

XYLEM INC.
2021 TASK FORCE
ON CLIMATE-RELATED
FINANCIAL DISCLOSURE
(TCFD) REPORT



xylem

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OUR APPROACH

In 2021, Xylem continued its ongoing assessment of climate-related risks and opportunities in the context of the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). The Task Force has divided climate-related risks into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change.

For our inaugural TCFD report, our assessment was informed by Trucost ESG Analysis, part of S&P Global. Trucost ESG Analysis took a robust, data driven approach to our TCFD assessment. Their approach included both Transition Risk (e.g., Policy Risk Exposure) and Physical Risk under three different climate scenarios over time.

Transition risk includes risks arising from the decarbonization of the economy, such as the impact of policy/regulatory changes (carbon pricing, subsidies, etc.), technological disruption (the move to renewables, electric vehicles, etc.) and societal pressure and behavior. Physical risk concerns changes to the physical environment brought on by climate change, including chronic risks (long-term shifts in climate patterns, temperatures, sea level, etc.) and acute risks (risks that are event-driven and increasing in severity, such as floods, hurricanes and wildfires).

Where quantitative data was unavailable, Trucost ESG Analysis relied on stakeholder interviews, outputs of the scenario workshop discussion, desk research and benchmarking to inform the risk and opportunity timelines and financial impact levels.



GOVERNANCE

We are committed to sound corporate governance that promotes the long-term interests of our shareholders and other stakeholders, strengthens Board and management accountability, and helps build trust in the company.

As a purpose-driven company, we are focused on creating both economic and social value for our

customers, shareholders, employees and communities. Every day we work to solve water challenges through our commercial businesses and social impact efforts around the globe.

Sustainability is at the core of what we do and who we are and is integrated into our business strategy.

Our Board and its committees oversee our approach to sustainability while

the CEO and Senior Leadership execute our sustainability strategy and advance progress towards our strategically aligned 2025 Sustainability Goals with the support of broad organizational engagement as outlined below.



GOVERNANCE

BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Board has delegated responsibility for oversight of certain risk categories to designated Board committees based on each committee's expertise and applicable regulatory requirements. The committees regularly receive updates from management on these matters within their purview and report on them to the full Board. The Audit Committee oversees the company's overall risk assessment and risk management processes and policies as well as accounting, controls and financial disclosures. The Finance Committee oversees the company's capital allocation strategies and plans, including investments related to sustainability initiatives. The Board's Nominating & Governance Committee is responsible for overseeing risks

related to sustainability, business continuity and disaster recovery, and compliance programs, including environmental, health and safety, along with related activities. The above committees and the full Board discuss climate- and water-related issues with management in connection with oversight of our strategy and these other areas.

One Board meeting per year is dedicated to an intensive review and discussion of Xylem's strategic plans, including our approach to sustainability and ESG matters. At each of its meetings, the Board receives updates on our execution of our strategy. Our business strategy is also discussed in executive sessions and at committee meetings.

We develop our business and sustainability strategy through the lens of resiliency of water systems against climate change, water scarcity and water affordability. Additionally, when innovation and technology, manufacturing and supply chain strategy is reviewed with our Board, sustainability and environmental footprint management are included in those discussions.

Our Nominating & Governance Committee reviews our sustainability strategy and performance against our goals at least annually; these goals focus our efforts to enhance water systems resilience to climate change and other water challenges and affordability issues.



GOVERNANCE

MANAGEMENT'S ROLE IN ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Sustainability isn't just an initiative at Xylem; it's part of our core business strategy, and it drives our employees to come to work each day with a common purpose and passion—to redefine and advance the world's water systems and, in doing so, to improve the lives of people around the globe. As the world's climate changes, water issues are intensifying around the globe – demanding new and bold solutions. For Xylem, the planet's climate-related water challenges provide opportunities for us to address and overcome them.

