions
302-5	Reductions in energy requirements of products and services	Water & Infrastructure Solutions – Product Efficiencies
<b>GRI 303: Water</b>		
103-1	Explanation of the material topic and its Boundary	Operational Impact – EH&S Overview Operational Impact – Water
103-2	The management approach and its components	Operational Impact – EH&S Overview Operational Impact – Water
103-3	Evaluation of the management approach	Operational Impact – EH&S Overview Operational Impact – Water
303-1	Water withdrawal by source	Operational Impact – Water
303-2	Water sources significantly affected by withdrawal of water	At Xylem, we are working to ensure there are no water sources significantly affected by our withdrawal of water. The work in this area is still in the early stages, but we are moving ahead on a number of fronts. Operational Impact – Water
303-3	Water recycled and reused	Operational Impact – Water
<b>GRI 305: Emissions</b>		
103-1	Explanation of the material topic and its Boundary	Water & Infrastructure Solutions – Opportunity Water & Infrastructure Solutions – Product Efficiencies Operational Impact – EH&S Overview Operational Impact – Energy & Emissions
103-2	The management approach and its components	Water & Infrastructure Solutions – Opportunity Water & Infrastructure Solutions – Product Efficiencies Operational Impact – EH&S Overview Operational Impact – Energy & Emissions
103-3	Evaluation of the management approach	Water & Infrastructure Solutions – Opportunity Water & Infrastructure Solutions – Product Efficiencies Operational Impact – EH&S Overview Operational Impact – Energy & Emissions
305-1	Direct (Scope 1) GHG emissions	Operational Impact – Energy & Emissions
305-2	Energy indirect (Scope 2) GHG emissions	Operational Impact – Energy & Emissions
305-3	Other indirect (Scope 3) GHG emissions	Water Solutions – Product Efficiencies Operational Impact – Energy & Emissions
305-4	GHG emissions intensity	Operational Impact – Energy & Emissions
305-5	Reduction of GHG emissions	Operational Impact – Energy & Emissions

## GRI CONTENT INDEX

Disclosure Number	Disclosure Title	2018 Response
305-6	Emissions of ozone-depleting substances (ODS)	Xylem does not use significant amounts of ozone-depleting substances, and for that reason we do not track their use. We adhere to the Montreal Protocol, administered by the United Nations Environment Programme (UNEP), which maintains the list of ozone-depleting substances that are targeted for reductions and total phase-outs.
305-7	Nitrogen oxides (NO <sub>x</sub> ), sulfur oxides (SO <sub>x</sub> ), and other significant air emissions	Operational Impact – Energy & Emissions
<b>GRI 306: Effluents and Waste</b>		
103-1	Explanation of the material topic and its Boundary	Operational Impact – EH&S Overview Operational Impact – Materials & Waste
103-2	The management approach and its components	Operational Impact – EH&S Overview Operational Impact – Materials & Waste
103-3	Evaluation of the management approach	Operational Impact – EH&S Overview Operational Impact – Materials & Waste
306-1	Water discharge by quality and destination	Operational Impact – Water
306-2	Waste by type and disposal method	Operational Impact – Materials & Waste
306-3	Significant spills	Operational Impact – EH&S Overview
<b>GRI 308: Supplier Environmental Assessment</b>		
103-1	Explanation of the material topic and its Boundary	Business Performance – Supply Chain
103-2	The management approach and its components	Business Performance – Supply Chain
103-3	Evaluation of the management approach	Business Performance – Supply Chain
308-1	New suppliers that were screened using environmental criteria	Business Performance – Supply Chain
308-2	Negative environmental impacts in the supply chain and actions taken	Business Performance – Supply Chain
<b>GRI 403: Occupational Health and Safety</b>		
103-1	Explanation of the material topic and its Boundary	Xylem People – Safety
103-2	The management approach and its components	Xylem People – Safety
103-3	Evaluation of the management approach	Xylem People – Safety
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Xylem People – Safety
<b>GRI 404: Training and Education</b>		
103-1	Explanation of the material topic and its Boundary	Xylem People – Talent Development
103-2	The management approach and its components	Xylem People – Talent Development
103-3	Evaluation of the management approach	Xylem People – Talent Development
404-1	Average hours of training per year per employee	Xylem People – Talent Development
404-2	Programs for upgrading employee skills and transition assistance programs	Xylem People – Talent Development
<b>GRI 412: Human Rights Assessment</b>		
103-1	Explanation of the material topic and its Boundary	Xylem People – Ethics
103-2	The management approach and its components	Xylem People – Ethics
103-3	Evaluation of the management approach	Xylem People – Ethics

