

2013 SUSTAINABILITY REPORT



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About This Report

This report represents an advance in the way Xylem communicates our sustainability efforts, and an increase in the amount of information we are providing. Compared to our past reports, it adheres much more closely with the reporting criteria set out in the Global Reporting Initiative (GRI) G3 guidelines—the international standard for sustainability reporting. Where previous reports addressed G3-requested information inside section-long “narrative stories” that told the Xylem sustainability story in a more flowing style, this report provides direct and separate answers to each and every G3-requested indicator.

We made the decision to use the G3 indicators as the structural element of this report because we want to provide readers with more transparency and allow them to find specific information more quickly. This approach also spurred us to dig deeper and search harder to find out exactly what and how we are doing in all the key areas of sustainability. We undertook this intense sustainability self-assessment in our ongoing effort to raise our standards of sustainability reporting.

The indicator box numbers in our report align with the G3 indicators. Square boxes represent G3 standard disclosures, and the ones with small double circles are required disclosures by GRI. The hexagonal boxes represent G3 performance indicators. Grey boxes represent G3 indicators that Xylem is not in a position to report on at this time because we do not track the requested information or cannot share the information because of competitive or confidentiality reasons.

[Our full GRI G3 Index](#) has been combined with our UN Global Compact Communication on Progress against the 10 Principles.



A Drop is Everything

Welcome to the 2013 Xylem Sustainability Report. The title of this report, *A Drop is Everything*, reflects the essential place of water in the world and our central role in finding better ways to “solve water” by improving water productivity, quality and resilience for our customers.

It also reflects our belief that big changes start with small actions. The sustainability “drops” highlighted in this report—both big and small—will continue to expand and become part of a shared sustainability culture at Xylem. This is the essence of the ripple effect: one person, one project and one day at a time, we can make a substantial difference and create a more sustainable company—and a more sustainable world.



Xylem Sustainability Strategy Framework

In 2013, we developed a strategic framework for sustainability that aligns these critical efforts with our business vision.

Sustainability has always been a priority at Xylem, and in 2013, we developed a strategic framework to formalize our commitment and to align the organization around our focus and direction. The new sustainability framework is complete, actionable, aligned with our overarching business objectives, and focuses on four key areas—innovation and product efficiency, environmental performance, corporate reputation and employee engagement. These areas tie directly to Xylem’s strategy, enabling sustainability to be effectively and seamlessly integrated into our core business operations. Specific long-term goals are being developed for each area.

Under this new framework, key sustainability goals will be incorporated into our business operating planning process, and progress against them will be evaluated via our Goal Deployment Process (GDP) to ensure that we are on track to meet both short-term and long-term goals.

The framework was a cooperative endeavor. The Nominating and Governance Committee of the Xylem board of directors provides oversight and input into Xylem’s sustainability activities led by Xylem’s Sustainability Steering Committee (XSSC). This committee is overseen by Chris McIntire, Xylem’s sustainability champion, and includes representatives from all geographies, businesses and functions who meet monthly to guide our sustainability efforts and ensure we maintain momentum. The XSSC is responsible for goal setting, performance tracking and program advancement and modification.

The next chapter of our sustainability journey will be demanding, as the water industry continues to face greater challenges. Because we demand a lot of ourselves, we view the challenge as an exciting one. Embodying the spirit of solving water, we are determined to push to continuously improve our sustainability practices.



Educating Americans About the Real Value of Water

As a member of The Value of Water Coalition, we are engaging with other key stakeholders—local communities and end users—to raise awareness about water issues.

In October 2013, Xylem joined other leading public and private organizations in the water industry to launch the first campaign to be issued from the Value of Water Coalition, which was formed with the express purpose of educating Americans about the real value of water in their daily lives. This is the first time such a large group of water businesses and nonprofit associations has come together as a single voice.

The Coalition's website, www.thevalueofwater.org, uses infographics, videos, maps, current news story links and other information to educate Americans about the true value of water and the importance of investing in water infrastructure. Today, there is one water main break in the U.S. every two minutes and the expected bill for water infrastructure repairs during the next 25 years is \$1.3 trillion and climbing. Despite these facts, most American adults incorrectly believe the nation's water infrastructure is in good condition.

The Coalition's mission is to educate and accelerate the move to action. In addition to presenting facts, the website uses informative blog posts and social media tools to engage visitors in an ongoing conversation about water conservation and the need for infrastructure upgrades.



Leadership Continuity

One of the key responsibilities of the Xylem board of directors is assuring that there is continuity in the leadership of our company. This vital role was on full display this past year.

From late 2013 into early 2014, the Xylem board of directors helped steer our company through a seamless CEO change that was achieved with no disruptions to operations and helped maintain Xylem's forward momentum and shareowner value.

In September, the board appointed director Steve Loranger as interim CEO. It was a logical choice because of his deep familiarity with the Xylem business. From 2004 to 2011, he served as Chairman, President and CEO of ITT Corporation, the multi-industrial company that spun off Xylem as an independent water business in October 2011. He has served on the Xylem board of directors since the company's inception.

Next, the board initiated a comprehensive search to identify the best candidate to serve as our CEO over the longer term. Looking for a CEO who combined leadership qualities, a proven track record of leading large global businesses and extensive knowledge of the water industry, the board selected Patrick Decker as our new President and CEO in early March 2014. Read [Patrick Decker's CEO Statement](#) to learn more about him and his commitment to sustainability.



A New, Eco-Friendly Headquarters

In December 2013, Xylem moved our global headquarters to Rye Brook, New York. The new space reinforces our company's strong commitment to sustainability.

Xylem's new headquarters building interior is Leadership in Energy and Environmental Design (LEED) certified. LEED is a third-party green building certification program run by the U.S. Green Building Council. From lights to plumbing to furniture, Xylem took steps that enabled the company to achieve a Gold rating from LEED. This was accomplished by installing environmentally friendly fixtures and following sustainable practices, including:

- ◆ Energy-efficient lighting with motion sensors that automatically turn lights on and off
- ◆ Low-flow and low-flush water systems
- ◆ Low-emitting building materials and furniture that use environmentally safe glues and stains
- ◆ A green housekeeping plan that requires the use of eco-friendly cleaning supplies
- ◆ Energy Star-compliant office equipment and appliances
- ◆ Forest Stewardship Council-certified wood for workstations and ceilings
- ◆ A smart waste management plan to minimize construction materials sent to landfills

The environmental impact of these initiatives is considerable. Compared to a similar building without these measures, the new Xylem headquarters will use 40 percent less water and 20 percent less lighting energy. And nearly 95 percent of the waste generated during the construction process—which involved gutting and reshaping 67,000 square feet of space spread over two floors—was recycled.



Xylem Watermark Brings Water to Those in Need

The centerpiece of our citizenship efforts is Xylem Watermark, which again in 2013 provided and protected safe water resources to many communities in need.

Through [Xylem Watermark](#), our corporate citizenship and social investment program, we bring clean water, sanitation and hygiene education to schools and communities in developing markets. We support leading international nonprofit partners who are bringing sustainable solutions to some of the most water-stressed countries in the world, and to people in the aftermath of water-related crises.

Since its launch, Watermark has reached more than 2.3 million people around the world. In 2013, the important work continued. We completed a three-year, \$10.5 million commitment in 2013 to reach 1 million more people. During this time, we helped our nonprofit partners complete more than 135 local water projects in India, China, Brazil, Peru, Jordan, Nepal, Colombia, Japan, Germany and the Philippines. Our support reached more than 320,000 schoolchildren and community members, and projects included the installation of gravity-fed water towers at schools across Asia, the construction of large water cisterns at schools in Brazil, the mapping of local water access points in Peru, and emergency relief in the Philippines in the aftermath of Typhoon Haiyan. In total, from 2011 through 2013 Xylem Watermark far surpassed its goal, reaching more than 1.8 million people in more than a dozen countries. The program continues to make a vital difference for people around the world today.

Along with our fieldwork, employee engagement is another cornerstone of Xylem Watermark. In 2013, our employees served as Xylem Watermark champions at their sites and took part in volunteer trips to Peru, India, the Philippines, Cambodia and China, where they spent several weeks helping our nonprofit partners build and monitor sustainable water systems, implement sanitation solutions, and educate students in the water, sanitation, and hygiene (WASH) curriculum.

Xylem's Employee Matching Gifts program helps to rally employees all around the world to support Xylem Watermark and the water projects and water-related disaster relief efforts of our nonprofit partners. For every eligible employee, Xylem matches contributions up to \$5,000 USD per person per year. In 2013, this program provided more than \$187,000 to Xylem Watermark's nonprofit partners.



Developing Products That Address Sustainability Issues

We are putting new products into the world that address key sustainability issues such as water productivity, quality and resilience.

In considering Xylem’s environmental footprint, the largest impact comes from the use of our products and systems. For that reason, we are focused heavily on finding ways to design and sell products and systems that target significant water challenges faced by customers.

Our water productivity solutions promote more efficient movement, treatment and use of clean water. Today, significant water is wasted in production processes and distribution networks, and water production consumes excessive resources, including labor and energy. By designing energy-efficient solutions, we are helping customers lower greenhouse gas emissions that play a role in climate change. In 2013, Xylem introduced two new circulator pumps - the Bell & Gossett e-1510 and the ecocirc XL - designed for “smart buildings” that use advanced and interconnected building systems to reduce energy use, optimize space and minimize their overall environmental impact.

Another water productivity product—launched in India in 2013—is the [Saajhi Stepping Pump](#) that provides small-holder rural farmers with a sustainable irrigation solution. In the past, many of these farmers were faced with the choice of hand carrying water or using cheap diesel pumps that are energy inefficient and environmentally unsustainable. The innovative, human-powered Saajhi pump was developed through our Essence of Life program, which is focused on introducing products that meet the needs of rural farming communities, the citizen sector organizations that support them and Xylem’s agri-business partners.

Our water quality solutions enable more efficient renewal of wastewater. As an example, in Italy, one plant reduced its energy consumption by 35 percent by installing our Flygt Expor pump with N-technology and a Flygt SmartRun control system. This Xylem solution combines high-performing hydraulics, premium efficiency motors and intelligent controls to cut energy use. And our new OSCAR advanced process control system combines biological treatment systems with online instrumentation that allow wastewater customers to realize sustainable, reliable plant performance at optimal conditions and the lowest lifecycle costs.

Our water resilience solutions reduce exposure to water-related risks from natural disasters, such as floods, droughts and contamination. Cities are especially vulnerable to water threats because their populations are highly concentrated and require reliable water supplies to maintain their intense pace of human and economic activity.

For that reason, Xylem provides a broad suite of leading technologies—pumps, mixers, treatment systems, disinfection technologies, filters and analytical instrumentation—that make it safe for cities to reuse municipal wastewater and address the water shortages caused by climate change and natural disasters. For flooding events in cities, we offer early warning sensors that measure water levels and water quality, monitoring and control technologies that provide real-time situational awareness and lower the probability of dangerous sewer overflows, and dewatering pumps that can quickly remove water from flooded areas and minimize damage.



United Nations Global Compact

Benchmarking Our Sustainability Progress

We use two key benchmarks—the GRI G3 Reporting Guidelines and the UN Global Compact—to guide our sustainability improvement efforts.

The sustainability reporting guidelines developed by the Global Reporting Initiative (GRI) are globally acknowledged to be an important voluntary tool that companies can use to facilitate and improve reporting on the non-financial aspects of their operations. Xylem used the G3 set of GRI guidelines—the most recent guidelines—to shape this annual sustainability report. This year, we structured the design of our report on the G3 Performance Indicators, directly addressing more of the Indicators to make it easier for our company and our stakeholders to assess the current state of our sustainability performance and identify areas for improvement.

The UN Global Compact (UNGC) is another tool we use to maintain high sustainability standards. UN Global Compact is the world's largest corporate citizenship initiative and was created to encourage businesses to adopt sustainable and socially responsible policies, and to report on their implementation. In 2012, Xylem formally committed to support the 10 principles of the UN Global Compact, which pertain to the areas of human rights, labor, the environment and anti-corruption. As part of this commitment, we publish an annual Communication on Progress (COP) to report on what we are doing to embrace, support and enact the 10 principles. This report is our annual COP.

