



Green Finance Framework

JUNE 2020

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PART 1 Creating a Water-Secure World

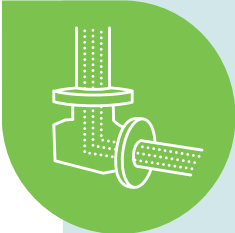


1.1 Company Overview

Xylem Inc., together with its subsidiaries (“Xylem” or the “Company”), with 2019 revenues of \$5.2 billion and approximately 16,300 employees, is a leading global water technology company. The Company designs, manufactures and services highly engineered products and solutions ranging across a wide variety of critical applications primarily in the water sector, but also in electric and gas. Xylem’s broad portfolio of products, services and solutions addresses customer needs across the water cycle, from the delivery, measurement and use of drinking water to the collection, testing, analysis and treatment of wastewater to the return of water to the environment.



Xylem has three reportable business segments that are aligned around the critical market applications they provide: Water Infrastructure, Applied Water, and Measurement & Control Solutions. An overview of the business segments is provided in Table 1.

TABLE 1: Xylem’s Three Business Segments

BUSINESS SEGMENT	APPLICATION	MAJOR PRODUCTS
 <p>Water Infrastructure</p>	<ul style="list-style-type: none"> • Transport • Treatment 	<ul style="list-style-type: none"> • Water and wastewater pumps • Filtration, disinfection and biological treatment equipment • Mobile dewatering equipment
 <p>Applied Water</p>	<ul style="list-style-type: none"> • Building services • Industrial water 	<ul style="list-style-type: none"> • Pumps • Valves • Heat exchangers • Controls • Dispensing equipment systems
 <p>Measurement & Control Solutions</p>	<ul style="list-style-type: none"> • Water • Energy • Software as a Service/Other 	<ul style="list-style-type: none"> • Smart meters • Networked communication devices • Data analytics • Test equipment • Controls • Sensor devices • Software & managed services • Critical infrastructure services

1.2 Approach to Sustainability

Xylem approaches business sustainability as a way to generate economic value while also creating value for society, thus meeting the needs of both.

Water security is critical to life and to creating a more sustainable world. Due to severe weather patterns from climate change, urbanization, pollution and other factors, global water issues like water scarcity, water systems resilience to climate change and water affordability are escalating like never before, putting millions of lives at risk and holding back social and economic progress. However, the opportunity to mitigate these issues through innovation and shared purpose are also growing.

As a leading global water technology company, Xylem addresses one of the world's most urgent sustainability challenges—responsible stewardship of society's shared water resources. Technology is playing an increasingly important role in helping the world solve water issues and Xylem, with its long history of innovation, is focusing on the powerful capabilities of digital technology, integrated management and data analytics.

Xylem approaches business sustainability as a way to generate economic value while also creating value for society, thus meeting the needs of both. The full details of Xylem's approach to sustainability can be found in the Company's annual sustainability report.



Sustainability Strategy

Xylem is well-positioned to address the escalating global challenges presented by water scarcity, water systems resilience to climate change and water affordability. The Company organizes its ambitious sustainability strategy into three key pillars:



Serving Customers:

Xylem provides innovative technologies, solutions and expertise that help its customers solve major water challenges. For example, Xylem's solutions mitigate water scarcity by facilitating water reuse and conservation; enable water operators and communities to build resilience by helping prevent stormwater pollution and lower greenhouse gas emissions; and improve water affordability by helping water operators reduce water losses and optimize water system assets. Xylem is harnessing the power of data, analytics and decision intelligence to transform water management and deliver powerful water, energy and cost savings for its customers and the communities they serve.



Building a Sustainable Company:

Xylem knows that in order to be a company that advances sustainability, we have to be a company with a strong financial foundation that executes with discipline today while also focusing on the future. Xylem operates its business with integrity, minimizing its environmental footprint, ensuring the safety of its people and quality of its products, promoting an inclusive and diverse culture, and partnering with suppliers and organizations that share its values. The Company still has much to do but is fully committed to this purpose.



Empowering Communities:

Xylem creates social value by providing water-related disaster relief expertise, technology and equipment to communities in need; educating and raising awareness about water challenges; inspiring the next generation of water stewards; and tapping into the passion of its workforce and stakeholder volunteers to give time to local water-related causes.

