



XYLEM WATER HOLDINGS LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2021



Company number: 07618426

XYLEM WATER HOLDINGS LIMITED
CONTENTS

Company information	1
Strategic report	2
Directors' report	8
Statement of directors' responsibilities	14
Independent Auditor's report	15
Consolidated profit and loss account	18
Consolidated statement of comprehensive income	19
Consolidated balance sheet	20
Consolidated statement of changes in equity	21
Consolidated cash flow statement	22
Reconciliation of group net cash flow to movement in net debt	23
Notes to the consolidated financial statements	24
Company balance sheet	61
Company statement of changes in equity	62
Notes to the company financial statements	63

XYLEM WATER HOLDINGS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2021

DIRECTORS

M A Turner
I L Thompson
P A Morris
L J Bentley
K A Knight

SECRETARY

N A Tancred

REGISTERED OFFICE

Private Road No 1
Colwick Industrial Estate
Nottingham
NG4 2AN
United Kingdom

AUDITOR

Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham
B1 2HZ
United Kingdom

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their strategic report for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Group's principal activities are as follows:

Xylem Water Solutions UK Limited: the transport and treatment of water, including the design, supply, rental and service of fluid handling equipment and the supply and installation of clean water treatments using UV, Ozone, filtration and aeration products. The company distributes brands including Flygt waste-water pumps, Lowara clean water pumps, Jabsco products for the leisure marine market including water system, engine cooling pumps, searchlights and marine waste systems, and Sanitaire aeration, Leopold filtration and Wedeco UV and Ozone treatment products.

Water Process Limited: the provision of filtration and separation equipment to the water treatment industry and to the food and beverage processing industry.

Xylem Dewatering Solutions UK Limited: the design, manufacture and distribution of pumps on a worldwide basis. The majority of sales are made to another group company within Europe, Xylem Europe GmbH.

Xylem Water Solutions Rugby Limited: the provision of project management services to other Xylem companies under the Centre of Excellence (COE) Model, providing a supporting role to other Xylem entities in the tendering and execution of projects involving Xylem core products for which the local Xylem companies do not have the core skill base.

Bellingham & Stanley Limited: the design, development, manufacture and in-service support of opto-mechanical and digital Refractometers and Polarimeters.

Xylem Water Services Limited: the provision of support services, including debt collection, credit control services, quality control and administrative services, to the Xylem UK operating companies.

REVIEW OF BUSINESS

Group turnover increased in the year by 14.6% from £201,226k to £230,662k. Group operating profit increased by £7,480k to a profit of £2,985k compared to a loss of £4,495k in the prior year.

2021 saw an increase in revenue over 2020 as UK water utilities began spending on larger capital projects as part of their AMP cycle 5-year spending. This program started in 2020 and year 2 (2021) began to see these projects realising. During Q1 of 2021 we saw another lockdown in the UK which damaged our business. The lockdown meant customer site visits to perform maintenance and service visits was restricted, causing a loss of profit. This was however made up in quarters 2, 3 and 4 with increased product sales.

Higher than expected commodity prices, freight, and general demand for components outstripping supply globally continues to put pressure on our cost base. Despite a strong pipeline of orders and sales, ensuring strong relationships across our supply chain, demonstrating agility to support our customers, and commanding price has been key to maintaining profitability. As a result, a number of initiatives to manage risk, ensure adequate price realization and improve customer service levels were implemented in the year.

The Xylem UK Pension Plan (XUPP) plan entered into a 'buy-out' arrangement with an insurance company. With effect from 27 January 2020, when the risk was formally transferred, the bulk of the plan's assets were used to purchase annuities in the name of the Trustee to cover most of the plan's liabilities. As a result, the Group paid additional contributions over 2020 and 2021. The Group made gross contributions of £6,886k (2020: £6,972k) to the scheme whilst receiving credits from another group company of £2,410k (2020: £2,440k). The gross contributions to be paid to the scheme for 2022 are expected to be £2,040k.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

REVIEW OF BUSINESS (CONTINUED)

On 27 May 2021, the Group entered into an asset sale agreement with Jec Co., Ltd (the purchaser), a Korean joint stock company, selling a customer listing along with a small amount of fixed assets. In addition, the parties have entered into a Transitional Services Agreement pursuant to which the Group will provide certain services to the purchaser to assist the purchaser during a transition period of 5 months with the starting up of the business under the purchaser's ownership as well as with production and sales. Taking into account the required time for such a transfer, the Group has produced certain products, enabling the purchaser to be able to continue supplying customers and distributors. The net consideration received was £1,306k, realising a profit of £1,120k, which is included within profit on disposal of fixed assets.

In accordance with Xylem's strategy to develop manufacturing centres of excellence, optimize our footprint and remain competitive in the marketplace to better serve our customers, changes to our Speciality Flow (SFC) site in Hoddesdon have taken place, where the SFC production has transitioned to Hungary with our SFC support remaining in the UK. All manufacturing at Hoddesdon ceased on 27 March 2022. In the prior year, redundancy costs of £1,582k were included within these financial statements in relation to this change. In September 2021, the lease of the building at Hoddesdon was surrendered which resulted in an onerous lease provision amounting to £1,627k being provided in prior year financial statements. This property was finally vacated by the Group on 30 June 2022.

The resulting loss for the year after interest and taxation amounted to £2,211k compared to a loss of £6,658k in 2020. Defined benefit pension liabilities decreased from £16,574k to £7,050k in the year, resulting in net liabilities of £13,699k compared to net liabilities of £14,349k in 2020.

IMPACT OF COVID-19 PANDEMIC

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

The COVID-19 pandemic, as well as broader global market supply and demand dynamics, have adversely affected, and are expected to continue to adversely affect our supply chains. We have experienced and expect to continue experiencing shortages in the supply of raw materials. We have also experienced, and continue to experience, increased inflation, freight and logistics costs, issues with port congestion and delivery delays. To help mitigate the effects of these challenges we continue to enhance our risk management activities. To some extent, we have been able to pass cost increases through to customers. If these shortages and interruptions continue, or if additional interruptions occur, they could have a negative impact on our results of operations.