Our senior leadership team, under the direction of our CEO, leads businesses, sales teams and functional areas with the intent of building an enduring and successful company in service to customers and communities. We are increasingly integrating sustainability—such as solutions to help our customers mitigate and adapt to, the effects of climate change—into their strategies to accelerate innovation, sell our products and services, and grow our business. Ultimately, our growth strategies are designed to position Xylem as a leader in the global water technology industry, enabling customers to increase their resiliency against

climate change and to optimize their water and resource management for the communities around them. Our CEO has ultimate responsibility for aligning Xylem's long-term business strategy with climate-driven market conditions in the water technology industry.

Our leadership's approach to climate-related issues is underpinned by Xylem's Climate Action Plan, which focuses on the management of our operational environmental impact and outlines our enterprise commitment to develop innovative solutions for the water-related challenges associated with climate change. This focus on key growth areas can further enable us to have a positive impact on climate-related issues. For example, since 2016, we have completed several acquisitions in systems intelligence, adding leading products and technologies in smart metering, data analytics and software & managed services to our portfolio. We are also focused on the key priorities of advanced industrial water treatment and industrial water services.

In 2020, we named our first Chief Sustainability Officer (CSO)—a global

role reporting to the CEO—to advance our work in sustainability. The CSO leads a team that monitors climate-related issues most material to Xylem. When opportunities or risks are identified, the management of the associated action plan is either owned by the CSO directly or by the individual in the organization where it is most relevant.



STRATEGY

CLIMATE-RELATED RISKS AND OPPORTUNITIES IDENTIFIED

Risk factors are disclosed in our annual 10-K filing with the Securities and Exchange Commission. Xylem's risks are managed through a comprehensive Enterprise Risk Management (ERM) program with 5 key components: Risk Appetite & Strategy, Governance & Organization, Policies and Procedures, Risk Management Process, and Monitoring & Reporting. Our ERM program is underpinned by a framework and

evergreen process, which together enable the ongoing capture, assessment and monitoring of risks and mitigation plans. Each risk is assigned a score for i) severity of impact, ii) likelihood of occurring, iii) preparedness of controls / vulnerabilities, and iv) speed of onset, and placed on a heat map to highlight its relative importance. Risks are reviewed and updated periodically to determine if and how each risk's

inherent risk profile and residual risk has changed, as appropriate, as Xylem's business and strategy evolves.

In addition, in our annual CDP Climate Change and Water Security responses, we provide further detail regarding the types of climate- and water-related risks and opportunities that Xylem faces.



STRATEGY

Key climate-related risks identified include:

Current and emerging regulations and reporting requirements.

Unforeseen environmental issues could impact our financial position or results of operations. Our business operations, products and service offerings are subject to and affected by many federal, state, local and foreign environmental laws and regulations, including those enacted in response to climate change concerns. Changes in environmental laws or the implementation mandatory climate-related reporting requirements could impose limitations on our operations or increase compliance costs.

Technology and Competitive Market Changes

Our competitive position and future growth rate depend upon a number of factors, including our ability to successfully: (i) innovate, develop and maintain competitive products, services, business models and customer experience to address emerging trends and meet customers' needs, (ii) enhance our product and service offerings by adding innovative features or disruptive technologies that differentiate them from those of our competitors and prevent commoditization, (iii) develop, manufacture and bring compelling new products and services to market quickly and cost-effectively, (iv) continue to cultivate, develop and maintain our distribution network of channel partners, (v) attract, develop and retain individuals with the requisite innovation, digital, and technical expertise and understanding of customers' needs to develop and

commercialize new technologies, products and services, (vi) continue to invest in our manufacturing, research and development, engineering, sales and marketing, customer service and support, and distribution networks, (vii) win large contracts, and (viii) compete for business subject to applicable governmental procurement laws, regulations, and policies.

Carbon Pricing Mechanisms

Carbon prices associated with emissions trading schemes, carbon taxes, fuel taxes and other policies are expected to rise in the future as governments take action to reduce greenhouse gas emissions consistent with the Paris Agreement. The speed and level to which carbon prices may rise is uncertain and likely to vary across countries and regions.