We have combined our [2013 GRI Content Index and UN Global Compact COP Index](#).



The Little Red Schoolhouse

For the past 60 years, we have been making an investment for the public benefit by running the Little Red Schoolhouse to train pump engineers, contractors and installers.

Opened in 1954 in Morton Grove, Illinois, our [Little Red Schoolhouse](#) has been a center for training more than 60,000 hydronic heating and plumbing professionals in the proper design, installation and maintenance of heating and cooling systems. While the Xylem instructors do promote our products, students also receive training about industry trends and innovative processes.

The Little Red Schoolhouse has several courses approved by the Green Building Certification Institute (GBCI) for the continuing education for LEED professionals. Several courses focus on the application of pumps and related products to enable water and energy conservation, and to improve building system efficiency. The content in these seminars meets GBCI's goals of professional development for those in the green building industry.

The Little Red Schoolhouse is open to any certified hydronic heating and plumbing professional. Graduates can be found in every state of the U.S., as well as in Europe, the Middle East, Asia, Latin America and Australia. In addition, another 150,000-plus professionals have received training through our associated "traveling classroom" program.



Inspiring Future Water Solvers

In 1997, Xylem helped design and launch the Stockholm Junior Water Prize. In 2013, we found new ways to engage the competition's future water leaders.

Nearly 20 years ago, Xylem thought leaders were part of a team that created a competition – called the Stockholm Junior Water Prize – to honor the best water research projects by high school students around the world. This year, young scientists from more than 30 countries competed for this coveted prize, and the winners – Naomi Estay and Omayra Toro from Chile – were recognized for their work on how living organisms can help clean oil spills in extremely low temperatures.

In addition to sponsoring the international competition and many of the country contests, Xylem found new ways to further inspire these potential future water leaders.

At the 2013 Stockholm Junior Water Prize award ceremony, Xylem leaders took part in a panel discussion with the finalists that focused on ways for them to pursue careers in the water business. To strengthen the bond even further, Xylem invited all of the Prize finalists to tour our Sundbyberg, Sweden facility where they interacted with professional water researchers, threw rags into a prototype Xylem N-pump to test its non-clogging capabilities and watched films about solving water and the Xylem Watermark program. They left knowing that their talents are very much needed in the water industry.

Materiality

In creating this report, our goal is to address material sustainability issues that have the biggest impact on our company's business performance. These issues are important to all of our stakeholders, which include shareowners, customers, employees, local community members and society as a whole.

From a stakeholder standpoint, we use a "sustainability scorecard" that compares Xylem's current sustainability performance to the topics that Xylem's key stakeholders care about most. The scorecard outlines our strengths and opportunities for improvement on material sustainability issues. While the scorecard results are for internal use only, this report does provide data in all 17 sustainability areas that are measured in the scorecard – including those where Xylem's current action levels are assessed as being aligned with stakeholder interest level and those opportunities where stakeholder interest is assessed as being higher than our current performance.

From a business performance standpoint, our Xylem Sustainability Steering Committee, in conjunction with our Investor Relations team and other company leaders, identified the top five material issues from a business and investor standpoint. All five issues are addressed in this report:

The Water Supply Crisis.

- ◆ The myth of water as an infinite resource has ended, and the world is entering a new era of greater accountability and greater resource intelligence. In this report, we address Xylem's actions to reduce our company's water consumption in the EN8, EN9, EN10 and EN24 indicators and the 2013 Highlight stories on our new eco-friendly headquarters and new Eco-Efficiency Easy Tool. We talk about Xylem products that address water shortages in the 1.2 and EN26 indicators and the CEO statement and Chris McIntire message. And we focus on education, action and citizenship efforts in the 2.10 and EC9 indicators, the CEO statement, and in our 2013 Highlight stories about Xylem Watermark, the Stockholm Junior Water Prize and the Value of Water Coalition.

Environmental Product Innovation.

- ◆ To remain competitive and ensure that our products live up to the sustainability expectations of our customers, it's critical for us to stay ahead in energy efficiency and lifetime expectations for our products. These issues are addressed in the 2.10, EN6, EN26 and PR1 indicators and the 2013 Highlight stories on Xylem's energy-efficient and Essence of Life products and our Little Red Schoolhouse.

Climate Strategy.

- ◆ As a global leader in water solutions, Xylem is committed to increasing our visibility, voice and actions when it comes to climate change. At Xylem, we see climate change as an additional impetus for our commitment to solve water. This vital issue is addressed in the 4.11, EC2, EN16, EN17, EN18 and EN26 indicators, the CEO statement and the 2013 Highlight story on products that address sustainability issues.

Occupational Safety and Health.

- ◆ Through our Environment, Safety & Health (ESH) organization, ESH Management System and our "Accept Only Zero" program that reinforces employee accountability for occupational health and safety, we are working to create a safe workplace. This vital issue is addressed in the LA6, LA7 and LA8 indicators.

Stakeholder Engagement.

- ◆ From employees and customers to suppliers and investors, all of our stakeholders are partners in our growth and sustainability efforts. We outline how we are engaging our stakeholders in the 4.14, 4.15, 4.16, 4.17 and SO5 indicators and the 2013 Highlight stories about the Value of Water Coalition and Xylem Watermark.

1.1

CEO Statement



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

Sustainability is at the very center of who we are and what we do at Xylem. As a leading global water technology company, we deal with one of the world's most urgent sustainability issues—responsible stewardship of our shared water resources—on a daily basis. Our linkage to this huge, extremely urgent challenge informs how we think about sustainability and drives us to move with speed to become a more sustainable company.

This report provides a picture of a company that is making significant strides in sustainability, and in my role as the new CEO of Xylem, I will continue our commitment to this effort—and accelerate it where it makes sense.

It starts with our urgent call to action—*Let's Solve Water*.

There's no time to waste. Water issues are escalating. They impact everyone around the globe and cause ever-greater challenges in the delivery of vital resources such as food and energy. With complete understanding of the vital role of water in our society, Xylem is working to provide the world with advanced technologies and services to ensure we all have safe and sustainable water supplies. Our focus is on solving customers' problems in three key areas: water productivity, quality and resilience.

As we work to solve water, we are dedicated to doing it the right way and employing socially responsible business practices. At Xylem, sustainability applies to what we do—and how we do it.

By forming technology partnerships with leading water experts, we are able to accelerate the testing of innovative technologies in real-world settings. With our Xylem Watermark corporate citizenship initiative, we help millions of people get the water they need and mobilize thousands of Xylem employees to become more energized about working for our company.

Xylem is also addressing the issue of urban resilience, which describes cities' ability to respond to and recover from dangerous threats such as water shortages brought on by climate change. We provide pumps, analytical instrumentation and treatment technologies to help cities protect their critical infrastructure networks from harm and recover quickly in the wake of natural disasters. Our technologies can also be used to make it both economically viable and environmentally safe for cities to give second life to their precious water resources. This past year, we published three white papers to educate people about the issue of urban resiliency and to outline the Xylem solutions available to cities as they confront the "new normal" of increased natural hazards and weather volatility.

Our products are helping to solve water and address other sustainability issues, such as energy consumption. We aim for Xylem operations to do the same – and with increasing frequency, they are.

The plants where we manufacture water reuse and reclamation products and solutions are analyzing their water use and working to consume less water – in some cases by using the same technologies we’re putting into place in cities.

In the past year, we have developed a formal sustainability strategy and are actively working to finalize, for the first time and for all our sites, multi-year goals for the reduction of greenhouse gas emissions, water use in water-stressed areas and waste sent to landfills.

We’re establishing – and following – high standards in the areas of corporate governance, labor practices, workplace safety and human rights that ensure our sustainability efforts extend beyond products and plant sites to all our stakeholders, from employees and suppliers to board members and community members. Our efforts have been recognized by Xylem’s inclusion in the Dow Jones Sustainability World and North America Indices in 2012 and 2013.

This report provides a picture of the progress we are making on all these fronts, including our formal commitment to meeting the UN Global Compact principles.

All of these improvements make us a stronger and more attractive company. We don’t see a disconnect between doing good for the world and doing good for Xylem. They are one and the same, and that gives us great optimism about the growth potential of Xylem in the years to come.



Patrick Decker
President and Chief Executive Officer
Xylem Inc.

1.2

Key Impacts and Opportunities

Water, which is essential to life, is the one resource that is connected to all other vital resources, including energy, labor, capital and food. Water is the great enabler of human development, but the availability of clean, usable water is a growing concern. Safe and efficient use of water is one of the most complex, challenging and important issues our planet faces, as demand for water continues to rise while supplies steadily decrease.

At Xylem, we devote our technology, time and talent to advance the smarter use of water. We look to a future where global water issues do not exist, and we want to become the world’s trusted leader in solving water issues. That’s our vision and mission, and our company tagline – *Let’s Solve Water* – is a rallying cry that sums up how we want to use our considerable resources to find solutions to our customers’ most urgent water challenges.

By solving water – in the areas of water productivity, water quality and water resilience, and across the entire water cycle from intake to return – we create value for our employees, customers, communities and shareowners. Specific examples of the ways we solve water can be found in this sustainability report and in the press releases, case studies, white papers and previous sustainability reports located at www.xylem.com.

Let's Solve Water

Statement from Chris McIntire



Chris McIntire,
Senior Vice President
and President,
Analytics and Treatment

“Xylem is in the business of solving water, which means we advance global sustainability by delivering on our customers’ needs. To stay competitive, they are looking for ways to save water, cut energy costs and prevent or protect themselves from water-related risks. Our technologies make this all possible. In the process, we are helping our customers operate in a more sustainable manner, which benefits all of us through water conservation and energy reductions that have an impact on climate change.

Customer Needs

Xylem Technologies

Productivity:

More efficient movement, treatment and use of clean water

- ◆ Highly efficient pumps and systems
- ◆ Precision treatment
- ◆ Sensors for measuring quality, leaks and process inefficiency

Quality:

More efficient removal of wastewater

- ◆ Efficient pumps, monitors and controls, optimization
- ◆ Treatment equipment, water quality sensors, process optimization

Resilience:

Reduced exposure to water-related risks, such as floods, droughts and contamination

- ◆ Water reuse, desalination technologies
- ◆ Flood monitoring, drainage and pumping systems, dewatering services

While we are helping customers become more sustainable, we’re doing the same for our company. Our internal efforts extend beyond water and energy into every aspect of sustainability, from workplace safety and good governance to product responsibility and employee development. Sustainability is ingrained in our business, and Xylem will continue to define success by our ongoing impact – not just in the water industry, but on the world.”

2.1

Organization Name

Xylem Inc.

Our name is derived from classical Greek and is the tissue that transports water in plants, highlighting the engineering efficiency of our water-centric business by linking it with the best water transportation of all – that which occurs in nature.

Our company tagline and call to action is *Let's Solve Water*.

2.2

Primary Products and Services

Xylem is a leading global water technology provider, enabling customers to transport, treat, test and efficiently use water. We develop, design and manufacture a broad product portfolio that includes pumps and accessories, wastewater and water treatment solutions, analytical instrumentation and monitors and controllers.

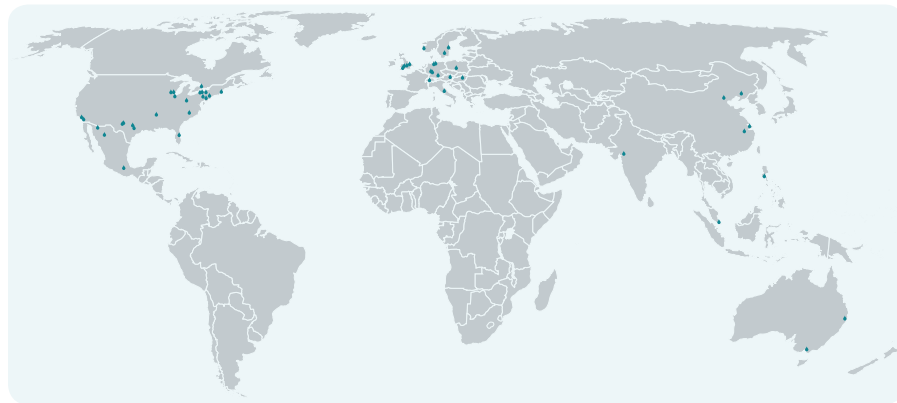
2.3 Operational Structure

Xylem operates five product-focused businesses, which we call Growth Centers: Dewatering, Transport, Analytics, Treatment, and Applied Water Systems. Each Growth Center has global profit-and-loss accountability and is responsible for manufacturing, product strategy and marketing, research, development and engineering (RD&E), sales and service, application engineering, pricing and purchasing for the products that fall in its area.