These supply chain issues have also impacted our delivery times to customers. To some extent, mitigation strategies have alleviated these issues, but our lead times continue to be impacted.

We have seen a recovery in demand for our products. The severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, and the future impacts on our business, financial condition, results of operations remain uncertain and difficult to predict.

Since the pandemic started, Xylem has taken measures to protect the health and safety of our employees, work with our customers to minimize potential disruptions and positively impact our communities. Many employees were working remotely from home, with no material disruption to operations, financial reporting systems, internal control over financial reporting or disclosure controls and procedures. However, from autumn 2022, many of our employees are now working from our offices on a hybrid basis.

We continue to assess the evolving nature of the pandemic and its possible implications to our business, employees, supply chain, customers and communities, and to take actions in an effort to mitigate adverse consequences.

2022 to date has experienced growth compared to prior year and product backlog is strong. However, challenges continue around global supply chains, increased freight and raw material costs.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

KEY PERFORMANCE INDICATORS

The Directors utilise various KPIs in order to measure the performance of the business against competitors and previous periods:

	2021	2020
EBITDA % of Turnover ⁽ⁱ⁾	3.3%	3.0%
EBITDA per employee (£'000) ⁽ⁱ⁾	£10	£7
Turnover per employee (£'000)	£286	£247

⁽ⁱ⁾ EBITDA is earnings before defined benefit pension credits, interest, tax, depreciation, amortisation impairments.

Turnover increased in the year by 14.6% from £201,226k to £230,662k, with an increase in EBITDA of 27.8% from £6,033k to £7,712k, resulting in an increase in the EBITDA % of turnover by 0.3%. Turnover per employee increased by £39k due to the increase in turnover and the number of employees decreasing in the year by 7. EBITDA per employee has increased by £3k as a result of the above.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks of the Group are defined below. The directors of the Group have reviewed these risks and have outlined below the actions taken to mitigate the potential impact.

Brexit

The Group trades within the European Union and works closely with other group companies which are based within the European Union. As a result, the Brexit referendum has created potential risks and uncertainties, specifically around the economic landscape within Europe.

We continue to monitor the impacts of Brexit on our supply chain, operations and financial results. The UK Parliament passed the European Union (Future Relationship) Act 2020 on 30 December 2020 which was approved by both parties from 1 January 2021. The new trading relationship between the UK and EU has increased, and will continue to increase, our costs. This has been noticeable on customs administration requirements for parties exporting into the UK where declarations are required and for UK entities within our group that are exporting and importing across the border with the European Union. Freight costs have increased due to a multitude of reasons not exclusive to Brexit but as a contributory factor. Internal costs have increased with the addition of a team skilled in dealing with import and export regulations and uncertainty in Northern Ireland has contributed to an unfavourable market. We have experienced, and may continue to experience, shipping delays given the need for customs inspections and other procedures at the border.

COVID-19 pandemic

The COVID-19 pandemic and resulting measures taken by governments to contain the virus negatively impacted our business from the later part of the first quarter of 2020. In addition, the macroeconomic uncertainty causes disruption to economic activity and it is unknown what the longer-term impact on our business may be. The scale and duration of the pandemic remain uncertain and while we have seen returning stability, we do expect further impact to our business. The main risks that we see relate to the operations of the UK business and the impact of reduction in the sales for these businesses due to the level of economic uncertainty for our customers with the industrial, building services and beverage markets being most likely to be impacted. We also have the continued additional health and safety measures to protect our people. We will continue to monitor the impact of COVID-19 pandemic on our financial position and operations and will take steps to actively manage what can be controlled.

Currency risk

Volatility in foreign currencies and other markets may also arise as the UK and EU work through the global inflation situation and the recent war in Ukraine. As a result, we face continued uncertainty and risks of disruptions in our supply chain and increased costs. In order to remain competitive, we may not be able to recover all or a portion of these higher costs from our customers through product price increases, although several price increases have been pushed out into the market.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Competition risk

The majority of the Group's revenue is derived from its activities within three main end markets; municipal, commercial building services and sub sectors of industry. These end markets are served through both direct and indirect channels, the biggest activity being linked to the municipal market which is driven by securing three to five year framework agreements with the principal customers, which reduces short-term risk and potential loss of revenue to key competitors. The Group manages this risk by providing a full portfolio of products and a complete solutions package to our target market, delivering customer value added services, being proactive to the demands of and maintaining strong relationships with its customers.

The remainder of the Group operates in mature trading markets meaning that keeping in touch with customer requirements is of the utmost importance. There are a number of other well-established brands operating in a number of sectors where the Group (via Xylem group arrangements) are present and the key drivers of competitiveness vary significantly market to market based on customer expectations. The Group has a strong focus on customer service and responsiveness and has established a strong internal network for sharing this data.

Technological risk

The products produced by the Group are the result of significant efforts in engineering and research and development technology over a longer period of time. It is imperative that the Group's products remain competitive in terms of performance and cost (amongst other market drivers). Supported by another company within the Xylem Group, research and development activities are undertaken to ensure that the products remain correctly positioned for the markets operated in.

Environmental/health & safety risk

The Group has a very strong culture of promoting the principals of having a safe working environment for all employees. This is a constantly ongoing process and covers all aspects of the business. When specific issues are identified they are addressed without delay and the appropriate actions are taken to remove or mitigate future risk.

The Group has a product offering that is compliant with the environmental requirements of all major markets. During 2021 our focus was on ensuring our pumps were fully compliant with changing diesel emissions regulations. Investments were also made with continued improvements to the R&D facilities. We have started to look at more sustainable and environmental alternatives to diesel engines.

Cash flow risk

The Group does not use foreign exchange forward contracts or interest rate swap contracts to hedge these exposures as the amounts involved are not material, but the risks are regularly reviewed to allow consideration of the introduction of appropriate measures.