Increased Severity and Frequency of Extreme Weather Events

Water and our climate are deeply intertwined. According to research by the Intergovernmental Panel on Climate Change (IPCC), climate change will intensify risks associated with water availability and quality. Climate change will exacerbate the water challenges that lie at the heart of Xylem's work.

Key climate-related opportunities identified include, but are not limited to:

Increased revenues resulting from increased demand for climate adaptive and resilient products and services

The effects of climate change present serious water challenges for our planet and Xylem is well-positioned to provide climate adaptation

solutions that address global water needs. The frequency and severity of severe weather events due to the effects of climate change will increase global demand for products and services needed during flood and drought response. The threat of extreme weather events also increases the need to upgrade existing infrastructure to enable reliable access to water in an emergency. As public and private organizations prepare for climate scenarios, the demand for Xylem's water, wastewater, and resiliency services will increase. As the world transitions to a low-carbon economy, pressures to upgrade energy-intensive water and wastewater management systems will also increase. The customer base for equipment and services in the water industry is diverse. We serve a wide range of industries, including utilities supplying water through an infrastructure network; engineering, procurement and construction firms working with utilities to design and build water and wastewater infrastructure networks; and others, such as farms, mines, power plants, industrial facilities and residential and commercial customers. Our customers also look to us for technology and application expertise to address physical impacts of climate change.

Increased revenues through access to new and emerging markets

Global macro trends, such as strengthening global environmental, climate change and water quality regulations are increasing the need for more efficient solutions. Population growth, urbanization and a growing middle class in emerging markets

STRATEGY

are boosting demand for clean water while putting strains on aging infrastructure. At the same time, the impacts of climate change are disrupting water supplies with intensifying water scarcity in many parts of the world, as well as flooding from a growing number of extreme weather events. These factors combine to produce a growing need for water and critical energy infrastructure solutions that are modern, efficient and resilient. Xylem is well-positioned to fulfill these long-term needs as our business strategy is built around creating technology-enabled solutions to increase water productivity, water quality and resilience. These

factors are also increasing demand for advanced sensing technologies and data analytics.

Use of more efficient production and distribution processes

Increasing attention to climate change is providing companies with a stronger business case to pursue voluntary energy efficiency, GHG reduction and renewable energy initiatives, such as our goal to use 100 percent renewable energy at our major facilities by 2025. To achieve these targets and reduce costs, we continue to engage a cross-functional team of procurement, environment, health & safety,

and operations stakeholders to manage a comprehensive energy management program. This team works with leading energy and sustainability management company to negotiate electricity and gas contracts, lock in low energy rates, optimize tax exemption status, and identify demand reduction opportunities. Engie's continuing work with Xylem will help the company achieve cost improvement, reduce GHG emissions, manage contract coverage in deregulated markets, and gain full transparency into energy spend.



STRATEGY

OUR APPROACH TO CLIMATE AND WATER RISKS

The complex, global water challenges that Xylem solves every day are further intensified by the threats posed by climate change. Sensitivity to flooding, drought conditions and unpredictable fluctuations in temperatures and weather patterns are among the physical climate-related risks that can drive volatility within our business and, most notably, for our customers. These risks increase demand for our portfolio of solutions to help communities build resilience. Additionally, increased public and governmental awareness and concern regarding global climate change has led to significant legislative and regulatory efforts to limit greenhouse gas emissions and will likely result in increasing

environmental and climate change laws or regulations.

Our ability to help our customers significantly reduce their carbon and water footprints through our products is a key strategic differentiator for us, as well as a powerful opportunity and responsibility. Current strategies related to climate change provide opportunity for our business and are fully integrated into our work in a way that fosters shared value with customers. By focusing on delivering more energy-efficient products and solutions to our customers, we enable them to significantly reduce their emissions and support their sustainability and community well-being efforts.