## GRI CONTENT INDEX

Disclosure Number	Disclosure Title	2018 Response
412-2	Employee training on human rights policies or procedures	Xylem People – Ethics
<b>GRI 413: Local Communities</b>		
103-1	Explanation of the material topic and its Boundary	Community
103-2	The management approach and its components	Community
103-3	Evaluation of the management approach	Community
413-1	Operations with local community engagement, impact assessments, and development programs	Community
<b>GRI 414: Supplier Social Assessment</b>		
103-1	Explanation of the material topic and its Boundary	Business Performance – Supply Chain
103-2	The management approach and its components	Business Performance – Supply Chain
103-3	Evaluation of the management approach	Business Performance – Supply Chain
414-1	New suppliers that were screened using social criteria	Business Performance – Supply Chain
414-2	Negative social impacts in the supply chain and actions taken	Business Performance – Supply Chain
<b>GRI 416: Customer Health and Safety</b>		
103-1	Explanation of the material topic and its Boundary	Water & Infrastructure Solutions – Capabilities: Leveraging Technology to Solve Water Water & Infrastructure Solutions – Applications Water & Infrastructure Solutions – Product Efficiencies
103-2	The management approach and its components	Water & Infrastructure Solutions – Capabilities: Leveraging Technology to Solve Water Water & Infrastructure Solutions – Applications Water & Infrastructure Solutions – Product Efficiencies
103-3	Evaluation of the management approach	Water & Infrastructure Solutions – Capabilities: Leveraging Technology to Solve Water Water & Infrastructure Solutions – Applications Water & Infrastructure Solutions – Product Efficiencies
416-1	Assessment of the health and safety impacts of product and service categories	At Xylem, we conduct safety risk assessments on all new products and changed products where the design revisions have a possible impact on safety.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	2017 Xylem 10-K p. 21, 100
<b>GRI 419: Socioeconomic Compliance</b>		
103-1	Explanation of the material topic and its Boundary	Xylem People – Ethics
103-2	The management approach and its components	Xylem People – Ethics
103-3	Evaluation of the management approach	Xylem People – Ethics
419-1	Non-compliance with laws and regulations in the social and economic area	2017 Xylem 10-K p. 21, 100

## Independent Assurance Statement to Xylem Inc.

**ERM Certification and Verification Services (ERM CVS) was engaged by Xylem Inc. (Xylem) to provide limited assurance in relation to specified 2017 environmental and safety data presented in the Xylem 2017 Sustainability Report (the Report) as set out below.**

Engagement Summary	
<b>Scope of our assurance engagement</b>	<p>Whether the corporate 2017 data for the following selected indicators are fairly presented, in all material respects, in accordance with the reporting criteria:</p> <p><b>Environmental data:</b></p> <ul style="list-style-type: none"> <li>• Total direct energy use (MWh)</li> <li>• Total indirect energy use (MWh)</li> <li>• Total Scope 1 (direct) GHG emissions (metric tons of CO2e)</li> <li>• Total Scope 2 (indirect) GHG emissions (metric tons of CO2e)</li> <li>• Total Scope 3 (business travel) GHG emissions (metric tons of CO2e)</li> <li>• Total water withdrawal (mega-liters)</li> <li>• Total hazardous waste generated (metric tons)</li> </ul> <p><b>Safety data:</b></p> <ul style="list-style-type: none"> <li>• Total non-hazardous waste generated (metric tons)</li> <li>• Total waste to landfill (metric tons)</li> <li>• Injury frequency (medical + lost workday cases x 200,000/number of working hours)</li> <li>• Injury severity ((number of lost workdays x 200,000 / worked hours)</li> <li>• No. medical cases</li> <li>• No. lost work day cases</li> </ul>
<b>Reporting criteria</b>	The EHS reporting program and specific metric definitions as prepared by Xylem.
<b>Assurance standard</b>	ERM CVS' assurance methodology, based on the International Standard on Assurance Engagements ISAE 3000 (Revised).
<b>Assurance level</b>	Limited assurance.
<b>Respective responsibilities</b>	<p>Xylem is responsible for preparing the data and for its correct presentation in the Report to third parties, including disclosure of the reporting criteria and boundary.</p> <p>ERM CVS' responsibility is to provide conclusions on the agreed scope based on the assurance activities performed and exercising our professional judgement.</p>

**Qualified conclusion**

Based on our activities, with the exception of the matter described in the 'Basis for Qualified Conclusion' below, nothing has come to our attention to indicate that the corporate 2017 data for the selected indicators listed under 'scope' above are not fairly presented, in all material respects, with the reporting criteria.

**Basis for Qualified Conclusion**

Due to inconsistencies in the tracking and reporting of waste across the organization, we were unable to reach a conclusion on the completeness and accuracy of the 2017 waste data including Total non-hazardous waste generated, Total hazardous waste generated and Total waste to landfill.

**Our assurance activities**

We planned and performed our work to obtain all the information and explanations that we believe were necessary to provide a basis for our assurance conclusions. A multi-disciplinary team of EHS and assurance specialists performed the following activities:

- Interviews with relevant staff to understand and evaluate the data management systems and processes used for collecting and reporting the selected data.
- An analytical review of the data from all sites and a check on the completeness and accuracy of the corporate data consolidation for the selected indicators.
- A visit to a manufacturing facilities at DuBois, PA (USA) and Shenyang (China) with further visits to the sales and services operations in the UK to review the local reporting processes and check samples of underlying source data for each selected indicator.
- A visit to Xylem's corporate office (Schaffhausen, Switzerland) to review the consolidation and reporting process including checking calculations, applied emission factors and the corporate data quality and assurance processes.

**The limitations of our engagement**

The reliability of the assured data is subject to inherent uncertainties, given the available methods for determining, calculating or estimating the underlying information. It is important to understand our assurance conclusions in this context.

### Our Observations

We have provided Xylem with a separate management report. With reference to the conclusions presented above, we have the following observation:

- We recommend (with particular regard to reporting of waste metrics) attention is given during 2018 to improving internal controls by incorporating senior management approval mechanisms at site and business levels into year-end EHS reporting processes to ensure accountability for the identification, investigation and explanation of significant year-on-year site level variances.



4 June 2018

Jennifer Iansen-Rogers

Head of Corporate Assurance Services

ERM Certification and Verification Services, London

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