Credit risk

The Group's principal financial assets are bank, trade and inter-company receivables. Policies and procedures exist to ensure that the trade debtors have an appropriate credit history. The amounts in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Price risk

The Group is exposed to commodity price risk. The Group does not manage its exposure to commodity price risk due to cost benefit considerations.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

FUTURE DEVELOPMENTS

Water Solutions UK Limited: the company continues to improve its business processes and customer services. The new AMP cycle for UK water companies began in 2020. After a difficult Q1 2021, the company started to see benefits from its water utilities sales vertical as UK companies continued on their AMP cycle spending programs to upgrade old infrastructure and reduce leakages through smart water meter networks. Upgrading pumping stations and treatment works to improve effluent quality were also key drivers. Our service business struggled in Q1 2021 due to another lockdown. In our building services sales vertical a fast ramp up in quarters 2, 3 and 4 saw a good recovery as commercial properties upgraded and competition struggled to recover from the lockdown allowing us to increase our market share. Our industry and Infrastructure sales vertical continued with solid growth towards the end of 2021 as customer spend continued to drive demand. Component shortage and resource shortage caused some delays in converting orders into revenue, this has driven a strong backlog for us to take into 2022. Plans in respect of public water and wastewater infrastructure, including water leakage reduction targets will also have a positive impact on Xylem over the coming years. Our technological prowess has already secured assessment services packages for 2022. Xylem service rental capabilities continue to perform and lay the groundwork for complete Xylem product solutions offerings as we strengthen our innovation footprint across all markets.

Xylem Dewatering Solutions UK Limited: the outlook for the financial year 2022 is positive. The business has recovered to pre-pandemic levels of volume and is managing the impact of Brexit effectively. Headwinds from supply chain on engine lead-times are being mitigated through buying strategies. The Directors have good visibility of opportunities within Emerging Markets and Europe to help grow the Godwin Brand in these regions. Together with sustained growth predicted in established markets, the company should see a benefit in volume throughout 2022 and beyond. The business is constantly working with our Intercompany Partners to realize opportunities to enhance the growth potential already in the business.

Bellingham & Stanley Limited: new products: building on our knowledge acquired since 2013 when we introduced the first iteration of the ADP600 polarimeter, in 2021 we launched our own inhouse version adopting Xylem's patented Peltier temperature control system as well as a number of other technological improvements that not only enhanced performance but also reduced the instrument costs. We also upgraded our RFM900-T refractometers to incorporate USP Class VI certified materials, opening up our opportunity base to pharmaceutical customers wishing to measure inline. With our OEM partner, we continued to test and develop our DSG Density Meter for launch in 2022. In addition, significant effort was made in the creation of a private label digital handheld refractometer based on our OPTi for an OEM customer, resulting in a framework agreement for 1300 units over two years. Technical support: due to shortfalls in the supply chain as a result of Covid-19, efforts were steered towards supporting the purchasing team resulting in the identification of the need to modernise our primary detector PCB to eliminate end-of-life components. This project is due to be completed in Q3-2022 and will eliminate hard to purchase components as well as modernise the circuitry and reduce costs. Research: as part of our wish to modernise and align with other Xylem platforms, we commenced research into "Linux" as a replacement for end-of-life Windows processors.

For all other business units it is not anticipated that there will be any fundamental changes to the business in the foreseeable future.

SECTION 172(1) STATEMENT

The directors are bound by their duties under the Companies Act 2006 and the manner in which these have been discharged, particularly their duty to promote the success of the Group for the benefit of its members as a whole, forms the core theme of this statement.

The following sets out how the directors, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006.

The Group sells the majority of its products and services to third parties, with the manufacturing divisions in both Hoddesdon and Quenington selling to another Xylem entity in Europe, services are also provided to other Xylem entities in Europe and the rest of the world.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

SECTION 172(1) STATEMENT (CONTINUED)

The Group purchases the majority of its products from other Xylem entities throughout Europe and the rest of the world. The Directors recognise that the Group's own performance is very dependent on the performance of the other Xylem entities. A priority for us is to contribute to society, the environment & the economy, being a socially responsible business shaped by our decision making considering all stakeholders.

The Group prepares monthly management accounts and rolling forecasts using prescribed financial and non-financial KPI's under the direction of Xylem Inc. The management accounts are reviewed and compared to forecasts and budgets. Directors and senior management meet on a quarterly basis to review group-wide activity and to discuss significant issues in more detail as required to ensure results are in line with expectations and the strategic plan of Xylem Inc.

Ensuring the customer is at the heart of decision making by the board is key to the success of the Group. Regular meetings are held with all levels of our management teams and customers to ensure extensive customer engagement shapes our business plan. Delivering to high standards for our customers is discussed at every Board meeting to ensure we continue to successfully serve them with the provision of the highest quality of goods and services.

Our fellow Xylem entities are our key suppliers who support us along with our employees in delivering for our customers. Strong relationships with these suppliers ensure sustainable, high quality delivery for the benefit of all stakeholders. Commercial performance is discussed at every Board meeting, including an update on performance within these entities.

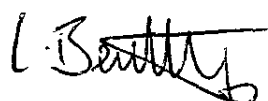
Our employees are central to the Group's overall success, properly incorporating their views into our decision-making process is fundamental to what we do. Regular town hall meetings are held within the Group, in large meeting rooms with online sign-in for those who are unable to attend or work at other sites, enabling formal updates, with question and answer sessions. This allows us to provide an inclusive and diverse place to work; amplifying the employee voice in many company decisions.

Stakeholder considerations are an integral part of the decisions made by the Directors. At times these decisions inevitably adversely affect one or more of the stakeholders, but the Directors ensure that any group that is impacted is treated fairly. Xylem's processes and procedures take into account all stakeholders when making long-term decisions which bare significant importance to the Group. We have a delegation of authority process for sign off for Group spend involving multiple stakeholders. For large scale projects, cross functional teams are established, and employee representatives are consulted in accordance with appropriate guidelines. The Business Continuity Planning team also ensures we have systems and processes in place for business continuity during times of change or unexpected business disruption.