To further leverage this opportunity, we are developing adaptation and mitigation solutions to increase water systems resilience to the water-related challenges associated with climate change. These solutions are designed to improve the overall efficiency and resiliency of the water sector. Beyond reducing our own water footprint, our efforts are aimed at delivering significant water, cost and energy efficiencies to water and other essential service providers we serve across the globe. Through this approach, we are advancing sustainability for customers across multiple partners across multiple geographies.



RISK MANAGEMENT

PROCESSES FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

Climate-related risk refers to the potential negative impacts of climate change on an organization. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise, drought). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

TCFD TRANSITION POLICY RISK ANALYSIS

Our **TCFD Transition Policy Risk Analysis** consisted of looking at scenarios under three possible climate change impacts:

Business as usual
Emissions continue rising >4°C

Some mitigation
Emissions rise to 2080 then fall >2°C

Aggressive mitigation
Emissions halved by 2050 <2°C



The key findings from our TCFD Transition Policy Risk Analysis includes the following:

Our analysis, performed with the assistance of TruCost ESG Analysis, using carbon pricing risk projections, indicates that Xylem's carbon pricing risk exposure for the year 2030 ranges from \$50 million to \$195 million per annum under low to high carbon prices respectfully.

Xylem's direct operations have the highest exposure to potential carbon pricing risk in the U.S. due to the size of our carbon footprint and the low level of carbon pricing currently in existence in the U.S.

Having said this, the most significant carbon pricing risk exposure is actually not in our direct operations but in our global supply chain and in how our customers use our products and solutions. This is one of the reasons we are keenly focused on reducing the carbon footprint of our products and solutions.

TCFD PHYSICAL RISK ANALYSIS

Our **TCFD Physical Risk Analysis** consisted of looking at scenarios under three possible climate change impacts:

High Climate Change Scenario:

Continuation of business as usual with emissions at current rates. This scenario is expected to result in warming more than 4°C by 2100.

Moderate Climate Change Scenario:

Strong mitigation actions to reduce emissions to half current levels by 2080. This scenario is more likely than not to result in warming more than 2°C by 2100.

Low Climate Change Scenario:

Aggressive mitigation actions to halve emissions by 2050. This scenario is likely to result in warming of less than 2°C by 2100.

We also looked at the following Climate Hazard Indicators: Water Stress, Flood, Heatwave, Coldwave, Hurricane, Wildfire and Sea Level Rise.

The key findings from our TCFD Physical Risk Analysis includes the following:

Overall, Xylem's facilities are in areas facing moderate physical risk with greatest exposure to water stress, coldwave and wildfire, although coldwave is declining over time. The top Xylem facilities at risk are located in the Philippines, the United States, Chile, China and India.

Those highest risk facilities are prioritized in our business continuity planning efforts.

RISK MANAGEMENT

CRISIS RESPONSE AND BUSINESS CONTINUITY

Xylem maintains a comprehensive Corporate Crisis Response Plan (CCRP) that provides an overall management strategy to enable appropriate responses by all levels within the company. Defined triggers facilitate response teams to act quickly and an escalation framework allows notifications to be efficiently cascaded throughout Xylem. The CCRP provides the management structure for responding to significant events and/or potential crises, including climate-related events that may impact or disrupt our operations.

Xylem also has a robust Business Continuity Management program for our global manufacturing facilities to appropriately identify and proactively mitigate risk, and to develop contingency plans and response capabilities at all levels within the company. Manufacturing facilities complete business continuity activities on an annual or bi-annual cycle. Business Continuity Plans are tested through table-top exercises which drives continuous improvement for the next business continuity cycle.



METRICS AND TARGETS

METRICS TO ASSESS CLIMATE-RELATED RISKS AND OPPORTUNITIES

We track our energy consumption and corresponding GHG emissions as key performance metrics to measure and manage our climate-related risks and opportunities.

This includes tracking the percentage of energy that comes from renewable sources and reporting our direct emissions (Scope 1) and indirect emissions (Scope 2 and Scope 3).