2.4 Headquarters Location

Xylem global headquarters is in Rye Brook, New York. We moved to these new headquarters in December 2013 as a way to complete the process of making Xylem a standalone company after our spinoff from ITT in October 2011. In our previous headquarters site in White Plains, New York, we occupied the same building as ITT. The new Rye Brook site more closely reflects the Xylem culture and branding.

2.5 Major Operations Locations



Americas

- ◆ Rye Brook, NY
- ◆ Auburn, NY
- ◆ Buffalo, NY
- ◆ Seneca Falls, NY
- ◆ Charlotte, NC
- ◆ Pewaukee, WI
- ◆ Brown Deer, WI
- ◆ Morton Grove, IL
- ◆ Beverly, MA
- ◆ Zelienople, PA
- ◆ Bridgeport, NJ
- ◆ Yellow Springs, OH
- ◆ Dallas, TX
- ◆ Lubbock, TX
- ◆ Slaton, TX
- ◆ College Station, TX
- ◆ Lake Mary, FL
- ◆ Southaven, MS
- ◆ Irvine, CA
- ◆ San Diego, CA
- ◆ Guelph, Ontario, Canada
- ◆ Nogales, Mexico
- ◆ Chihuahua, Mexico
- ◆ Queretaro, Mexico
- ◆ Buenos Aires, Argentina

Europe

- ◆ Schaffhausen, Switzerland
- ◆ Sundbyberg, Sweden
- ◆ Emmaboda, Sweden
- ◆ Axminster, United Kingdom
- ◆ Quenington, United Kingdom
- ◆ Hoddesdon, United Kingdom
- ◆ Farnborough, United Kingdom
- ◆ Cegled, Hungary
- ◆ Stockerau, Austria
- ◆ Bremen, Germany
- ◆ Grossostheim, Germany
- ◆ Herford, Germany
- ◆ Weilheim, Germany
- ◆ Mainz, Germany
- ◆ Bergen, Norway
- ◆ Montecchio, Italy
- ◆ Strzelin, Poland

Asia Pacific

- ◆ Vadodara, India
- ◆ Shanghai, China
- ◆ Beijing, China
- ◆ Shenyang, China
- ◆ Nanjing, China
- ◆ Calamba City, Philippines
- ◆ Brisbane, Australia
- ◆ Mentone, Australia
- ◆ Singapore
- ◆ Dubai, United Arab Emirates

2.6

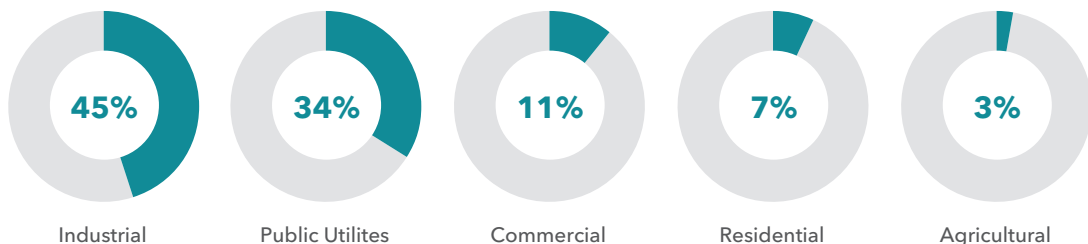
Nature of Ownership

Xylem Inc. (XYL) is a publicly traded company listed on the New York Stock Exchange.

2.7

Markets Served

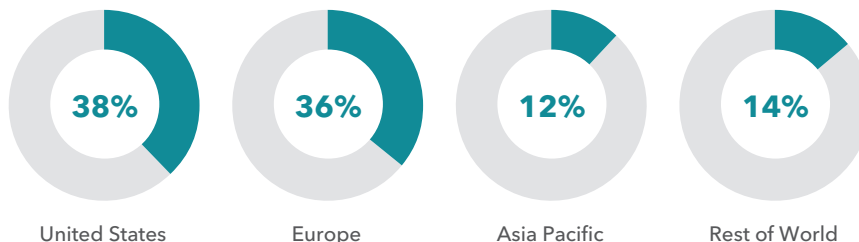
Xylem provides water solutions to customers in the following sectors:



2.8

Scale of Operation

Xylem has more than 12,500 employees located around the world. We do business in more than 150 countries and we generated \$3.8 billion in revenues in 2013. The revenues came from the following geographies:



2.9

Significant Organization Changes

There were no significant changes during 2013 regarding the size or ownership of Xylem. Of note, we appointed Steve Loranger as our interim Chief Executive Officer in September 2013, [named Patrick Decker as our new President and CEO](#) in March 2014 and restructured our existing business units into five new Growth Centers.

In 2013, we also opened our first-ever Xylem headquarters in Europe. Located in Schaffhausen, Switzerland, it enables us to bring a more coordinated approach – across all Xylem Growth Centers – to growing our business and servicing our large installed base of customers in Europe.

2.10

Awards and Recognition

In September 2013, Xylem earned a place on the [Dow Jones Sustainability Index](#), in both the World and North America Indexes. In conjunction with this honor, we were included in the [RobecoSAM Sustainability Yearbook 2014](#).

In December 2013, Xylem Watermark received the [Gold Standard Award](#) from PublicAffairsAsia for its strong nonprofit partnerships, record of impactful emergency response, employee engagement and dedication to providing sustainable solutions to communities in need. In April 2014, Xylem Watermark was honored with the [Corporate Excellence Award](#) from Charities@Work for achieving high levels of employee engagement.

In May 2013, our energy-efficient Lowara Ecocirc® circulator pump earned the [Plus X Product of the Year Award](#), and in early 2014, our YSI P 700 IQ Orthophosphate Analyzer was selected as [Processing magazine's "Breakthrough Product of the Year"](#) for its ability to help wastewater customers improve operational efficiency and meet water regulations.

In July 2013, our research, development and manufacturing facility in Vadodara, India, received a Gold rating from the India Green Building Council and was profiled in [Construction World](#) magazine for its use of water reuse systems and other environmentally responsible features.

In December 2013, we were awarded the [El Espectador Sustainable Award](#) for making key contributions in constructing energy-efficient water treatment plants in Colombia.

In January 2014, our Analytics operation in Germany earned a [Good Citizenship Award](#) from the county of Weilheim-Schongau in recognition of its investments in the certification, team-building and career development of employees and additional investments in the physical facility.

In March 2014, our Saajhi Stepping Pump was recognized at the [U.S. State Department's World Water Day Technology Showcase](#) as an example of a sustainable business model that can support enterprise development in rural communities.

Transparent Communications

Statement from Angela Buonocore



Angela A. Buonocore
Senior Vice President and
Chief Communications Officer

“Transparency is critical to earning trust and credibility in any industry. It also helps our stakeholders better understand our brand and company. At Xylem we are working hard to be as transparent as possible with our customers, investors, employees and other stakeholders.

This commitment to transparency extends to our performance in the area of sustainability. In 2013, we developed a strategic framework for sustainability, and in 2014 we are finalizing specific long-term goals that will drive us toward strong and meaningful progress in all areas of the sustainability framework. By developing our sustainability priorities – and soon, our sustainability goals – and making them clear to investors, customer and other stakeholders, we are letting the world know that advancing a sustainable environment is vital to our plans to grow as a company. And we are letting our stakeholders track our progress along with us.

While it is natural for any company to lean toward good news and successes, at Xylem we strive to share our company’s challenges as well. You’ll find examples of this type of realistic, honest company assessment in this report. Our goal is to ensure all of our stakeholders are kept informed and understand our company’s critical decisions. By becoming more transparent and sharing information about our progress and our challenges, we believe we are becoming a better company.”

3.1

Reporting Period

This report captures full-year sustainability results and progress for 2013, and includes some case examples from early 2014.

3.2

Date of Previous Report

Our previous report was released in June 2013.

3.3

Reporting Cycle

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

- ◆ Our first report for 2011–2012 was released in October 2012, close to the one-year anniversary of our company launch when we had enough data as an independent company to warrant a full report.
- ◆ Our 2012 report was released in June 2013.
- ◆ This 2013 report was released in July 2014. Our change in formatting the report to adhere more closely to the Global Reporting Initiative (GRI) G3 reporting standards necessitated additional time to create a more comprehensive report, but we will continue to strive to release our report as close as possible to the year we are covering.

3.4 Contact Point

For more information about the content included in this report, contact Xylem’s Director of Environment, Safety, Health (ESH) and Sustainability, Bennett Leff, at bennett.leff@xyleminc.com or 914-323-5989.

3.5 Report Scope

Information for this report was collected through interviews with Xylem’s President and Chief Executive Officer; Sustainability Champion; members of the Xylem Sustainability Steering Committee and key sustainability project and program leaders. Additional information was collected through a review of company documents and reports, including Xylem’s Form 10-K for 2013 and Xylem policies.

To learn more about our process for determining content for this report—in terms of materiality and prioritization—see the Materiality indicator in the Strategy and Analysis section.

3.6 Report Boundaries

The information in this report captures data from all of Xylem’s owned and leased facilities, and from two minority-owned joint venture operations in Venezuela and Turkey. Our operation includes many subsidiaries (see Form 10-K in our annual report for the full list), and this report includes information for those over which we exercise control or significant influence. The report does not capture data from any outsourced engineer-to-order manufacturing operations utilized by our businesses.

3.7 Limitations on Report Scope

There are no specific limitations on the scope or boundaries of this report.

3.8 Report Comparability

There were no significant changes to Xylem’s operations since the publication of our last report in 2013 that significantly affect comparability from 2012 to 2013.

3.9 Data Measurement Techniques

The Xylem economic performance data included in this report are calculated using standard accounting practices and reflect the information found in our annual report. Environmental and workplace safety metrics are collected and calculated through our online Metrics for Environment, Safety & Health (MESH) system.

Xylem Watermark social impact metrics are calculated using detailed field reports provided semi-annually by our nonprofit partners. Xylem’s Employee Matching Gifts program is tracked and monitored using automated, online, global giving platforms, as well as through the support of the National Philanthropic Trust, the overseer of the Xylem Watermark Fund, a donor-advised fund.

Measurement techniques for other key data points in this report are indicated in the relevant section.

3.10

Explanation of Re-Statements

Xylem believes in reporting transparency and accountability. 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, Safety & Health metrics based on revenues to allow for a consistent year-over-year comparison that isn't impacted by acquisitions, divestitures, employee turnover and the like. Significant restatements of data compared to prior years are noted in the section where they appear.

3.11

Significant Report Changes

There are no significant changes from previous reporting periods in the scope, boundary or measurement methods applied in this report.

3.12

GRI Content Index

For this report, we are using the reporting criteria set out in the Global Reporting Initiative (GRI) G3 guidelines. GRI identifies specific sets of indicators for reporting and establishes progressively higher levels for companies to use as overall benchmarks for the reporting depth and quality of reporting.

This year, Xylem is reporting at a GRI self-declared level C. The "C" rating means we met all of GRI's profile disclosure requirements—including a CEO statement, information about our company and markets, reporting parameters and governance mechanisms—and we also reported on a minimum of 10 performance indicators, including at least one from the Economic, Social and Environmental categories. Our goal in the next year is to assess GRI's new G4 reporting guidelines and determine the appropriate format for Xylem's reporting moving forward.