With recent trading being particularly difficult, many decisions during 2020 and 2021 have focused on cost rationalisation. These can be particularly difficult decisions when employment levels have to be reduced, but the Directors are well aware of the impact this can have on employees and the local community. Due to the impact of COVID-19 pandemic, Brexit, the cyclical nature of our business the Group regrettably made a small number of redundancies amounting to £242k in 2021.

During the 2020, changes began within our Speciality Flow (SFC) site in Hoddesdon to move SFC production from Hoddesdon to Hungary but to maintain our SFC support in the UK, in accordance with Xylem's strategy to develop manufacturing centres of excellence, optimize our footprint and remain competitive in the market place to better serve our customers. All SFC production has now fully transitioned to Hungary, with all manufacturing at Hoddesdon ceasing on 27 March 2022. In the prior year, redundancy costs of £1,582k were included within these financial statements in relation to this change. In September 2021, the lease of the building at Hoddesdon was surrendered but not fully vacated by the Group until 30 June 2022, when the site closed.

This report was approved by the Board of directors on 20 December 2022 and signed on behalf of the Board by:



L J Bentley
Director

XYLEM WATER HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report, together with the audited consolidated financial statements and independent auditor's report of Xylem Water Holdings Limited (the 'Company') together with its subsidiaries (the 'Group') for the year ended 31 December 2021. The Company is registered as a limited company and domiciled in the United Kingdom.

FUTURE DEVELOPMENTS

The anticipated future developments of the Group have been discussed within the Strategic Report on page 5.

POST BALANCE SHEET EVENTS

We continue to assess the evolving nature of the pandemic and developments in Ukraine, along with the possible implications to our business, employees, supply chain, customers and communities, and to take actions in an effort to mitigate adverse consequences. Our markets and operations have largely demonstrated resilience against the effects of the pandemic. However, we have experienced, and may continue to experience, shortages in the supply of components, including electronics, parts and raw materials. In addition to impacts on our supply chain, we have also experienced, and continue to experience other impacts from the macroeconomic conditions, including increased inflation of materials and labour, energy, overhead, freight and logistics costs, and are engaging in various mitigation strategies and activities, including productivity and price realization efforts. Specifically, our productivity efforts include selective chip allocation, product redesigns, alternate sourcing options, and global procurement efforts to mitigate inflationary impacts. We have also initiated restructuring plans to further optimize our cost structure.

All manufacturing at our Hoddesdon site discontinued on 27 March 2022. It is anticipated that Water Process Limited, the subsidiary company based in Hoddesdon, will become dormant before 31 December 2022.

On 30 September 2022, the 'Buy-out' arrangement with an insurance company of the Xylem UK Pension Plan (XUPP) was completed.

RESEARCH AND DEVELOPMENT

The R&D activity in 2021 and going into 2022 is focused on three main areas, bringing new innovative pump products to market such as the ultra-high head-pump and the SD150M, bringing the hydraulics of existing products to the latest pump performance standards and moving our diesel driven units to use the latest stage 5 emission compliant engines. Hydraulic design uses the latest CFD technology to optimise the pump performance, combined with extensive testing and product evaluation to validate performance predictions. Implementing Stage 5 compliant engines involves working closely with the engine manufacturers to ensure their after-treatment technology is applied correctly to optimize pollution control and engine efficiency solutions are validated by extensive site testing done in conjunction with the engine manufacturer. The controller software used with these engines has been heavily re-designed to communicate with the new technology employed by the engine manufacturer. The combination of high efficiency pumps and the latest diesel engine technology makes the Godwin products one of the leading pump manufacturers in the portable pumping market.

FINANCIAL RISK MANAGEMENT

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group focuses on efficient working capital management.

The directors consider the banking and group facilities available to the Group are adequate going forward. The Group participates in bank balance pooling at the end of each day, giving rise to an intercompany balance with Xylem Europe GmbH (a Group Treasury Facility). The credit risk on liquid funds is limited because the counterparties are banks with internationally recognised credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group has minimal currency and commodity price risks in relation to purchases as the majority are made from Group suppliers who invoice in Sterling. In relation to sales, there is some exposure as some customers are invoiced in foreign currency. However, the directors consider the exposure to be minimal as the total amount invoiced in foreign currency is minimal compared to the total turnover.

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

GOING CONCERN

The COVID-19 pandemic has had an adverse impact on our employees, customers, supply chain, operations and sales. In addition, the broader global market supply and demand dynamics have impacted, and continue to impact our supply chain with unpredictable disruptions, due to raw material shortages, capacity constraints, delays in shipment of materials necessary to the manufacture of our products, freight and logistics challenges and inflation.

While we have taken measures to mitigate these impacts, our manufacturing facilities, supply chain and logistics may continue to be impacted. Accordingly, the pandemic has negatively impacted our revenue growth due to a decline in sales and customer orders throughout 2021. However, during 2022 to date we have experienced growth and product backlog has been strong. *Challenges continue around global supply chains, increased freight and raw material costs.* It is uncertain how materially the COVID-19 pandemic, including additional mutations of the virus, and changing macroeconomic environment will affect our operations and sales if these impacts persist or re-emerge throughout 2023 and beyond. We cannot therefore reasonably estimate the impacts on our markets, business, financial position, results of operations and cash flows.

Our actions have focused on preserving our financial resilience and strategically positioning of the Group for new customer needs and market trends accelerated by the pandemic. The disruption to the supply chain has been limited through management actions at Xylem production facilities to enable manufacturing to continue and to support logistics and distribution operations. As a result of the dedication of our teams and the steps we have taken steps to adapt, the UK Group has continued to supply goods and services to customers.