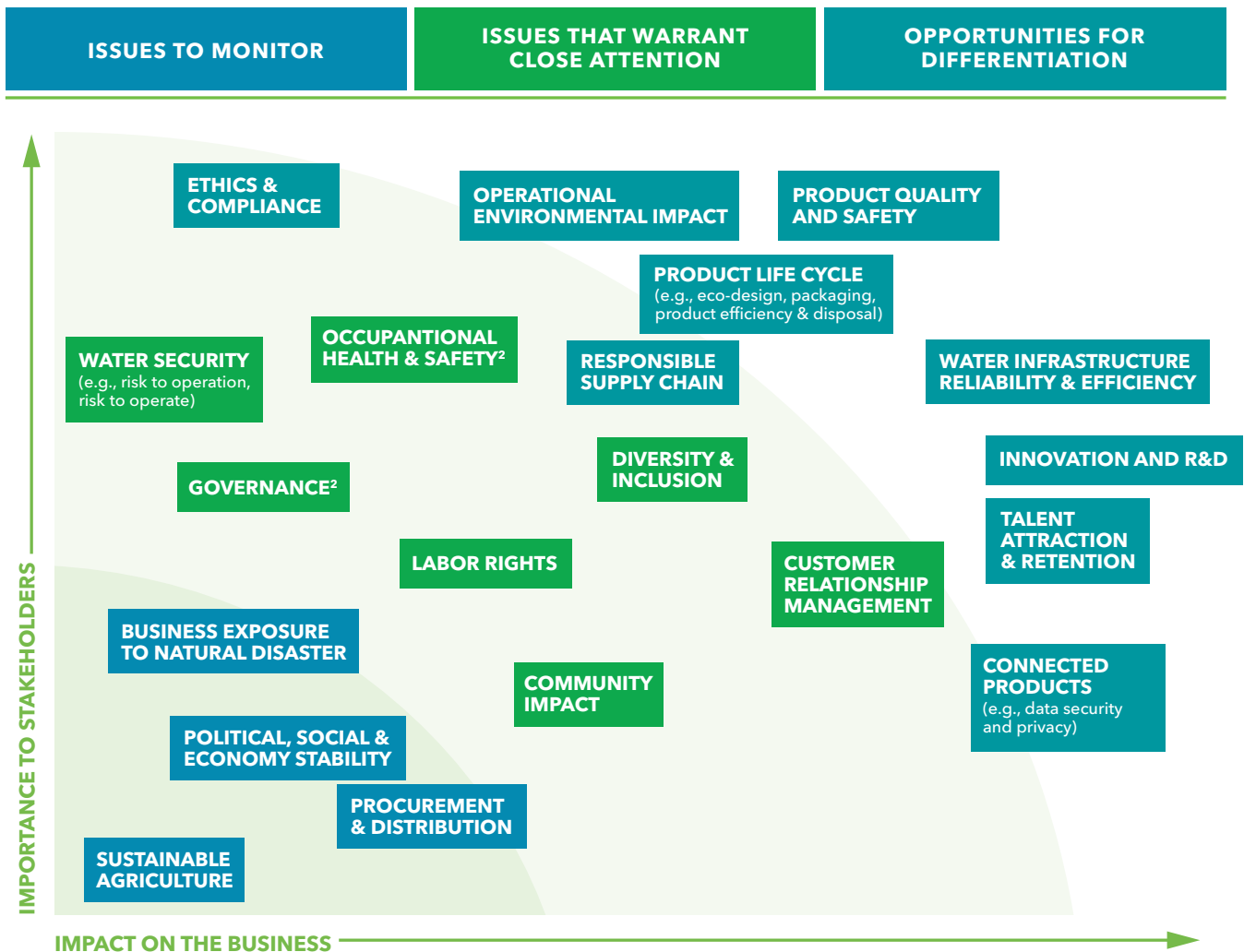
Sustainability Reporting

An important aspect of the overall approach to sustainability is our reporting. The Company reports extensively on its sustainability performance. Its 2019 Sustainability Report was prepared in accordance with GRI Standards.

Material Topics for Xylem

To advance its sustainability strategy, Xylem conducts a periodic materiality assessment to identify and prioritize issues deemed most important by its stakeholders and the business. The 2018 assessment resulted in the categorization of material topics into three key areas:

- **Opportunities for Differentiation**
- **Issues that Warrant Close Attention**
- **Issues to Monitor**



¹ The term material, as used in this report, is based on a different definition of materiality than used in US securities law.