Our full [GRI G3 Index](#) has been combined with our UN Global Compact Communication on Progress.

3.13

External Assurance of Report

In 2013, in conjunction with a software upgrade to our Metrics for Environment, Safety & Health (MESH) system database, Xylem engaged O'Brien & Gere, a sustainability-focused engineering solutions company, to conduct a review of the environmental sustainability metrics contained in the MESH system. The focus of the review was to identify irregularities and recommend modifications and/or enhancements designed to enhance data consistency, improve data accuracy and metric reliability, and increase data transparency.

O'Brien & Gere prepared a summary of its findings and recommendations, including corrective actions and an [assurance statement](#). Xylem, in conjunction with ProcessMap, the world's leading cloud-based sustainability software provider, has implemented these recommendations and corrections, and the results are reflected in this report.

Giving Shareowners Their Say

Statement from Markos Tambakeras



Markos Tambakeras
Chairman,
Xylem Board of Directors

“The board of directors—through the Nominating and Governance Committee—regularly reviews our corporate governance practices to ensure that they remain in the best interests of the company, its shareowners and other relevant stakeholders. As part of that process, at the 2013 annual meeting, the board proposed that Xylem declassify its board of directors.

This means that instead of staggered three-year terms for our board members—with approximately one-third of the board coming up for election every three years—our entire board will stand for election each year for a one-year term. Eliminating our staggered board gives more power to our shareowners, who will have the opportunity to express their views on our board’s performance in a more meaningful way.

Our shareowners agree. At our annual meeting in May 2013, they voted to declassify the board on a phased-in basis, beginning in 2016. The phase-in period will allow Xylem to continue to execute the business strategies now in motion, while maintaining some leadership continuity, which is crucial for a new company. The board declassification will increase the accountability of our board of directors to Xylem shareowners.”

4.1

Governance Structure

Xylem has a system of processes and controls designed to help us operate according to the highest governance principles, and it starts with our highest governing body, the Xylem board of directors. The 11 members on our board meet regularly to provide oversight and decision making on key strategic issues affecting our company, and to represent the interests of all Xylem stakeholders.

Our governance structure also encompasses the Xylem Ethics & Compliance function, and includes risk assessments, our code of conduct, internal controls and open channels of communication that—together with our board’s oversight—create a system of checks and balances to ensure we are not taking any shortcuts on our road to industry leadership.

4.2

Board Chairperson Independence

The Chairman of Xylem’s board of directors—Markos Tambakeras—is not an executive officer at Xylem. He is an independent voice, who also currently serves on the advisory board of Madison Capital Partners, a private equity firm, and has extensive operational leadership and manufacturing experience.

At Xylem, we believe that having an independent Chairman, whose sole job is to lead the board, allows our CEO to focus his time on running the day-to-day operations of our company.

4.3

Board Independence

Nine of our 11 board members meet the standards for independence established by the New York Stock Exchange and, following our Corporate Governance Principles and committee charters, all members of the three NYSE-required committees are independent directors. This independence helps ensure the oversights and judgments are objective and made in the best interest of all Xylem stakeholders. The non-independent members of the board are Xylem’s President and Chief Executive Officer Patrick Decker, who joined the company and the board in March 2014, and Steven Loranger, former Chairman, President and Chief Executive Officer of ITT Corporation, our former parent company. Mr. Loranger recently acted as Xylem’s Chief Executive Officer and President on an interim basis from September 2013 to March 2014.

4.4

Board Contact Information

Xylem shareholders and other interested parties can contact individual board members, board committees or the entire board as a group by submitting a letter to the desired recipient in a sealed envelope labeled "Board of Directors" or with the name of the board committee or specific director. This envelope should be placed in a larger envelope and mailed to the Corporate Secretary, Xylem Inc., 1 International Drive, Rye Brook, N.Y. 10573. The Corporate Secretary will forward the sealed envelope to the designated recipient.

4.5

Board/Executive Compensation

All non-management directors are compensated in two ways, through a cash retainer and an equity, stock-based retainer. The equity retainer links each director's interests with both shareowner interests and Xylem's long-term performance. Likewise, Xylem's 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 compensation mix for Xylem's most highly compensated officers is heavily weighted towards performance-based compensation. Eighty-five percent of CEO compensation and more than 70 percent of compensation for other named executive officers (NEOs) are in the form of annual performance-based incentive compensation and long-term performance-based equity awards.

Xylem has developed stock ownership guidelines, designed to ensure executives and board members build their ownership positions in Xylem's common stock over time. All of our non-management directors and executives have met or are on track to meet this requirement.

Our executive compensation philosophy, the stock ownership guidelines and details of the compensation paid to our non-management directors in 2013 are reported in our [2014 proxy statement](#).

4.6

Board Conflicts of Interest

Xylem's [Related Party Transaction Policy](#) governs the treatment of any transactions or proposed transactions between Xylem and its directors. Transactions valued at more than \$120,000 involving directors are required to be approved by our board's Nominating and Governance Committee. In 2013, there were no related party transactions that were reportable under SEC rules.

As described in our Corporate Governance Principles, proposed new board memberships and changes in affiliations are reviewed by the Corporate Secretary and the Chair of the Nominating and Governance Committee for potential conflicts or other concerns.

4.7

Board Sustainability Qualifications

As sustainability becomes more of a business and growth strategy for Xylem, it is also becoming a more important qualification for board members. Each year, the Nominating and Governance Committee considers qualifications of our directors, taking into consideration factors such as operational, technical, management, financial, international and other expertise, which can include sustainability experience and commitment.

4.8

Sustainability Guiding Documents

Xylem has a number of documents that guide our sustainability efforts and apply to all employees worldwide, as well as our board members:

- ◆ [Vision and Mission](#): We devote our technology, time and talent to advance the smarter use of water. We look to a future where global water issues do not exist. We want to become the world's trusted leader in solving water issues.
- ◆ [Values](#): Respect, Responsibility, Integrity and Creativity
- ◆ [Code of Conduct](#): This document sets the rules that outline the appropriate business conduct and expected behaviors of all our employees. It applies to all employees. In 2013, 99 percent of our employees participated in Code of Conduct training. In addition, our [Supplier Code of Conduct](#) is posted publicly in 18 languages.
- ◆ [Anti-Corruption Manual](#): This document establishes Xylem's rules when it comes to business ethics, and provides guidance for all employees in areas that range from bribes and improper gifts to the proper procedures for travel reimbursements. It is available in more than 25 languages on our company intranet.
- ◆ [Xylem Sustainability Report](#): Our company is committed to publishing an annual sustainability report that outlines Xylem's strategies and performance in the area of sustainability. This is our third report in the three years since we became an independent company in 2011, and all of them follow the international guidelines developed by the [Global Reporting Initiative \(GRI\)](#).

4.9

Sustainability Adherence Procedures

Xylem's board of directors oversees our company's risk assessment program, which we use to identify, measure, categorize and mitigate the business and operations risks we face as a company. The areas considered include disasters, human resources, sales and marketing, environment, information technology, product development, product safety, intellectual property, sourcing – and sustainability.

The board and Audit Committee receive risk assessment updates from Xylem executives and business leaders, including rankings of risks as "primary" or "secondary." These assessments include a description of our current risk response and recommendations for further monitoring and mitigation efforts. With this information, the board committee members provide oversight and direction for our risk-mitigation activities.

4.10

Sustainability Adherence Metrics

The Xylem board of directors conducts annual self-assessments to evaluate its performance as a whole, as individuals and at the Committee level. This includes a review of their work in advancing Xylem's economic, environmental and social performance and increasing the sustainability of Xylem.

4.11

Precautionary Principle

In an informal but very important way, Xylem adheres 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.

4.12

External Sustainability Charters

Xylem is formally committed to support the [Ten Principles](#) of the UN Global Compact, which set forth core values in the areas of human rights, labor standards, the environment and anti-corruption. As part of this commitment, we publish this sustainability report as Xylem’s annual Communication on Progress (COP) against the Ten Principles.

4.13

External Memberships

Water-Related Organizations

- ◆ Hydraulic Institute
- ◆ Europump
- ◆ Value of Water Coalition
- ◆ International Water Association
- ◆ Stockholm International Water Institute
- ◆ Water Environment Federation
- ◆ Singapore Public Utilities Board
- ◆ U.S. Water Partnership

Workplace Health, Safety and Ethics-Related Organizations

- ◆ National Association for Environmental Management
- ◆ Corporate Executive Board
- ◆ Society of Corporate Compliance and Ethics
- ◆ Ethics Resource Center
- ◆ Ethisphere

Sustainability-Related Organizations

- ◆ UN Global Compact
- ◆ Global Compact Nordic Network
- ◆ European Investment Bank
- ◆ Ceres
- ◆ Manufacturers Association for Productivity and Innovation Sustainability Council

Citizenship-Related Organizations

- ◆ Mercy Corps
- ◆ Water For People
- ◆ Planet Water Foundation
- ◆ Fundación Avina
- ◆ China Women’s Development Foundation

4.14

Xylem Stakeholders

At Xylem, we consider the following stakeholder groups to be critical to our business and partners in our growth and sustainability efforts:

- ◆ Employees
- ◆ Local communities
- ◆ Customers and end users
- ◆ Investors
- ◆ Suppliers
- ◆ Certification and regulatory agencies
- ◆ Associations and non-governmental organizations

4.15

Stakeholder Engagement

Xylem proactively solicits stakeholder feedback about our sustainability efforts through an annual teleconference with industry peers, financial analysts, academic institutions, water- and sustainability-focused nonprofit organizations and members of the Xylem Sustainability Steering Committee.

In March 2014, a group of these stakeholders reviewed Xylem’s sustainability strategic framework, and activities during the past year. The group provided input and recommendations in a number of important areas including: goal development and implementation, product solutions and impacts, leveraging partnerships, reporting disclosures and how Xylem’s unique position at the “nexus of energy, water and food” presents opportunities for our company.

The Xylem Sustainability Steering Committee will carefully consider the recommendations obtained during the engagement as they develop the next steps in Xylem’s sustainability journey.

4.16

Stakeholder Engagement Methods

We reach out to our stakeholders in many ways. These include:

- ◆ **Employees** – Good Company Assessment survey and Partnership for Performance manager-employee appraisals
- ◆ **Customers and end users** – voice-of-the-customer product development interviews and customer satisfaction surveys
- ◆ **Investors** – annual report and quarterly earnings conference calls
- ◆ **Suppliers** – newly implemented Xylem Supplier Ombudsperson program and [Supplier Code of Conduct](#), translated in 18 languages
- ◆ **Local communities** – Xylem Watermark field assessments and sponsorship of local community initiatives
- ◆ **Certification and regulatory agencies** – ISO and OHSAS certification inspections
- ◆ **Associations and NGOs** – memberships and partnerships with The Value of Water Coalition, U.S. Water Partnership, Xylem Watermark partners and others

4.17

Stakeholder Feedback and Concerns

Our March 2014 meeting with stakeholders to discuss Xylem’s sustainability strategic framework and initiatives (see indicator 4.15) generated a healthy dialogue and provided us with useful feedback and recommendations for improvement. While the entire report contents can’t be shared because it contains confidential and competitive information, below are a few areas that we can share:

The group encouraged Xylem to set more ambitious sustainability goals that are “aspirational and utilize the unique strengths of Xylem.” It also recommended that we share our new Eco-Efficiency Tool with suppliers to help them meet their sustainability goals. And the group believed that our business can do a better job of integrating sustainability into our product development “stage-gate” checkpoints.

As noted in indicator 4.15, the Xylem Sustainability Steering Committee will carefully consider the recommendations obtained during the engagement as they develop the next steps in Xylem’s sustainability journey.

One Xylem

Statement from Mike Speetzen



Mike Speetzen
Senior Vice President and
Chief Financial Officer

“Financial performance is one of the three key elements of the “triple bottom line” – along with social and environmental performance – that defines business success and determines business sustainability. The three elements must work together, and in 2013, Xylem embarked on a number of initiatives that show our company is working in greater harmony to achieve the triple bottom line.