The UK Group is supported by its ultimate parent company, Xylem Inc., via loans from Xylem Europe GmbH, the ultimate parent has confirmed that financial support will be continued in order to allow the group companies to meet liabilities as they become due and to carry on business without significant curtailment of operations for 12 months from the date of signing the financial statements. Xylem Inc. issued a \$1bn green bond at the end of June 2020 of which funds could be lent to Xylem Europe GmbH if required. Additionally, the directors have reviewed details of Xylem Europe GmbH access to credit and loan facilities and the cash flow position and have a reasonable expectation that the Xylem Inc. have sufficient financial resources available to provide support in the future. The Q3 2022 consolidated results of Xylem Inc reported revenue for the third quarter of 2022 of \$1,380 million, an increase of 9.1% compared to \$1,265 million reported in the third quarter of 2021. On a constant currency basis, revenue increased by \$195 million, or 15.4%, driven by organic growth across all segments and in all end markets. This sets us up for growth to then end of 2022 and beyond. Maintaining growth momentum and staying disciplined on cost management are key to delivering on full-year financial commitments. Advancing our shared mission and purpose by delivering on strategy and sustainability goals.

We continue to monitor the impacts of Brexit on our supply chain, operations and financial results. The new trading relationship between the UK and EU has increased, and will continue to increase, our costs. Freight costs have increased due to multitude of reasons not exclusive to Brexit but as a contributory factor. Internal costs have increased with the addition of a team skilled in dealing with import and export regulations and uncertainty in Northern Ireland has contributed to an unfavourable market. We have experienced, and may continue to experience, shipping delays given the need for customs inspections and other procedures at the border.

Volatility in foreign currencies and other markets may also arise as the UK and EU work through the global inflation situation and the recent war in Ukraine. As a result, we face continued uncertainty and risks of disruptions in our supply chain and increased costs. In order to remain competitive, we may not be able to recover all or a portion of these higher costs from our customers through product price increases, although several price increases have been pushed out into the market.

The directors are satisfied that the risks have been identified and that the plans in place will enable the UK Group to deal with the challenges and minimize the financial impact. Overall, the directors have a reasonable expectation that the UK Group will continue to operate effectively and are confident in receiving continued access to financial resources from Xylem Inc. such that the Group has adequate resources to continue operating for the foreseeable future. Therefore, the financial statements have been prepared on the going concern basis.

DIVIDENDS

The directors are not proposing to pay a dividend in 2021 (2020: £nil). No dividends have been proposed since the year end.

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

DIRECTORS

The directors who served during the year and to the date of the approval of the financial statements are shown below:

M A Turner
I L Thompson
P A Morris
L J Bentley (appointed 28 January 2021)
K A Knight (appointed 15 July 2021)
C J Rhodes (resigned 28 January 2021)
B A West (resigned 30 July 2021)

DIRECTORS' INDEMNITY AND INSURANCE

The Group maintains directors' and officers' liability insurance. All the Group's directors have received an indemnity to the extent permitted by law from the Group. Neither the indemnity nor the insurance provides cover in situations where a director has acted fraudulently or dishonestly.

CHARITABLE DONATIONS

Charitable donations of £1k (2020: £10k) were made during the year.

BUSINESS RELATIONSHIPS

Throughout 2021 the Group continued to maintain its close working relationships with suppliers, customers and others which included a supplier management process, review meetings with key suppliers addressing concerns, regular touchpoints with key customers from field staff and management and ensuring that any disputes or disagreements were followed up in a timely manner.

As part of a change in leadership in late 2019, the Group's Business Continuity Plan and process was reviewed to ensure it was updated to reflect new structure and responsibilities and that our supply chain was robust enough to meet stakeholder's needs.

Given there was a change in the leadership in late 2019, some initiatives to get closer to our suppliers, customers and other partners commenced later in that year and are ongoing in 2022. This includes facilitating closer relationships with key customers/segments and also leveraging our full Xylem offering to meet their needs.

Our marketing team engaged stakeholders through targeted campaigns and webinars, resulting in leads and feedback.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of the members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that the appropriate level of training is arranged. It is the policy of the Group that training, career development and promotion of disabled persons should as far as possible, be identical to that of other employees.

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Details of employees and various headcount related information is highlighted in note 6 to the financial statements.

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

EMPLOYEE ENGAGEMENT

The directors of the Group have engaged with employees across the year in a number of ways including but not limited to:

- Online town halls and communications meetings, communicating business results and employee recognitions.
- Watermark activities which encourage our staff to participate in activities which benefit our communities and link to the Group's mission, vision and values.
- Safety engagement initiatives such as safety walks, safety chats program and a specific safety game, which resulted in the business winning Xylem's CEO Safety Award.
- Regular meetings with our employee representatives, skip level meetings with different layers of staff across different geographies, and discussions with our Human Resources staff, discussing various topics such as change, training and development, engagement, communications and the work environment.

As a result of feedback, we have had a particular focus on communicating business results and employee wellbeing. This has resulted in:

- The rollout, promotion and use of our Mental Health First Aider program and associated initiatives to encourage peer to peer support.
- More use of XylemNow, our company communication web page to share business wins, local information and promote a sense of unity among the team particularly for remote employees.
- A specific engagement program with dedicated training on change management and peer support, for the rollout of ServiceMax, our Service Management system in 2020.
- Regular Site Communications meetings at key sites.
- The launch of a new employee reward and recognition program.
- Regular communication about our Employee Assistance Program to ensure that employees who are struggling in their home or work life are getting the support they need.
- Improved quality of exit interviews for leavers and tracking of employee attrition, to better identify actions impacting attrition and morale.

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities and employs an Environment, Health and Safety Coordinator to ensure that the Group operates within Xylem policies and implements initiatives designed to minimise the Group's impact on the environment, including safe disposal of manufacturing waste, recycling and reducing energy consumption.

The Group is committed to controlling, so far as reasonably practicable, the impacts on the environment through the way we conduct our business and the supply of products to our customers. It is the intention of the management team to conduct business in a manner that meets the needs of today without compromising the needs of future generations, maintaining a sustainable future. To achieve this the Group will:

- Ensure compliance with all applicable laws and regulations and other standards to which the company subscribes and is required to meet.
- Prevent and/or reduce the risk of pollution through soil, air and water
- Enhance employee health, safety and welfare
- Participate in community projects and development
- Ensure the protection of the public
- Minimise the consumption of natural resources in the supply, maintenance and repair of our products
- Reduce energy consumption at all facilities
- Reduction of waste to landfill
- Provide documented operating policies and procedures
- Promote aims and objectives through the supply chain
- Maintaining our ISO 14001 certification

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

ENVIRONMENT (CONTINUED)

The Directors, Heads of Departments and all Managers of the Group give their full support to our Environmental and Sustainability objectives, which are an integral part of its operational and management functions. Actively our sustainability groups are working on our key objectives for the Group, customers and the wider community. Challenging targets have been set and the Group is engaged on meeting the following goals on a year on year basis until 2025:

- 5% reduction in non & hazardous waste to landfill leading to elimination of waste to landfill by 2025.
- 4% reduction in water usage leading to 100% reuse of processed water at our major facilities.
- 5% reduction in Greenhouse Gas emissions.