Building on the 2018 materiality assessment, Xylem conducted a validation workshop to identify additional topics that warranted inclusion during the 2019 reporting period and added the following four new issues into their list of material topics for discussion:

- **Strategic Partnerships**
- **Climate Change**
- **Business Transformation**
- **Intellectual Property**

Xylem's next materiality assessment will be conducted in late 2020/early 2021 to continue to inform a clear structure that outlines for stakeholders how the Company links social and environmental value with sustainable business value. Xylem uses the GRI Standards as a structured format to comprehensively share information about material issues, performance metrics and the management of sustainability-related issues within the organization. The materiality assessment is an important tool to help evaluate and select projects to be financed under Xylem's Green Finance Framework (the "Framework") that will have a significant impact on water and sustainability challenges.






Sustainability Targets

In 2019, Xylem set ambitious new sustainability goals aligned to the three key pillars of its sustainability strategy, called the 2025 Sustainability Goals. As part of this commitment, Xylem identified “Signature Goals” that target the most important water and sustainability challenges to 2025, outlined in Table 2.

TABLE 2: Xylem Sustainability 2025 - Signature Goals

Xylem set ambitious new sustainability goals aligned to the three key pillars of its sustainability strategy, called the 2025 Sustainability Goals

<p>BUILDING A SUSTAINABLE COMPANY</p> 	<p>SERVING CUSTOMERS</p> 	<p>EMPOWERING COMMUNITIES</p> 
<p>Use 100% renewable energy at major facilities</p> <p>Use 100% process water recycling at major facilities</p> <p>Ensure 100% of employees have access to clean water and safe sanitation at work, at home and during natural disasters</p> <p>Save more than 16.5 billion cubic meters of water through the use of advanced technologies</p>	<p>Save more than 16.5 billion cubic meters of water through the use of advanced technologies</p> <p>Prevent over 7 billion cubic meters of polluted water from flooding communities or entering local waterways</p> <p>Provide access to clean water and sanitation solutions for at least 20 million people living at the base of the global economic pyramid</p>	<p>Give 1% Xylem employees time and;</p> <p>Give 1% company profits to water-related causes and education</p>

Alignment to the UN Sustainable Development Goals

Xylem aligns its sustainability efforts with the United Nations Sustainable Development Goals (“SDGs”), a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. The full SDG mapping is provided in Table 4 of the Annex.



Sustainability Governance

The Board, primarily through the Nominating and Governance Committee, provides oversight of the overall approach to sustainability, corporate responsibility and social value creation.

The Xylem Environmental, Social and Governance Committee assesses strategic sustainability issues, seeks to improve sustainability performance, provides recommendations to Xylem’s SVP, General Counsel & Chief Sustainability Officer and the other members of the Senior Leadership Team regarding the Company’s sustainability goals and objectives, and oversees risks and opportunities. It is a global and cross-functional committee that meets regularly.

Existing Sustainable Finance Commitment

Given that sustainability is core to Xylem’s business strategy, the Company has sought to align its financing with its overall sustainability profile. In March 2019, Xylem announced the execution of an \$800 million Senior Unsecured Revolving Credit Facility that includes a sustainability-linked pricing mechanism. The deal marked one of the first sustainability-improvement loans in the United States and the first in the General Industrial Sector. The interest rate is index-linked to Xylem’s overall sustainability performance as rated by Sustainalytics, a leading independent global provider of environmental, social and corporate governance ratings. Improvements in Xylem’s sustainability performance will reduce interest rates under the facility.

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PART 2 Green Finance Framework

The ICMA Green Bond Principles and the LMA, APLMA & LSTA Green Loan Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of green debt like Green Bonds, Green Loans, Green Schuldscheine, Green Commercial Paper and Green Private Placements. The Framework follows the **Green Bond Principles (GBP) 2018** and the **Green Loan Principles (GLP) 2020**, which both provide guidelines in four key areas:

- 1 Use of Proceeds
- 2 Process for Project Evaluation and Selection
- 3 Management of Proceeds
- 4 Reporting

The Framework may be used to govern financings for which the proceeds are intended to be used for a portfolio of eligible green projects (the “Eligible Projects”) defined, selected, tracked and reported on in accordance with the Framework.