One key objective is “front-end integration,” which means our sales teams are working together with a One Xylem approach, instead of operating in separate silos. Along the same lines, with our new Sustainable Water Infrastructure initiative, we are bundling products into broader solutions that address more of our customers’ water issues. We are seeing positive financial results from these new approaches and delivering additional value to customers.

We’re finding other ways to become One Xylem. In 2013, we began building our new Xylem Integrated System. This new IT architecture will provide a single, innovative operating platform for all our worldwide sites. And we also took steps to launch the Xylem Management System, which will integrate our key business processes at a global level. Both of these initiatives will benefit our employees, customers and our shareowners by unleashing greater value to all of these key Xylem stakeholders.”



Economic Performance

2013 was both challenging and encouraging from an economic standpoint. As stated in the [Xylem 2013 Annual Report](#), “Initially we didn’t see our desired results, but by the second half of the year, we achieved a notable upturn in momentum.” Here is an overview of some key full-year results that show how we’re maximizing value to all our shareowners:

◆ Revenue:	\$3.8 billion
◆ Operating Costs	\$3.5 billion
◆ Retained Earnings	\$0.4 billion



Climate Change Impact

A growing body of evidence shows that climate change is impacting our planet’s weather patterns and leading to an increase in the number and severity of natural disasters. In 2013, Xylem began to draft a climate change position statement highlighting the interconnectivity between climate change and water challenges. Education, collaboration and innovation are the mechanisms that will help us combat climate change and protect the earth’s water resources. When the paper becomes publicly available in 2014, we hope to change the conversation by ensuring these connected issues are addressed in parallel.

Climate change can positively or negatively impact portions of our business. Xylem provides products that aid customers with water resilience issues such as flooding events and drought conditions. Our Godwin dewatering pumps are still in use throughout the northeastern U.S. as towns and cities continue to repair infrastructure that was damaged or destroyed during Hurricane Sandy in late 2012. Similarly, drought conditions drive higher demand for pumps used in agricultural and turf irrigation applications, such as those provided by our Goulds Water Technology, Flowtronex and Lowara brands.

Climate change is also causing fluctuations in temperature. This results in varying levels of demand for products used in residential and commercial applications. Homes and buildings are heated and cooled with HVAC units that use pumps made by our Bell & Gossett brand.

Given the unpredictable nature of weather conditions due to climate change, this may result in volatility for certain portions of our business and for the operations of certain customers and suppliers.



Pension Obligations

Xylem provides both defined benefit pension plans and non-defined contribution 401(k) plans for employees. Nearly three-quarters – 74 percent – of our employees are covered under these two types of plans.

For plans that have a funding requirement, we are 103 percent funded. For all plans – including those that don't have a funding requirement – we are 67 percent funded.



Financial Assistance from Government

Xylem receives no significant financial assistance from the government of the U.S. or other countries.



Local Minimum Wage

Xylem pays market-based wages throughout the geographies in which we do business. We attract and retain our talent based on our total rewards philosophy. Our global compensation team and compensation professionals embedded in some of our larger Growth Centers work together with local and regional Human Resources and business leaders to ensure this information is kept current and applied consistently.



Local Suppliers

Xylem operations do the majority of their business with local suppliers. Their “local spend” varies between 60 to 80 percent of the total supplier spend. Non-local suppliers are requested to provide local supply chain solutions – e.g., on-site support teams and local warehouse solutions – wherever necessary and applicable.

Xylem’s procurement strategy sets sourcing policies that we follow at the local, regional and global level – and that are in line with site-specific requirements.



Local Hiring

At all of our sites, most of Xylem’s workforce is hired from the local area, including top-level and senior managers. As part of our leadership development initiatives, we do move potential leaders into Xylem sites outside their native geography for multi-year assignments, but this represents a small percentage of the local leadership teams. Local hiring procedures follow our global standards for hiring, with allowance for country or regional regulations. We do not track the proportion of employees or senior managers hired from the local communities, but for the reasons outlined and because it is economically efficient, the percentage of local personnel is high.



Infrastructure for Public Benefit

For the past 60 years, we have been making an investment for the public benefit by running the [Little Red Schoolhouse](#) to train pump engineers, contractors and installers.



Indirect Economic Impacts

As a large, global company, Xylem creates jobs throughout the world's supply chain and utilizes services such as air travel, hospitality and consulting, which has a ripple effect on the broader economy.

In addition, our Xylem Watermark citizenship program brings safe water, sanitation and hygiene education to schools and communities in water-stressed areas around the world. This enables more students to stay healthy and stay in school, which will lead to stronger, more educated local workforces in the long-term.

We have not attempted to measure or even estimate the indirect economic benefits of these impacts. It will vary depending on our company's level of activity and on local circumstances, but the potential economic impact is significant.

Long-Term Eco-Goals

Statement from Bennett Leff



Bennett Leff
 Director,
 Environment, Safety & Health (ESH)
 and Sustainability

“In 2013, Xylem established a new company-wide sustainability strategy, and began working to set ambitious, five-year targets in three key areas of eco-efficiency: reducing greenhouse gas intensity, reducing water use in water stressed areas and reducing waste-to-landfill rates.

We also launched a tool—the Xylem Eco-Efficiency Easy Tool—that is going to help us to achieve these targets. The tool gives all our sites—big and small—a roadmap for success. Site green teams will be formed. Local goals and priorities will be developed. And the new tool will provide sites with a way to assess their operations for reduction opportunities and offer ideas for reduction best practices that can be implemented. Employees will be engaged in the effort and best practices will be collected and shared.

In 2013, we launched the Eco-Efficiency Easy Tool at three sites that represent different parts of our business. The sites reported that the process and tool are simple and easy to use, and made several suggestions for improvement. In June 2014, the improved Eco-Efficiency Tool was introduced at all Xylem operations around the world and will help us to accelerate progress toward our long-term sustainability goals.”



Materials Used

At Xylem, the materials—including recycled materials—used in the manufacture of our products are tracked at the local site level. Because we use multiple Enterprise Resource Planning (ERP) systems, it is currently not possible to roll these data up to provide a corporate-wide metric of the materials we use by weight or volume.

In 2013, at our largest plant in Emmaboda, Sweden, 89 percent of the 16,000 tons of melted iron used to manufacture pumps and mixers came from recycled materials, primarily metal scrap and chips. When using recycled materials—or any materials—we ensure that they comply with regulatory requirements and with our even more restrictive internal guidelines.



Recycled Materials

See EN1 indicator above.



Direct Energy Consumption

Direct Energy by Type (MWh)	2012	2013
Renewable Electricity Generated	0	52
Natural Gas Used	63,778	62,011
Stationary Source Gaseous Propane	8	2
Stationary Source Liquid Propane	1,098	1,257

Stationary Source Fuel Oil	3,905	2,803
Total Stationary Energy Usage	68,789	66,125
Mobile Source Gasoline	9,228	11,513
Mobile Source Diesel	56,924	65,927
Mobile Source Liquid Propane	78	85
Total Mobile Energy Usage	66,229	77,525
Total Direct Energy Usage – Stationary + Mobile	135,018	143,650

In 2013, Xylem experienced a 6 percent increase in direct energy consumption from the prior year. We define direct energy as the natural gas, diesel fuel oil, gasoline and renewable sources used in our facilities and/or by mobile vehicles to transport our products.

This year, for the first time, we are breaking down our energy consumption into two segments – direct and indirect energy – and reporting on both individually, as per the Global Reporting Initiative G3 guidelines. To see our [total energy consumption for 2013](#), visit the EN5: Total Energy Consumption indicator in this report.



Indirect Energy Consumption

Indirect Energy by Type (MWh)	2012	2013
Purchased Electricity	127,841	123,153
Purchased Heat	957	1,117
Total Indirect Energy Usage	128,798	124,270

In 2013, Xylem achieved a 4 percent decrease in indirect energy consumption. We define indirect energy as the electricity and heat purchased from energy companies that use various fossil, renewable and non-fossil energy sources to produce and provide these energy products.

This year, for the first time, we are breaking down our energy consumption into two segments – direct and indirect energy – and reporting on both individually, as per the Global Reporting Initiative G3 guidelines. To see our [total energy consumption for 2013](#), visit the EN5: Total Energy Consumption indicator in this report.



Total Energy Consumption

Definition	2012	2013
Total Energy Consumption (MWh)	263,816*	267,920
Total Energy Intensity MWh consumption/ annual revenues (million USD)	69.59	69.83

* A review of historical data resulted in restatement of total energy consumption for 2012.

In 2013, Xylem saw a 2 percent increase in the absolute amount of energy consumed and a slight uptick in our energy intensity. This presents a normalized metric based on annual revenues to allow for a consistent year-over-year comparison that isn't impacted by acquisitions, divestitures, employee turnover, and the like.

Our year-over-year increase in our 2013 energy consumption is an area of focus for Xylem going forward. We need to accelerate our efforts to decrease energy usage because the cheapest energy is the energy we don't have to procure – and it's also the best for the environment in terms of resource conservation and in combating climate change by lowering greenhouse gas (GHG) emissions.

To drive energy use reductions, we are currently developing five-year goals for reducing GHG emissions intensity. Energy consumption is the largest contributor to GHG emissions, and by working to lower our GHG emissions intensity levels (see EN 16 for GHG information), we will inspire and achieve reductions in energy use across our global sites.

In 2013, many sites implemented energy-efficiency initiatives to reduce energy usage and others began to transition to renewable energy sources (see EN16 for examples).

In Pewaukee, Wisconsin, our pump manufacturing plant and office reduced its electricity consumption by 54 percent – and associated costs by 23 percent – by switching to lower wattage, longer-lasting eco-friendly light bulbs. A number of Xylem sites around the globe conducted similar lighting improvement projects to decrease their indirect energy (purchased electricity) consumption.



Energy-Efficient Products and Services

Xylem continues to emphasize the design of pumps that deliver energy efficiency, as well as monitoring and control equipment and analytical instrumentation that help customers reduce their energy use. To learn more, see the [2013 Highlights](#) story on "Developing Products that Address Sustainability Issues" in this report.



Indirect Energy Reduction Initiatives

See EN6 indicator above.



Water Withdrawal

Definition	2012	2013
Total Water Withdrawal (mega-liters)	413.0*	417.7

* A review of historical data resulted in the restatement of water withdrawal for 2012.

In 2013, Xylem experienced a 1 percent increase in water withdrawal (usage). We are committed – through our new sustainability strategy – to improve our performance in this area. By reducing the operational water usage in our own operations, we can better support our goal of water leadership in the industry.

As part of this process, Xylem is currently developing a five-year goal for the reduction of water use in water-stressed areas. We are focused on the sites in water-stressed areas because it is in these areas that the need for conservation is most acute. We will implement our Eco-Efficiency Easy Tool at sites in water-stressed areas to meet our water use reduction goal.

In 2013, we continued our work to identify sites that are operating in water-stressed areas. However, we aren't focusing our water use reduction efforts exclusively on the sites in these areas.

A number of water-reduction efforts are already underway at Xylem sites everywhere around the globe. Our membrane plant in Kostrzyn, Poland, identified high water usage and then took actions – fixing leaks, improving its water infrastructure, installing more water-efficient cooling systems and involving process experts in the effort – to address the issue. In 2013, the plant reduced the amount of water it takes to produce each set of membranes by nearly 25 percent and saw its total water usage drop from 24,084 cubic meters in 2012 to 18,303 cubic meters in 2013.

And our pump manufacturing plant in Montecchio, Italy installed a heat exchanger in the closed system used to cool water for processes related to its presses and welding machines. The heat exchanger reduced average monthly water use – and associated wastewater release – by more than 30 percent.



Impact on Water Sources

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.

In 2013, as mentioned in the EN8: Water Withdrawal indicator in this report, we are working to establish a five-year goal to reduce water use in water-stressed areas. By focusing first on sites in water-stressed areas, we will create water-reduction projects and practices where it matters most today while creating a blueprint of improvement efforts that we can use across our global sites going forward.