During 2021, 86% of the indirect energy used in our 22 major facilities was from renewable sources and 55% of our 22 major facilities are now using 100% renewable energy.

Scope 1 and Scope 2 emissions are, by definition, indicative of exposure to fossil fuel-sourced energy, and thus a source of climate risks if these sources become regulated or taxed significantly. We are seeking to source more of our energy from non-fossil fuel sources, and thus these metrics are a direct indicator of our progress in doing so.

Scope 3 emissions are indirect emissions from categories like the purchase of good and services from our supply chain and the use of our products and solutions by our customers. Emissions from these two categories alone account for over 95% of our total GHG emissions. Currently, our immediate focus for Scope 3 is to gather additional emissions data for all relevant categories to develop a strategy and roadmap for Scope 3 GHG reductions. Reductions in our Scope 3 emissions will substantially reduce our transition risks in the future.



METRICS AND TARGETS

TARGETS TO MANAGE CLIMATE-RELATED RISKS AND OPPORTUNITIES

In 2021, Xylem committed to setting science-based and net-zero targets aligned with the Science Based Target Initiative (SBTi). Accordingly, we are aligning our climate mitigation targets with the most ambitious aim of the Paris Agreement and to what science dictates is necessary to reduce the destructive impacts of climate change on human society and nature: to reach net-zero global emissions by 2050 at the latest in order to limit global warming to 1.5°C.

Specifically, Xylem has committed to set science-based emissions reduction targets across Scope 1, 2, and 3, in line with 1.5°C emissions scenarios and the criteria and recommendations of the SBTi. In addition, Xylem committed to i) set a long-term science-based target to reach net-zero value chain GHGs emissions by no later than 2050 and to ii) set interim science-based targets across all relevant scopes and in line with the criteria and recommendations of the SBTi. By committing to both options, Xylem is committing to the highest level of ambition in the short and long-term.

Xylem will be submitting our short-term, long-term and net-zero targets for validation to the SBTi in 2022.

In recent years, we've made significant investments in renewable energy sources which allowed us to decrease our Scope 2 emissions. In addition, energy efficiency projects in buildings and improved fleet management contributed to our overall reductions.

As our business continues to grow, our commitment to aggressive carbon reduction targets remains

a priority. We are committed to transparency about our results and embrace our responsibility to contribute to a net-zero future.

Our 2021 Customer milestones:

- Helped our customers reduce their carbon footprint by 0.73M million metric tons of CO₂e by using more efficient products and solutions
- Through our dewatering and digital technologies, helped our customers prevent 1.93 billion m³ of polluted water from flooding communities or entering local waterways.
- Installed treatment solutions that will help our customers reuse 1.08 billion m³ of water.
- Reduced non-revenue water –or water lost due to leaking infrastructure, broken meters or unauthorized use–by 0.44 billion m³ in 2021

Our 2021 Company milestones:

- 12 of our 22 major facilities are now operating on 100% renewable energy, and 8 are recycling 100% of site process water
- Reduced net GHG emissions intensity by 5% lower than in 2020, representing a 12% reduction in net GHG emissions intensity versus our 2019 baseline across Scope 1 and 2 emissions
- Achieved a 22% reduction in water use, amounting to 26 million gallons and 4.4% less than in 2020
- Launched our Sustainable Fleet Strategy, which focuses on moving our global fleet to electric and hybrid vehicles

Our 2022 Action Plan:

- Submit science-based and net-zero targets to the SBTi for validation
- Continue to request suppliers to submit GHG emissions via CDP Climate Change in order to document GHG reduction efforts
- Accelerate product Life-Cycle Analysis activities and continue to improve product efficiencies

This data will be our starting point. As we enhance our ability to identify and measure emissions, and better use the data that has been disclosed by our suppliers and others, our monitoring and reporting will improve.

Xylem will report out progress on our TCFD efforts on an annual basis.