ENERGY AND CARBON REPORTING

Xylem is committed to the protection of the environment and the reduction of its carbon footprint. Changes introduced by the 2018 Regulations of the Companies Act 2016 require the Directors to report on the energy and carbon information relating to the Group.

The related carbon footprint, measured by tCO₂e tonnes, is calculated from the usage data submitted for energy usage from gas and electric, outbound product deliver, and business travel activity. Conversion factors are applied on the basis of business location. UK based data is converted using the UK Department for Environment Food & Rural Affairs (DEFRA) tCO₂e factors. Conversion factors are updated annually to reflect the factors published by DEFRA that are in effect as of 31 December each reporting year.

The total annual energy consumption for the year ending 31 December 2021 was 14,422,667 kWh, which provides total CO₂e emissions of 3,387 tonnes, as indicated below.

	2021		2020	
	Emissions - tCO ₂ e	Energy consumption used to calculate the emissions – kWh	Emissions - tCO ₂ e	Energy consumption used to calculate the emissions – kWh
Scope 1 (Direct) GHG emissions:				
Combustion of gas in buildings	255	1,391,744	293	1,596,377
Combustion of fuel for transport purposes	2,040	8,519,860	2,046	8,365,538
Combustion of LPG in buildings and on-site transport	47	170,842	31	145,980
Combustion of gas oil in buildings	403	1,570,899	431	1,677,019
Scope 1 total	2,745	11,653,345	2,801	11,784,914
Scope 2 (Indirect) GHG emissions:				
Purchase of electricity for buildings (location-based grid average)	566	2,664,439	800	3,130,821
Scope 2 total	566	2,664,439	800	3,130,821
Scope 3 (Other indirect) GHG emissions:				
Business travel in employee-owned vehicles	26	104,883	1	5,480
UK electricity Transmission & Distribution	50		68	
Scope 3 total	76	104,883	69	5,480
Totals	3,387	14,422,667	3,670	14,921,215
Revenue - £m		231		201
Intensity ratio:				
tCO₂e gross figure / £m revenue		15		18

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

AUDITOR

Pursuant to section 487(2) of the Companies Act 2006, the auditor will be deemed to be re-appointed and Deloitte LLP will therefore continue in office.

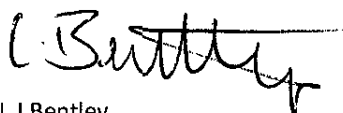
DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are a director of the Group at the date of approval of this report confirms that:

- So far as each of the directors is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- each of the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board of directors on 20 December 2022 and signed on behalf of the Board by:

A handwritten signature in black ink, appearing to read 'L J Bentley', with a horizontal line extending from the end of the signature.

L J Bentley
Director

XYLEM WATER HOLDINGS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED (CONTINUED)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Xylem Water Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the reconciliation of group net cash flow to movement in net debt;
- the related consolidated group notes 1 to 28;
- the parent company balance sheet;
- the parent company statement of changes in equity; and
- the related parent company notes 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED (CONTINUED)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and pension and tax legislation and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as pensions and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED (CONTINUED)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

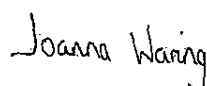
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Joanna Waring FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

Date: 20 December 2022

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Turnover	3	230,662	201,226
Cost of sales		(189,790)	(167,453)
Gross profit		40,872	33,773
Administrative expenses		(20,044)	(24,043)
Selling and distribution expenses		(21,491)	(16,779)
Profit/(loss) on disposal of fixed assets		1,185	(15)
Other operating income	4	2,463	2,569
Operating profit/(loss)		2,985	(4,495)
Dividends received		630	1,813
Profit/(loss) before interest and taxation		3,615	(2,682)
Interest receivable and similar income	8	4	90
Interest payable and similar charges	9	(3,918)	(4,025)
Other finance costs	10	(179)	(164)
Loss before taxation		(478)	(6,781)
Tax (charge)/credit on loss	11	(1,733)	123
Loss for the financial year		(2,211)	(6,658)

Notes 1 to 28 on pages 24 to 60 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Loss for the financial year		<u>(2,211)</u>	<u>(6,658)</u>
Other comprehensive income/(expense):			
Deferred tax (charge)/credit relating to other comprehensive income	18	(1,386)	1,386
Actuarial gain (loss) on defined benefit pension scheme	20	<u>4,247</u>	<u>(11,242)</u>
Total comprehensive income/(expense) for the year		<u><u>650</u></u>	<u><u>(16,514)</u></u>

Notes 1 to 28 on pages 24 to 60 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Non-current assets			
Intangible assets	12	194	4,875
Tangible assets	13	7,466	7,058
Deferred tax asset	18	2,709	4,393
		<u>10,369</u>	<u>16,326</u>
Current assets			
Stocks	14	18,707	15,975
Debtors	15	132,320	130,470
Cash at bank and in hand		3,613	2,987
		<u>154,640</u>	<u>149,432</u>
Creditors: amounts falling due within one year	16	<u>(126,555)</u>	<u>(42,493)</u>
Net current assets		<u>28,085</u>	<u>106,939</u>
Total assets less current liabilities		<u>38,454</u>	<u>123,265</u>
Creditors: amounts falling due after more than one year	17	<u>(45,103)</u>	<u>(119,227)</u>
Provisions for liabilities and charges	19	<u>-</u>	<u>(1,813)</u>
Net assets before pension liability		<u>(6,649)</u>	<u>2,225</u>
Defined benefit pension liability	20	<u>(7,050)</u>	<u>(16,574)</u>
Net liabilities		<u><u>(13,699)</u></u>	<u><u>(14,349)</u></u>
Capital and reserves			
Called up share capital	21	2	2
Share premium account	21	271,999	271,999
Profit and loss account	21	<u>(285,700)</u>	<u>(286,350)</u>
Total deficit		<u><u>(13,699)</u></u>	<u><u>(14,349)</u></u>