We are using the Global Water Tool, developed by the World Business Council for Sustainable Development (WBCSD), to help us determine which Xylem sites are operating in water-stressed or water-scarce areas. In 2013, we expanded our use of the tool to include 97 percent of our sites. We are in the process of further analyzing the data from the Global Water Tool and focusing our water-reduction efforts at facilities located in areas with current or near-term projected water scarcity.



Reused and Recycled Water

Definition	2012	2013
Total Volume of Water Recycled and Reused (mega-liters)	9.3	19.5
Total Water Recycled and Reused/ Total Water Withdrawal (%)	2.25%	4.66%

In 2013, Xylem realized a 109 percent increase in the total amount of water we recycle or reuse. While we more than doubled the amount of recycled or reused water globally, we also understand that there is more work to be done. Currently, recycled and reused water represents less than 5 percent of our total water usage, and we are working to increase that percentage.

Our sites are finding innovative and significant ways to recycle and reuse water. From 2012 to 2013, our pump manufacturing plant in Montecchio, Italy increased the amount of water it recycled by more than 3.5 mega-liters – accounting for 35 percent of our total increase across all of Xylem. This significant shift in water usage was the result of the installation of a dry cooler system, which utilizes a closed loop system for machinery cooling. Not only does this project help to protect the environment through water reuse, but it also has helped the facility achieve energy savings.

In Quebec City, Canada, a Xylem site rerouted a roof drainage pipe into the facility so that rainwater can be used to help fill a 50,000-liter pump-testing tank. This simple solution is minimizing the site’s consumption of fresh water from the local municipality. Similarly, a Xylem location in Orange, Australia – a high drought area – installed a rainwater tank to capture water that is now used to wash pumps and fill the pump-testing tank.

And in Vadodara, India, our manufacturing and R&D plant installed a treatment system – which uses all Xylem equipment – for turning wastewater into drinking water.



Locations in Protected Areas

Xylem has no sites located close to or in environmentally protected areas.



Impact on Protected Areas

As a corporation, Xylem does not work directly to preserve or increase biodiversity in protected areas or other areas where there are high levels of biological diversity, but our products are regularly employed by customers and users around the world for these types of important habitat-protection efforts.

As an example, in 2013, the New York Harbor School – with backing from underwriters and partners – purchased Xylem analytical instruments as part of its One Billion Oyster Project. With this project, students at the school are working to bring the New York Harbor back to life by introducing 1 billion oysters to its waters by 2030. Oysters have been called “ecological engineers” because they grow on top of one another to create a coral reef-like structure that fish can use for food and shelter.

The floor of the harbor was once covered by oyster reefs, but industrial activity and shipping wiped out the entire oyster population by the early 1900s. Sound ecological practices during the past few decades have revived the harbor water, and it’s now healthy enough to sustain oysters. The students are introducing tens of millions of oysters each year into the harbor.

To monitor the health of the ecosystem, they are using our EXO sonde to measure basic water quality parameters and our SonTek Argonaut XR current profiler to measure the speed and direction of currents around the oyster reefs.



Habitats Protected/Restored

See EN12 indicator above.



Biodiversity Strategies

A number of our sites have built biodiversity improvements into their business-related actions. In the process of building biodiversity – or biological diversity – they are improving the health and sustainability of the ecosystems near their operations.

In Emmaboda, Sweden, our largest pump plant installed wetland ponds that use sedimentation and denitrification to clean up storm water runoff from the facility. The ponds can also serve as a reservoir for polluted water created by a fire or chemical accident or as a testing site for pumps and monitoring and control equipment. From a biodiversity standpoint, the wetlands park that surrounds the ponds has become a place where local bird species come to breed.

In addition, some sites are building biodiversity awareness among employees through community service activities. For Earth Day 2013, our employees in Montecchio, Italy, became protectors of the rainforest in Tumbes, Ecuador, while another group in Axminster, U.K., sponsored one acre of rainforest in Bolivia.



Impact on Extinction Risk Species

Not tracked



Total Greenhouse Gas Emissions

Definition	2012	2013
Direct GHG Emissions (metric tons carbon dioxide equivalent (CO ₂ e))	32,755	35,553
Indirect GHG Emissions (metric tons CO ₂ e)	42,404	40,397
Total GHG Emissions (metric tons CO₂e)	75,159*	75,950
Total GHG Intensity (metric tons CO₂e / annual revenues in millions USD)	19.83	19.79

In 2013, Xylem operations experienced approximately a 1 percent increase in absolute greenhouse gas (GHG) emissions. Xylem did, however, achieve a slight decrease in GHG intensity. This presents a normalized metric based on annual revenues to allow for a consistent year-over-year comparison that isn't impacted by acquisitions, divestitures, employee turnover, and the like.

Our efforts to reduce GHG emissions were enhanced this year when we began to generate electricity from renewable sources at two of our facilities. In Australia, our Brisbane sales office installed a wind turbine that provides indirect energy from a renewable source. And in Cheektowaga, New York, our site installed solar panels that produce enough electricity to power the office area of the plant. The 52 MWh of electricity generated at these two sites avoids approximately 30 metric tons CO₂e.

This year, for the first time, we are breaking down our GHG emissions into two segments – direct and indirect GHG emissions – and reporting on them individually, per the Global Reporting Initiative G3 guidelines. Following U.S. Environmental Protection Agency guidelines and consistent with the Greenhouse Gas Protocol – the most widely used international accounting tool for greenhouse gas emissions – we define direct GHG emissions as those that come from sources owned or controlled by Xylem, and indirect emissions as those resulting from the generation of electricity, heating and cooling, or steam generated offsite but purchased by Xylem.

We track the total of direct and indirect GHG emissions as part of our efforts to reduce our overall carbon intensity and lessen our contributions to climate change. In addition, we track our procurement of renewable energy credits. Xylem facilities in Emmaboda, Sweden; Montecchio, Italy; the Netherlands; Strzelin, Poland; and Yellow Springs, Ohio have procured renewable energy credits of more than 47,000 MWh. Estimated GHG emissions avoided through this purchase equate to approximately 3,887 metric tons CO₂e.

In addition to operations, we have begun to look at GHG emissions generated from business travel. In 2013, we began to quantify upstream emissions from business travel with a focus on air travel, a large driver of travel emissions. Using a distance-based approach and analyzing business travel records, we calculated our total GHG emissions from employee air business travel to be approximately 4,008 metric tons CO₂e. We used the Simplified GHG Emissions Calculator (November 2011 version) available on the [U.S. Environmental Protection Agency website](#).

As a leading global water technology company with operations in more than 150 countries, we see business travel as a necessary component of our work, but we are committed to investing in innovative technologies and creative approaches to minimize the need for air travel. We will continue to seek to identify environmental impacts from our value chain and find ways to reduce them.



Indirect Greenhouse Gas Emissions

See EN16 indicator above.



Greenhouse Gas Reductions

As part of Xylem's work to address climate change issues caused by greenhouse gas (GHG) emissions, we made a strategic commitment to reduce our direct and indirect GHG emissions.

In 2013, we moved closer to establishing a five-year goal to reduce our GHG emissions intensity. Energy consumption is the largest contributor to GHG emissions, and most of the work that will allow us to reach our goals is focused on reducing our consumption of direct and indirect (purchased) energy.

From 2012 to 2013, our GHG intensity was basically flat, decreasing by less than 1 percent, due in part to the need for a more focused approach, which we are implementing through the use of our Eco-Efficiency Easy Tool. We are confident we will see significant reductions in greenhouse gas emissions, due to the innovative thinking we are seeing at the site level.

One of the best examples of this innovative thinking is occurring at our 1.1 million square-foot pump manufacturing plant in Emmaboda, Sweden, which began testing the “stored heat” system it put into place in 2010. The plant dug 140 boreholes into the bedrock and fitted them with heat exchangers. Instead of pumping “waste heat” – and GHGs – into the atmosphere, the plant is pumping it into the boreholes, charging/heating the bedrock and creating a stored heat reservoir that will be reused in the winter months.

By March 2014, the temperature of the bedrock had increased from 8 to 37 degrees Celsius and the boreholes had been charged with more than 7 million kWh of heat energy. In winter 2013, the plant conducted a successful extraction test, pulling 40,000 kWh of energy for heating the plant. When the storage is fully operational in 2015, it will reduce indirect (purchased) energy by 2.6 million kWh.

As this renewable energy heating project progresses, Emmaboda has continued to add new sources of waste heat from computer server halls, drying zones in the painting process, pump testing basins, and other sites and processes in the plant. When the system is fully operational, Emmaboda expects to recover 80 percent or more of its total waste heat.



Ozone-Depleting Emissions

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.



Other Significant Air Emissions

Volatile organic compounds found in paints and other materials increase ozone and smog levels, which have been shown to cause public health issues. Xylem has moved away from the use of volatile organic compounds (VOCs) in most of our operations.

Wherever possible, degreasing and painting and other processes that have historically used VOCs have been changed to use water-based systems. Where that is not possible, materials with the lowest VOC content are generally used. Xylem maintains a policy on “Air Emissions Management” that indicates our requirement to reduce air emissions. In late 2013, Xylem added VOC tracking to its Metrics for Environment, Safety & Health (MESH) system and began developing guidance documents. Xylem intends to track VOC use at our sites in MESH starting in 2014.



Total Water Treated and Discharged

Water Discharge	2012	2013
Wastewater Treated and Released (mega-liters)	86.5	76.2

In 2013, we achieved a 12 percent decrease in the amount of wastewater we treated and released back into the environment. While Xylem used more water this past year, we also recycled and reused more—for drinking, lawn irrigation, pump testing and other applications—which enabled us to reduce our wastewater discharges.



Total Waste Disposal

Waste by Type and Disposal Method	2012	2013
Non-Hazardous Waste Recycled	15,059	16,834
Non-Hazardous Waste to Non-landfill	5,931*	1,923
Non-Hazardous Waste to Landfill		9,909
Total Non-Hazardous Waste	20,990	28,666
Hazardous Waste Recycled	208	207
Hazardous Waste to Non-landfill	657*	579
Hazardous Waste to Landfill		96
Total Hazardous Waste	865	882
Total Waste Recycled	15,267	17,041
Total Waste	21,855	29,548

* A review of historical data resulted in the restatement of waste disposal for 2012.

In 2013, Xylem recorded more than an 11 percent increase in the amount of total waste recycled, largely driven by an increase in the non-hazardous component of waste. The amount of hazardous waste recycled remained relatively flat.

While Xylem’s non-recycled waste disposal nearly doubled between 2012 and 2013, this was again largely driven by non-hazardous material disposal. Hazardous material disposal increased by less than 3 percent.

Our goal is to reduce the amount of waste we generate at Xylem through Lean Six Sigma initiatives and other practices that eliminate scrap and waste from our processes and operations. When we do need to dispose of waste, we want to direct more of it toward recycling and reuse, and less of it to landfills and non-landfill disposal sites, such as incinerators that burn waste for energy. In 2013, we committed ourselves to establishing a new five-year goal to reduce our waste-to-landfill.

Our company has always measured the amount of hazardous and non-hazardous waste we generate and dispose, but this new metric will tell us how well we are meeting our “recycle and reuse” goals and reducing reliance on landfills, which have been shown at times to affect groundwater sources adversely. By focusing on this metric, our sites are finding innovative ways to reduce both their non-hazardous and hazardous waste.

In 2013, our pump foundry in Slaton, Texas, began donating all its used sand to a local construction contractor. Traditionally, this sand – which is used to create pump molds – was trucked to landfill sites. Through this process, this single Xylem site is eliminating 60,000 miles of truck travel and more than 5,500 cubic yards of landfill sand annually.

Through various projects led by the local site ESH manager, the Xylem pump manufacturing site in Cegléd, Hungary reduced its non-hazardous waste-to-landfill by 40 percent and its overall hazardous waste (primarily isopropyl alcohol) by 78 percent from 2012 to 2013.