2.1 Use of Proceeds

The utilization of the proceeds from certain debt issuances by Xylem Inc. (the “Green Financings”) will fund Eligible Projects that are intended to provide clear environmental benefits. The GBP & GLP recognize eligible green categories for utilization of green proceeds, contributing to five high-level environmental objectives: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation and pollution prevention and control. In line with the GBP & GLP, Xylem intends to allocate the net proceeds from any Green Financing to a portfolio of Eligible Projects across Xylem’s three business segments: Water Infrastructure, Applied Water, and Measurement & Control. The Eligible Projects identified by Xylem fall into the following GBP/GLP categories:

- Eco-efficient and/or circular economy adapted products, production technologies and processes
- Sustainable water and wastewater management







The utilization of the proceeds from the Green issue should provide for clear environmental benefits.

The Eligible Projects identified align to Xylem’s sustainability strategy, including ambitions to address **water scarcity, water systems resilience to climate change and water affordability** as part of Xylem’s 2025 Sustainability Goals. Xylem has identified “Water infrastructure, reliability and efficiency” as a key opportunity for differentiation in the Company’s materiality matrix – an issue that is highly important to Xylem’s stakeholders and has the potential to have a significant impact on Xylem’s business.

New or existing investments may only include acquisitions to the extent such acquisitions are made for the purpose of expanding the Company’s ability to deliver sustainable water products and services, as well as to increase the capacity for R&D in this area. No expenditures or investments related to oil or gas will be included under the Framework.

TABLE 3: Eligible Use of Proceeds under Xylem’s Green Finance Framework

GBP/ GLP Category	UN SDG	Xylem Activities That Would Be Eligible Use Of Proceeds	Xylem 2025 Signature Goal	Impact Reporting Examples
Eco-efficient and/or circular economy adapted products, production technologies and processes	<p>CLEAN WATER AND SANITATION</p> 	<p>Investments and/or expenditures for the research, development, manufacturing and distribution of products that improve water productivity, including:</p> <p>Decision Intelligence, Digital and IoT-based technologies to optimize and automate water management and pollution prevention for Smart Cities & Utilities (e.g. Sensus Smart Meters)</p>	<p>Save more than 16.5 billion cubic meters of water through the use of advanced technologies</p>	<p>m³ of water saved</p> <p>m³ of wastewater treated</p> <p>% reduction in water use intensity</p>
Sustainable water and wastewater management	<p>INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>  <p>SUSTAINABLE CITIES AND COMMUNITIES</p>  <p>RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<p>Initiatives to improve the energy performance of existing and new products, including R&D and modifications to manufacturing lines</p> <p>Investments and/or expenditures for the research, development, manufacture and distribution of products that improve water quality, including:</p> <p>Water recycling and reuse technologies, purification systems and chemical-free disinfection for drinking water (e.g. Hydroinfinity) Ultraviolet and ozone technologies to treat wastewater and process water (e.g. Wedeco)</p> <p>Investments and/or expenditures for the research, development, implementation and maintenance of projects that improve water resilience, including:</p> <p>Projects that strengthen critical water infrastructure</p> <p>Flood control systems for storm relief infrastructure</p> <p>Water leakage detection systems to reduce waste and infrastructure downtime</p> <p>Projects that monitor and protect water security for communities in water-stressed regions</p>	<p>Reduce over 3.5 billion cubic meters of non-revenue water</p> <p>Treat 13 billion cubic meters of water for reuse</p> <p>Prevent over 7 billion cubic meters of polluted water from flooding communities or entering local waterways</p>	<p># or volume of sustainable or certified products produced</p> <p>% increase in annual energy efficiency of existing products</p> <p>% of materials that can be recycled at end-of-life</p> <p># of people provided with clean water and sanitation solutions</p>

Substantial Contribution under the EU Taxonomy

The projects selected under the Framework are intended to principally (but not exclusively) contribute to the following environmental objectives of the EU Taxonomy Regulation: “Sustainable Use and Protection of Water and Marine Resources”, “Climate Change Mitigation” and “Climate Change Adaptation”. While the European Council has not yet established technical screening criteria for all these environmental objectives, a first reading adopted by the European Council outlines the objective at a high level. This is provided in Table 5 of the Annex.