Notes 1 to 28 on pages 24 to 60 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 December 2022 and are signed on its behalf by:



L J Bentley
Director

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2020	2	271,999	(269,836)	2,165
Loss for the financial year	-	-	(6,658)	(6,658)
Other comprehensive income:				
Deferred tax credit relating to other comprehensive income (note 18)	-	-	1,386	1,386
Actuarial loss on defined benefit pension scheme (note 20)	-	-	(11,242)	(11,242)
Balance at 31 December 2020	<u>2</u>	<u>271,999</u>	<u>(286,350)</u>	<u>(14,349)</u>

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2021	2	271,999	(286,350)	(14,349)
Loss for the financial year	-	-	(2,211)	(2,211)
Other comprehensive income/(expense):				
Deferred tax charge relating to other comprehensive income (note 18)	-	-	(1,386)	(1,386)
Actuarial gain on defined benefit pension scheme (note 20)	-	-	4,247	4,247
Balance at 31 December 2021	<u>2</u>	<u>271,999</u>	<u>(285,700)</u>	<u>(13,699)</u>

Notes 1 to 28 on pages 24 to 60 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Net cash inflow from operating activities	22	1,684	1,085
Returns from investments and servicing of finance:			
Interest received		4	43
Net cash inflow from returns on investments and servicing of finance		4	43
Income tax refunded		-	1,108
Cash flows from financing activities			
Purchase to acquire tangible assets		(2,280)	(2,121)
Purchase to acquire intangible assets		(166)	(55)
Receipts from sales of tangible assets		1,397	128
Net cash outflows for capital expenditure and financial investment		(1,049)	(2,048)
Net cash inflow before financing		639	188
Financing:			
Finance lease repayments		(12)	(12)
Interest paid on finance lease		(1)	(1)
Net cash outflow from financing		(13)	(13)
Net increase in cash and cash equivalents		626	175

Notes 1 to 28 on pages 24 to 60 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED**RECONCILIATION OF GROUP NET CASH FLOW TO MOVEMENT IN NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 £'000	2020 £'000
Increase in cash	22	626	175
Net repayment of finance leases	22	12	12
Change in net debt resulting from cash flows		638	187
Other non-cash movements	22	-	-
Movement in net debt		638	187
Opening net debt	22	(116,082)	(116,269)
Closing net debt	22	(115,444)	(116,082)

Notes 1 to 28 on pages 24 to 60 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies

Company information

Xylem Water Holdings Limited ("the company") is a private limited company, limited by shares, domiciled and incorporated in England and Wales. The registered office is at Private Road No 1, Colwick Industrial Estate, Nottingham, United Kingdom, NG4 2AN. The company's principal activity is to act as a holding company for a group of companies which are involved in the manufacture of products and provision of services within the water industry.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2016, and under the historical cost convention, modified to include certain items at fair value.

The financial statements are presented in sterling which is the functional currency of the Group. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company balances, transactions and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

No profit or loss account is present for the Company as permitted by section 408 of the Companies Act 2006. The loss for the financial year of the Company was £2,498k (2020: loss of £1,265k).

The financial statements of the Group are consolidated in the financial statements of Xylem Inc. The consolidated financial statements of Xylem Inc. are available from its registered office at 301 Water Street SE, Washington, DC 20003, USA.

Subsidiary audit exemptions

Xylem Water Holdings Limited has issued guarantees over the liabilities of the following companies at 31 December 2021 under section 479C of the Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of their individual financial statements by virtue of section 479A of the Act:

- Xylem Water Solutions UK Holdings Limited (registered no. 04464243)
- Bellingham & Stanley Limited (registered no. 00140250)
- Xylem Water Services Limited (registered no. 02553725)
- Xylem Water Solutions UK Limited (registered no. 00479504)
- Water Process Limited (registered no. 04523662)
- Xylem Water Solutions Rugby Limited (registered no. 02755486)
- Xylem Dewatering Solutions UK Limited (registered no. 00254887)

Going concern

The COVID-19 pandemic has had an adverse impact on our employees, customers, supply chain, operations and sales. In addition, the broader global market supply and demand dynamics have impacted, and continue to impact our supply chain with unpredictable disruptions, due to raw material shortages, capacity constraints, delays in shipment of materials necessary to the manufacture of our products, freight and logistics challenges and inflation.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Going concern (continued)

While we have taken measures to mitigate these impacts, our manufacturing facilities, supply chain and logistics may continue to be impacted. Accordingly, the pandemic has negatively impacted our revenue growth due to a decline in sales and customer orders throughout 2021. However, during 2022 to date we have experienced growth and product backlog has been strong. Challenges continue around global supply chains, increased freight and raw material costs. It is uncertain how materially the COVID-19 pandemic, including additional mutations of the virus, and changing macroeconomic environment will affect our operations and sales if these impacts persist or re-emerge throughout 2023 and beyond. We cannot therefore reasonably estimate the impacts on our markets, business, financial position, results of operations and cash flows.

Our actions have focused on preserving our financial resilience and strategically positioning of the Group for *new customer needs and market trends accelerated by the pandemic*. The disruption to the supply chain has been limited through management actions at Xylem production facilities to enable manufacturing to continue and to support logistics and distribution operations. As a result of the dedication of our teams and the steps we have taken steps to adapt, *the UK Group has continued to supply goods and services to customers*.