Significant Spills

Spills and Releases	2012	2013	Change
Reportable Releases (incidents)	1	2	100% increase
Amount Released (pounds)	119	908	663% increase

In 2013, we experienced two spills of hazardous materials at two different sites, an increase from 2012. The more significant spill occurred at our Godwin pump site in Bridgeport, New Jersey, when a portable storage container with diesel fuel leaked from an attached hose. We estimate approximately 100 gallons (equaling approximately 900 pounds) of diesel fuel leaked to the ground surface and then flowed into a storm water retention pond system at the site.

The second spill occurred at our manufacturing site in Cheektowaga, New York. Approximately five gallons of rust inhibitor was spilled in our assembly area when a drain valve was broken while draining a heat exchanger unit. We estimate that less than one gallon of material (approximately eight pounds) reached the sanitary sewer system, and the remainder was absorbed using spill-response materials on site.

In both cases, remediation was completed quickly and in accordance with state regulatory requirements. The spill numbers were closed out with the applicable environmental regulatory agency in each state, and no fines or notices of violation were issued by state or local regulatory agencies.

Xylem investigates all significant incidents occurring at our sites, including these spills, and completes root cause analysis to identify and prevent recurrence of the causes of the incidents. In addition, these spills were discussed during training sessions to provide ESH coordinators throughout Xylem with additional spill prevention and response education.



Hazardous Waste Disposal

See EN22 indicator



Impact of Water Discharges

All Xylem sites meet or exceed national, local and Xylem requirements for the return of clean and safe wastewater back into the public water streams. To meet these standards, a number of our manufacturing sites have installed onsite wastewater treatment systems.



Environmental Impacts of Products

The end purpose of many Xylem products is to help customers “solve water” – either by improving water conservation through recycle and reuse systems, improving water and wastewater quality through treatment solutions and analytical instrumentation, or both. By their very design, these Xylem products have a positive environmental impact.

We are also investing heavily in research and development to bring customers highly energy-efficient products. Pumps are significant contributors to global energy consumption – and the resulting greenhouse gas emissions – so improving pumping efficiency has a big impact on the environment and climate change. In the past year, we continued to make advances in the area of energy efficiency through design innovations, services like our TotalCare onsite energy audits, and through acquisitions of companies like MultiTrode, an Australian company with leading-edge energy-saving monitoring and control devices.

While we don’t formally measure it, we estimate that at least 50 percent of our products are more energy efficient than those of our competitors.

As part of the UN Global Compact, we do measure Average Efficiency of Sold Products (pumps and mixers) for the two Xylem Growth Centers that make up more than 50 percent of our annual revenues. In 2013, the average efficiency of these products was 61.3 percent, up 2 percent since 2009. We are working to finalize our goal to improve the average efficiency of these sold products.



Recycled Products/Packaging

We don’t formally track the number or percentage of recyclable products and packaging created at Xylem. However, we manufacture and sell products that contain metals and other materials that can be recycled, and some of our packaging, too, is designed for recycling purposes.

In 2013, our pump manufacturing plant in Herford, Germany, earned a certification from Der Grüne Punkt (The Green Dot) – the leading provider of recycling systems in Germany – for creating product packaging that uses less raw materials and meets the German Packaging Ordinance for recyclable packaging.



Environmental Fines

In 2013, Xylem incurred no significant fines for noncompliance with environmental laws and regulations. This is on target with our goal to “achieve 100 percent compliance at all manufacturing sites.”



Transportation of Products/People

Currently, Xylem does not track the total shipping distance or trips required to distribute our products to customers or from our suppliers. However, Xylem sites continually assess the best ways to transport our products, from a cost and environmental sustainability standpoint. In 2013, we changed our product delivery method from truck to rail for a few of our key shipping lanes originating on the West Coast of the U.S. Using rail as the primary mode of product delivery is more economical, reduces truck travel and fuel consumption, and produces less GHG emissions. In 2014 and 2015, we will be working with our external partners to expand the usage of this mode of transportation.

Also in 2013, for the first time, we began to calculate total greenhouse gas emissions from business travel—with a focus on air travel, and an eye on innovative technologies and creative approaches that will minimize our need for this type of travel. See the EN16: Total Greenhouse Gas Emissions indicator for more information.



Environmental Protection Expenditures

Xylem continues to build a robust Environment, Safety & Health (ESH) organization that ensures our company—and our employees—are taking accountability for environmental protection. Today, we have more than 250 ESH professionals working at Xylem, and we invest in staffing, training and annual regional meetings to ensure we have a team that is up to date on the latest regulations and best practices.

We don't track our ESH expenditures at the corporate level, but all of our larger sites have ESH budgets in place. In 2013, our largest production facility in Emmaboda, Sweden, invested nearly \$1 million in new systems—to burn VOCs and reuse heat from its painting process—and in ESH administration and training for its ESH professionals and operations employees.

Xylem also invests in legacy sites—no longer owned by Xylem—that require remediation efforts to ensure they are environmentally safe. Our expenditures in this area are outlined in our 2013 annual report.

Listening to Employees

Statement from Robyn Mingle



Robyn Mingle
Senior Vice President and
Chief Human Resources Officer

“In 2013, we conducted the first-ever Xylem Global Employee Survey, using a methodology called “Good Company Assessment” that measures our performance as employers, as sellers and as stewards of the planet and the communities where we operate.

The survey reached nearly 10,000 employees who have digital access, and of that group, we achieved a 78 percent response rate. We were encouraged by some of our most positive results, including our company’s focus and commitment to employee safety, our commitment to customers and employees’ understanding of Xylem’s brand and tagline, Let’s Solve Water. Through the survey, some significant areas for improvement also emerged, including talent-related activities such as our hiring and promotion practices, the need for more training and development opportunities, and for leaders to help employees achieve a better work/life balance.

Leaders across Xylem received customized survey results and have been collaborating with their Human Resources partners to develop specific action plans to address areas of improvement most critical to our ongoing success. We have already seen some survey-driven improvements, including the soon-to-be-introduced Career Frameworks.

These robust frameworks provide clarity for employees by detailing the various functional competencies and career paths available at Xylem. They represent a blueprint for an employee’s personal development and career growth while also providing meaningful guidance for our hiring and promotional decisions. We’ll continue conducting these surveys every other year, because regular and honest feedback from employees is the key to making long-term, sustainable improvements to our work environment and our company.”



LA1 Total Workforce

Xylem has 12,500 employees worldwide. As a technology leader in the water space, the majority of our workforce is employed in manufacturing, product management, customer service and engineering positions. The rest of our workforce fills leadership, management, business-building and support roles in finance, sales and marketing, IT, human resources, legal and communications.



LA2 Employee Turnover

We do not currently track employee turnover. Xylem is in the midst of a multi-year effort to build a Human Resources Information System (HRIS) that will provide us with these data on a global basis in the near future.



LA3 Employee Benefits

As a global company, Xylem provides different types of employee benefit plans in different countries. As a rule, these plans are provided to full-time employees and are consistent with comparable disability, medical and dental plans offered in the various markets. We do not offer benefit plans to part-time or temporary Xylem employees.



LA4 Collective Bargaining Agreements

Xylem has a number of employees around the world who are members of unions or work councils, but we don’t currently track the percentage of employees covered by collective bargaining agreements on a global basis.



Notification About Operational Changes

Not tracked



Health and Safety Committees

Our locations are required to implement the Xylem Environment, Safety & Health Management System, which conforms to OHSAS 18001 and ANSI Z10 standards for occupational health and safety. To date, 20 Xylem sites have been OHSAS 18001 certified.

To help us achieve these certifications – and to meet our beyond-compliance requirements for workplace safety – Xylem has health and safety committees in place at all of our operating sites. These committees typically consist of employees and management, and their purpose is to provide an open forum to discuss the implementation of programs, the status of incidents and near misses, and to review open action items. In addition, committee members are part of our business continuity planning and crisis management teams at each site.

In addition, the committees develop and manage proactive projects such as safety message calendars, risk profiling, health and wellness fairs and safety games. The goal of all these activities is to identify and eliminate potential risks – and ensure employees are active participants in this effort.

With our “Accept Only Zero” workplace safety program, we expect employees to accept responsibility and accountability for occupational health and safety issues and concerns. The health and safety committees serve as a medium to direct concerns and expectations from leadership to the workforce and vice versa.



Workplace Safety Metrics

Definition	2010	2011	2012	2013
Injury Frequency (Medical + lost workday cases x 200,000 / number of hours worked)	2.0	1.55	1.48	1.69
Injury Severity (Lost workday x 200,000 / number of hours worked)	39.4	27.5	20.0	23.9

Our online Metrics for the Environment, Safety & Health (MESH) system enables us to collect, consolidate and analyze our performance data on a monthly basis. The key safety indicators we track are injury frequency and injury severity. After a number of years of improving in both areas, Xylem experienced an increase in injuries and lost days in 2013. The injury frequency rate increased from 1.48 in 2012 to 1.69 in 2013, and the injury severity rate increased from 20.0 in 2012 to 23.9 in 2013.

Xylem’s ESH Leadership Team and management are concerned by this increase and have taken action to return to an improving trend. We are currently revising our Xylem-wide injury frequency and injury severity targets to be more stringent.

When a recordable injury does occur, it is investigated and the causes of the injuries are determined through the use of root cause analysis. Then we utilize Six Sigma tools to determine which parts of the organization are experiencing increased injury rates, which activities are being conducted when injuries occur, and additional useful information.

We also provide additional support to sites with increased injury rates. In 2013, when we saw a number of hand injuries at some sites, we investigated and provided more cut-resistant gloves for activities with risks of cuts. And when a Pareto analysis showed an increase in slip/trip/fall injuries, the ESH Leadership Team developed a tool to assist with the identification and mitigation of these risks at our sites. We also stressed Xylem's philosophy of Accept Only Zero – our belief that all injuries are preventable. We are monitoring our injury metrics closely in 2014 to ensure that these activities and the others implemented are having the intended results and will drive our rates down.



Health Programs

Xylem provides employees with a number of health and wellness programs, which vary depending on the country where the employee works. These programs include health risk assessments that provide employees with a personal health profile and information on nutrition, fitness and healthy living and a free Employee Assistance Program that provides professional and confidential counseling to help employees and their family members navigate personal, family or work problems.

In 2013, we also added biometric screenings to make our health and wellness programs more comprehensive. Employees provide saliva and blood samples, which give baseline data about their health and identify any current or potential medical issues. When combined with a health risk assessment, these screenings give employees reliable information about their risk for chronic preventable diseases such as diabetes, heart disease and hypertension – and help them identify a path for disease prevention.



Health and Safety Agreements

Not tracked



Employee Training

One of Xylem's strategic objectives is to advance a high-performance organization, and training is an essential element in this effort.

In 2013, we provided more than 25,000 hours of instructor-led and web-based training to employees. This includes training in the areas of safety, our Code of Conduct, Lean Six Sigma, career and leadership development.

In addition, each Growth Center provides technical and product training unique to each product portfolio. We also offer specialized early-in-career training programs, including international assignments where high-potential professionals build key foundational skills that will allow Xylem to build a bench of leadership for years to come.



Continuing Education

At Xylem, we offer tuition reimbursement to employees who are pursuing additional education to further their careers.

Around the world, we are providing our people with additional educational opportunities. In Europe, we have “functional academies” that offer classes that provide skills-building lessons in the areas of sales, engineering, manufacturing and finance. In the U.S., we recently completed a skill-building curriculum for front-line managers and supervisors, and in China, we have begun building a Leadership Institute that will provide employees with foundational skills to lead effectively.



Performance Reviews

Through our Partnership for Performance (PfP) system, we offer employees an annual performance assessment with their direct supervisor to guide their development at Xylem. In 2013, we completed PfP assessments for 94 percent of all employees.



Workforce Diversity

The Xylem Code of Conduct makes clear our company’s commitment to inclusion and diversity and our disallowance of employment-related decisions based on age, color, gender or any other legally protected personal basis.

We do not currently track workforce diversity on a global basis. Our company is in the midst of a multi-year effort to build a company-wide Human Resources Information System (HRIS) that will provide us with these data in the near future.