2.2 Process for Project Evaluation and Selection

Eligible Projects financed and/or refinanced through the Framework will be evaluated and selected based on compliance with the criteria determined by Xylem's Green Finance Committee (the "Finance Committee"). The Finance Committee, which will include members of Xylem's senior management, including representatives of Xylem's Treasury, Accounting, Legal and Sustainability teams, will be led by Xylem's General Counsel & Chief Sustainability Officer. The Finance Committee will report to, and be overseen by, Xylem's Disclosure Committee.



...the Finance Committee will seek to identify Eligible Projects that contribute to key environmental objectives...

As part of the evaluation and selection process, the Finance Committee will seek to identify Eligible Projects that contribute to key environmental objectives outlined in Table 5: Climate Change Mitigation, Climate Change Adaptation, and/or Sustainable Use and Protection of Water and Marine Resources. The Finance Committee will also review Eligible Projects to manage perceived social and environmental risks potentially associated with projects selected (Do No Significant Harm Assessment), and to ensure that no investments or expenditures related to fossil fuel activity will be included in the portfolio. The Finance Committee will identify, assess, monitor and communicate these risks.

Xylem's management conducts an enterprise risk management ("ERM") program, which is an evergreen process using a widely-accepted framework to identify, assess, monitor and communicate the Company's strategic, operations, financial, compliance and reputational risks, including sustainability risk. Xylem's Board and its committees work with management, our independent and internal auditors, as well as other external advisors, to incorporate ERM into corporate strategy, including sustainability, and business operations, including Eligible Projects. A discussion of how our Board oversees risk at Xylem can be found in our 2020 Proxy Statement, available at www.xylem.com, under "Access Financial Information" in the "Investors" section.

2.3 Management of Proceeds

Xylem intends to allocate the proceeds from any Green Financing to a portfolio of Eligible Projects

Xylem intends to allocate the proceeds from any Green Financing to a portfolio of Eligible Projects, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above. These projects can be new construction, existing projects or refurbishments that have been funded, acquired or developed within the prior 3 years before allocation of proceeds.

Xylem will strive, over time, to allocate funds to Eligible Projects that match or exceed the net proceeds from any Green Financing. Eligible Projects will be added to the Company's portfolio to the extent required.

Pending the allocation of the proceeds of any Green Financing, Xylem will hold and/or invest the balance of net proceeds not yet allocated to the portfolio of Eligible Projects in its treasury liquidity portfolio, or in cash or other short-term and liquid instruments. All proceeds of any Green Financing will be allocated to Eligible Projects within 24 months of issuance of the debt.



2.4 Reporting

Following closing of any Green Financing, Xylem will prepare an annual report that will show the allocation of the proceeds and the impact of the portfolio of Eligible Projects (as described under “Allocation Reporting” below). At a minimum, such report will include information at the category level and on an aggregated basis for all of the outstanding Green Financing). Xylem intends to align the reporting with the portfolio approach described in “Handbook – Harmonized Framework for Impact Reporting (April 2020).” Such reports will be prepared until the proceeds of any Green Financing are fully allocated and will be made available on Xylem’s website.

Allocation Reporting

Xylem intends to report the allocation of the Eligible Projects at least at the category level. To the extent practicable, Xylem will provide information on:

- The total amount of investments and expenditures in the Eligible Green Project Portfolio
- Regional distribution of Green Projects (if applicable)
- Balance of unallocated proceeds
- Portion of financing and refinancing (the split between new and existing projects)
- Alignment with the EU Taxonomy

Impact Reporting

The annual report may also provide:

- Brief description of the Eligible Projects
- Metrics regarding projects’ environmental impacts (see examples in Table 3)

Xylem intends to make allocation report and impact reporting available on Xylem’s website: www.xylem.com/en-us/sustainability/company/green-finance



2.5 External Review

Second party opinion (pre-issuance)

The Framework has been reviewed by Sustainalytics, which has issued a Second Party Opinion. The Second Party Opinion and the Framework will be made available on Xylem's Sustainability website.

Verification (post-issuance)

Xylem intends to request, one year after issuance or after full allocation or following any material events, external review and assurance of a management statement on the allocation of the proceeds of any Green Financing to the portfolio of Eligible Projects.