Salary by Gender

Not tracked

Supplier Ombudsperson Program

Statement from Cornett Lewers



Cornett Lewers
Vice President
and Chief Ethics and
Compliance Officer

“At Xylem, our suppliers are not just business partners, they are sustainability partners. We engage them to ensure their products, practices, materials and services advance our sustainability efforts. This engagement includes a review of all suppliers to make sure they aren’t providing us with parts and components that contain “conflict minerals” from the Democratic Republic of the Congo or surrounding countries that mine the minerals to help fuel war and human rights violations.

It also includes suppliers’ adherence to the Xylem Supplier Code of Conduct. In 2013, we expanded this ethics and compliance connection to encompass a new Supplier Ombudsperson Program. We view our suppliers as an extension of our team, and they now have access—online or on the phone—to a third-party vendor who provides a confidential avenue for raising ethics and compliance-related concerns. We want suppliers to feel comfortable telling us if they feel we are acting inconsistently with the principles and standards in our Code.

The Code includes the following statement for suppliers: “As a partner of Xylem Inc., you must respect human rights and not willingly or knowingly assist in any violation of human rights, nor benefit from human rights abuses committed by another party, nor remain silent when human rights violations are being committed.” With the Supplier Ombudsperson Program, we are asking them to hold us to the same standards.”

HR1

Human Rights Agreements

At Xylem, many of our agreements with distributors, joint venture partners and other consortiums include human rights clauses and/or language.

HR2

Human Rights Supplier Screenings

We do not conduct formal human rights screenings of our suppliers, but we do have a [Supplier Code of Conduct](#), which requires suppliers to adhere to social, ethical and environmental principles that are consistent with Xylem’s values. In the area of human rights, our Code makes it clear that Xylem suppliers will not employ child labor, participate in human trafficking, use forced labor or purchase materials or services from companies that use forced or slave labor.

HR3

Human Rights Training

While Xylem doesn’t conduct dedicated human rights training for employees, more than 99 percent of eligible Xylem employees received online Code of Conduct training in 2013, and a significant percentage of our total workforce received either online or offline Code training. The Code unequivocally 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.”

This includes prohibiting human trafficking and the use of child or forced labor, treating each other fairly and equitably, and providing safe and secure conditions for those working on our company’s behalf.



Incidents and Actions

Ethics and Compliance Reporting	2011	2012	2013
Concerns Raised (through Xylem’s complaint-handling and resolution process)	45	74	80
Reported Cases Investigated and Substantiated Cases Resolved (through policy changes, training, reprimands and/or terminations)	100%	100%	100%

The number of concerns raised through our complaint-handling and resolutions process, which encompasses human rights issues, has increased by 78 percent during the past two years. We view this as an encouraging development because a well-functioning reporting process facilitates additional reporting. All reported cases are investigated, which engenders employee trust in the process.



Freedom of Association

As a company, Xylem does not restrict our employees’ right to exercise freedom of association and collective bargaining. Throughout our company, we have many employees who are members of unions or work councils.



Child Labor

Xylem strictly prohibits the use of child labor at any of our operations around the world.



Forced and Compulsory Labor

Xylem strictly prohibits the use of forced labor, including prison or bonded labor, at any of our operations around the world.



Security Personnel Training

Not tracked



Indigenous Rights

In 2013 – and throughout our company’s history – Xylem has not had an incident or violation involving the rights of indigenous people.

Community Impact in the Andes

Statement from Adam Jackson



Adam Jackson
Mechanical Engineer,
Xylem Analytics

“Each year, a handful of Xylem employees are chosen for trips to water-stressed areas of the world where they spend several weeks helping Xylem Watermark’s nonprofit partners build and monitor sustainable water systems and implement hygiene solutions. In 2013, I volunteered to take one of these trips to Peru.

The first morning began at 5 a.m. and included a quick breakfast of instant coffee and bread. Then there was an hour drive in the back of a pick-up truck, where we received directions from a woman walking a mule, and hiked to an altitude of 3,800 meters before reaching our first house.

When we arrived, we asked to interview the head of the household. In this case and most of the time, it would be a woman. It’s common that the men are either out working or farming, or that sadly they have left the family. During the survey, we asked about every aspect of their water service: what issues they face, how far they travel for water, how many people share a single tap or latrine, what they do when they turn the tap and there is no water.

One day I met Margarita, a grandmother and mother of two. She told us about her house, her broken tap, and her poorly constructed latrine, which were all damaged by heavy winds and rain common in the mountains of Peru. Every day she faces a choice to use what little water she has to cook, drink and wash; or to farm and raise livestock.

As we were preparing to leave one village, a man named Virgilio kept solemnly repeating “Agua es vida, agua es vida” – water is life. The work that Xylem Watermark and its nonprofit partner, Water For People, are doing is critical. There is so much more to be done, but it is possible. Helping starts with perceiving, understanding and acknowledging the water problems that people face every day. Water is a necessity to live. And the conversation should not end until everyone has access to clean, potable water.”



SO1 Community Impact

At Xylem, our goal is to operate in harmony with the communities where our employees work and live. We view our company not simply as an employer, but as a community citizen and neighbor. We connect to the communities in a number of ways, including sponsorships, volunteer programs and donations of time and resources to meet community needs.

As our company grows and evolves, our operational footprint will continue to change. When we enter a new community, we conduct due diligence to ensure it is a good fit for our company. Similarly, if we have to exit a facility, we provide clear, timely and transparent communications to all affected groups—including impacted employees, regulatory authorities and community neighbors.



SO2 Corruption Risks

Xylem conducts an annual risk assessment on all Growth Centers and Regions, which includes risks related to corruption. This risk assessment is monitored quarterly.



SO3 Anti-Corruption Training

On an annual basis, we strive to provide 100 percent of our employees with training in our Code of Conduct, which includes an overview of our anti-corruption policies and procedures. In 2013, 99 percent of eligible employees took part in our online Code training. We are working to achieve similar levels for employees who require offline classroom training due to lack of access to computers.

The Xylem Anti-Corruption Manual is also available in nine languages for all employees to access on our company portal.

In addition, designated employees who are involved in Finance, Legal, Compliance and International Sales & Marketing are provided with additional, in-depth anti-corruption training that includes specific guidelines about the approval process for gifts, hospitality and travel. In 2013, more than 6,000 employees participated in this training, which took place at various company sites in Latin America, China, Russia, India, Greater Asia Pacific, the U.S. and Europe, and were also conducted via WebEx.



SO4 Anti-Corruption Actions

Xylem’s Ethics and Compliance Issue Resolution Policy requires the prompt and thorough investigation of all allegations of corruption.



SO5 Public Policy and Lobbying

Increasingly, water issues are showing up on the radar of government officials and legislative bodies around the world. As shortages escalate, so do conflicts over water rights and water usage. And as one of the world’s water technology and thought leaders, Xylem has a role – and responsibility – to weigh in with informed and useful insights and ideas.

Our Xylem Sustainability Steering Committee – which includes representatives from all of our Growth Centers and is led by our Sustainability Champion and sponsored by our CEO – coordinates our company’s response to strategic public policy and regulatory issues.

From time to time, we engage informed resources to serve as Xylem’s voice with politicians and legislators in the U.S. and in other regions of the world. On World Water Day 2013, Xylem conducted low-level lobbying efforts to raise awareness about water issues – sending a letter to all U.S. Congress members to remind them about the need for investments in outdated water infrastructure.



SO6 Political Contributions

Xylem does not make political contributions. Our company does not have its own political action committee (PAC) and does not currently support any third-party PACs.



SO7 Anti-Trust Incidents

Xylem reports on its material legal proceedings, including anti-trust, in its public filings with the U.S. Securities and Exchange Commission, such as our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. These filings are available here: <http://investors.xyleminc.com/phoenix.zhtml?c=247373&p=irol-sec>



SO8 Non-Compliance Fines

In 2013, Xylem had no significant fines and received no non-monetary sanctions for noncompliance with laws and regulations.



Life Cycle Assessments

A life-cycle assessment (or LCA) measures the environmental impacts associated with all stages of a product's life from cradle to grave. Based on these assessments, a company can produce an Environmental Product Declaration (EPD) that provides customers with standardized, comparable data to use in making choices supporting their own sustainability goals.

Today at Xylem, we support our customers with LCAs and EPDs for products and solutions that make up about 25 percent of our total portfolio, based on revenues. Our long-term goal is to provide LCAs and EPDs—for all products where it makes sense—that provide a full, long-term picture of product ownership and show the economic advantages of using our products.

In addition, Xylem has spearheaded a global initiative to develop standards for Life Cycle Costing for pump/pump system manufacturers.



Life Cycle Non-Compliance

Not tracked



Product Labeling

An Installation, Operation and Maintenance Manual is enclosed with every Xylem product. It contains information about safe use of the project and general information about the disposal of the product, including recycling guidelines.

Environmental Product Declarations (EPDs) are available for major products within our Transport Growth Center. An EPD is a verified document—based on life cycle assessments and in accordance with the international standard ISO 14025—that provides environmental data about the product, including content declaration.



Labeling Non-Compliance

Not tracked



Customer Satisfaction Measurement

Currently, there is not one blended Xylem metric or target for customer satisfaction. Rather, we track customer satisfaction at the Growth Center level.

In 2013, under the leadership of Xylem's Chief Marketing Officer and based on research of industry best practices, we began standardizing our method of measuring and analyzing customer satisfaction through the use of Net Promoter Score (NPS) across all of our Growth Centers. The NPS tool asks customers to apply a 0-10 rating to a single question—*How likely are you to recommend our products/services to your friends and colleagues?*—and tallies the number of company Promoters (9-10), Passives (7-8) and Detractors (0-6). After subtracting Detractors from Promoters, customer satisfaction is determined by measuring the number of remaining Promoters as a percentage of the total respondents.

Currently, two our Growth Centers, comprising roughly 45 percent of Xylem's revenues, use NPS, and the remaining three Growth Centers—which had been conducting global customer satisfaction surveys every two years—will adopt the NPS methodology in late 2014. By combining the most recent NPS scores and global customer satisfaction survey scores, we estimate 78 percent of Xylem customers are "satisfied clients." In next year's report, we will be able to roll up the NPS scores from all five Growth Centers to provide a more accurate—and company baseline—customer satisfaction measurement for Xylem.



Marketing and Advertising

At Xylem, all marketing and advertising materials are reviewed by communications specialists, as well as product safety specialists in our Legal department. Reviews requiring additional expertise are directed to the appropriate internal or external contact.



Marketing/Advertising Non-Compliance

Not tracked



Customer Privacy

In 2013, Xylem had no complaints regarding the breach of customer privacy or loss of customer data.



Product Non-Compliance

In 2013, Xylem had no incidents or fines for non-compliance with laws and regulations concerning product use, product labeling or product marketing and advertising.

This is a result of our efforts to look at product safety throughout the entire life cycle. When we are designing products at Xylem, we attempt to limit the hazardous substances used in their production without sacrificing quality or safety for our customers. In 2012, we formed a product safety review board at Xylem for each of our Growth Centers. These review boards assure new products are designed and launched in compliance with the latest safety and environmental considerations, and that legacy products are not only compliant with regional standards but also continuously improved.

Safety is one of the sustainability factors that we weigh during our research and development efforts. We train our R&D personnel on the key sustainability value drivers – including safety, life cycle costs and energy efficiency – that they need to understand and consider at the outset of our product design process. Training also includes personnel involved in our product development “stage-gate” process, so they can include sustainability as a factor in their product “go/no go” decisions.



The Xylem Sustainability Journey

Sustainability is like wisdom – there is no ending point. There is always more to know and to do.

At Xylem, our sustainability journey is well underway, and with each step forward we see opportunities to expand our horizons. As a company focused on a resource as critical as water, we remain committed to making sustainability a day-to-day priority throughout our business operations. It is this type of focus that will enable us to become a more valued company to all our stakeholders in the long-term.

This report is a snapshot in time of our sustainability progress. We're proud of what we've done and how far we've come, and we're looking forward to the seeing how much farther and faster we can go as our sustainability journey continues.

xylem
Let's Solve Water

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