Annex

TABLE 4: Xylem’s Alignment to the UN SDGs

UN SDG	DESCRIPTION OF ALIGNMENT
<p>3 GOOD HEALTH AND WELL-BEING</p> 	<p>Reduce water contamination that threatens human health by leveraging digital technologies to prevent polluted water from flooding communities or entering local waterways. Through testing and treatment solutions, as well as Xylem Watermark, the Company’s corporate social responsibility program, Xylem will bring clean water to those most in need and alleviate the threat of water borne diseases that disproportionately affect children.</p>
<p>5 GENDER EQUALITY</p> 	<p>Achieve gender parity in leadership positions within the organization and assess and monitor equitable pay processes with a goal to eliminate pay differences based on gender, race or ethnicity.</p>
<p>6 CLEAN WATER AND SANITATION</p> 	<p>Develop and launch innovative solutions that help solve water issues for millions of people living at the base of the global economic pyramid. Through the integration of digital technologies in areas such as treatment, water loss and water reuse, Xylem can advance holistic watershed management and create water, energy and cost efficiencies, benefitting the public good and making communities more resilient and sustainable.</p>
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p>Develop and launch innovative solutions that create major water, energy and cost efficiencies, helping utilities solve water challenges for millions of people living at the base of the global economic pyramid. Xylem will leverage leading-edge technologies to increase the resilience of water infrastructure, and drive awareness of water innovation.</p>
<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<p>Improve the safety and quality of life of millions of people living in economically challenged communities and/or impacted by water-related catastrophes by enhancing access to clean drinking water, improving wastewater management and making water systems more resilient to severe weather from climate change. Also, by helping communities reduce water contamination that threatens human health with digital technologies, Xylem can prevent polluted water from flooding communities or entering local waterways.</p>
<p>13 CLIMATE ACTION</p> 	<p>Help utilities and businesses leverage technology to build resilience, including water reuse solutions that help ensure water continuity in the face of scarcity from climate change and storm and wastewater solutions that help reduce sewer overflows during extreme weather. Provide humanitarian aid in the form of clean drinking water systems and disaster response, and advance the conversation about water innovation and its powerful opportunities.</p>

Annex

TABLE 5: Activities that substantially contribute to the “Sustainable Use and Protection of Water and Marine Resources” environmental objective of the EU Taxonomy Regulation

TAXONOMY REGULATION ARTICLE NO.	THE PROJECT CATEGORIES CONTRIBUTE MAINLY TO (BUT NOT LIMITED TO) THE FOLLOWING OBJECTIVES:
Article 10	Reduce water contamination that threatens human health by leveraging digital technologies to prevent polluted water from flooding communities or entering local waterways. Through testing and treatment solutions, as well as Watermark, Xylem will bring clean water to those most in need and alleviate the threat of water borne diseases that disproportionately affect children.
Article 11	An economic activity shall qualify as contributing substantially to climate change adaptation where that activity: (a) includes adaptation solutions that either substantially reduce the risk of the adverse impact of the current climate and the expected future climate on that economic activity or substantially reduce that adverse impact, without increasing the risk of an adverse impact on people, nature or assets; or (b) provides adaptation solutions that (...) contribute substantially to preventing or reducing the risk of the adverse impact of the current climate and the expected future climate on people, nature or assets, without increasing the risk of an adverse impact on other people, nature or assets.
Article 12.1 (a)	Protecting the environment from the adverse effects of urban and industrial waste water discharges, including from contaminants of emerging concern such as pharmaceuticals and microplastics, for example by ensuring the adequate collection, treatment and discharge of urban and industrial waste waters;
Article 12.1 (b)	Protecting human health from the adverse impact of any contamination of water intended for human consumption by ensuring that it is free from any micro-organisms, parasites and substances that constitute a potential danger to human health as well as increasing people’s access to clean drinking water;
Article 12.1 (c)	Improving water management and efficiency, including by protecting and enhancing the status of aquatic ecosystems, by promoting the sustainable use of water through the long-term protection of available water resources, including through measures such as water reuse, by ensuring the progressive reduction of pollutant emissions into surface water and groundwater, by contributing to mitigating the effects of floods and droughts, or through any other activity that protects or improves the qualitative and quantitative status of water bodies.

* Position of the Council at first reading with a view to the adoption of a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 - Adopted by the Council on 15 April 2020

ST 5639 2020 REV 2, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_5639_2020_REV_2&qid=1591466733873&from=EN

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xylem
Let's Solve Water