The UK Group is supported by its ultimate parent company, Xylem Inc., via loans from Xylem Europe GmbH, the ultimate parent has confirmed that financial support will be continued in order to allow the group companies to meet liabilities as they become due and to carry on business without significant curtailment of operations for 12 months from the date of signing the financial statements. Xylem Inc. issued a \$1bn green bond at the end of June 2020 of which funds could be lent to Xylem Europe GmbH if required. Additionally, the directors have reviewed details of Xylem Europe GmbH access to credit and loan facilities and the cash flow position and have a reasonable expectation that the Xylem Inc. have sufficient financial resources available to provide support in the future. The Q3 2022 consolidated results of Xylem Inc reported revenue for the third quarter of 2022 of \$1,380 million, an increase of 9.1% compared to \$1,265 million reported in the third quarter of 2021. On a constant currency basis, revenue increased by \$195 million, or 15.4%, driven by organic growth across all segments and in all end markets. This sets us up for growth to then end of 2022 and beyond. Maintaining growth momentum and staying disciplined on cost management are key to delivering on full-year financial commitments. Advancing our shared mission and purpose by delivering on strategy and sustainability goals.

We continue to monitor the impacts of Brexit on our supply chain, operations and financial results. The new trading relationship between the UK and EU has increased, and will continue to increase, our costs. Freight costs have increased due to multitude of reasons not exclusive to Brexit but as a contributory factor. Internal costs have increased with the addition of a team skilled in dealing with import and export regulations and uncertainty in Northern Ireland has contributed to an unfavourable market. We have experienced, and may continue to experience, shipping delays given the need for customs inspections and other procedures at the border.

Volatility in foreign currencies and other markets may also arise as the UK and EU work through the global inflation situation and the recent war in Ukraine. As a result, we face continued uncertainty and risks of disruptions in our supply chain and increased costs. In order to remain competitive, we may not be able to recover all or a portion of these higher costs from our customers through product price increases, although several price increases have been pushed out into the market.

The directors are satisfied that the risks have been identified and that the plans in place will enable the UK Group to deal with the challenges and minimize the financial impact. Overall, the directors have a reasonable *expectation that the UK Group will continue to operate effectively and are confident in receiving continued access to financial resources from Xylem Inc. such that the Group has adequate resources to continue operating for the foreseeable future*. Therefore, the financial statements have been prepared on the *going concern basis*.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Turnover

Turnover is recognised at the fair value of the consideration received or receivable for the sale of goods, services and rental of equipment to external customers in the ordinary nature of the business. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates. Turnover is shown net of Value Added Tax.

Turnover from the sale of goods is recognised when it and the associated costs can be measured reliably, future economic benefits are probable, and the risks and rewards of ownership have been transferred to the customer. Sales of goods are recognised when goods are delivered, and legal title has passed, and the Group has no continuing managerial involvement associated with ownership or effective control of the goods sold. This is generally when goods have been checked and accepted by the customer on delivery at the specified location.

Turnover for the supply of services represents the value of services provided under contracts to that the extent that there is a right to a consideration received or receivable. Where a contract has only been partially completed at the balance sheet date, turnover represents the fair value of the service provided based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of the service provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Turnover from the rental of equipment is recognised on an accruals basis in accordance with the substance of the relevant agreement. Income is determined on a time basis recognised on a straight-line basis over the period of the agreement.

Turnover from services provided to Xylem Europe GmbH is based on a mark-up of costs as per the contract for the provision of services between the Company and Xylem Europe GmbH. Turnover is recognised when costs incurred can be estimated reliably and is shown net of Value Added Tax. It is recognised at the fair value of the consideration received or receivable for services provided in normal course of business.

Long-term contracts

When the outcome of a long-term contract can be reasonably estimated, and it is probable that the contract will be profitable, turnover and costs are recognised over the period of the contract.

When it is probable that total contract costs will exceed total contract turnover, the expected loss is recognised as an expense immediately.

When the outcome of a long-term contract cannot be estimated reliably, contract turnover is recognised only to the extent of contract costs that are recoverable and the contract costs are expensed as incurred.

The Group uses the "percentage of completion method" to determine the appropriate amount of turnover to recognize in a given period. The stage of completion is determined by assessing the physical proportion of completed contract work. Costs that have been incurred in relation to the stage of completion are recognized, whereas costs that have been invoiced but not yet incurred are presented as stocks, prepayments or other assets, depending on their nature and provided it is probable they will be recovered.

Bank interest accruing on capital borrowed to fund the production of long-term contracts is carried forward within long-term contract balances.

Government grants

Government grants are recognised on the accrual model and are measured at the fair value of the asset received or receivable. Grants relating to revenue are classified within other operating income within the period in which the receipt relates.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Finance income

Finance income relates to interest received and is recognised in the profit and loss account on an accruals basis.

Borrowing costs

The costs of borrowing on interest bearing loans are recognised in the profit and loss account on an accruals basis. Interest is calculated using the effective interest rates determined by the prevailing market interest rates.

The Group has applied the following amendments to FRS 102 issued by the FRC for the first time during the year. The amendments issued by the FRC in December 2020. The amendments enable the entity to reflect the effects of transitioning from LIBOR to SONIA without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group is exposed to LIBOR in its intercompany loan balances.

Intangible assets - goodwill

Goodwill is capitalised and written off evenly over 5-10 years as in the opinion of the directors, this represents the period over which the goodwill is expected to give rise to economic benefits.

Intangible assets other than goodwill

Intangible assets arising on a business combination are recognised, except where the asset arises from legal or contractual rights, and there is no history or evidence of exchange transactions for the same or similar assets and estimating the asset's fair value would depend on immeasurable variables.

Intangible assets are initially recognised at cost (which for intangible assets acquired in a business combination is the fair value at acquisition date) and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets relate to purchased software and acquired trademarks. Intangible assets are amortised to profit or loss on a straight-line basis over their useful lives, as follows:

Software	3 to 5 years
----------	--------------

Amortisation is revised prospectively for any significant change in useful life or residual value.

On disposal the difference between the net disposal proceeds and the carrying amount of the intangible asset is recognised in the profit and loss account.

Tangible assets

Tangible assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is provided on all tangible assets, other than assets under the course of construction, at rates calculated to write off the cost or valuation of each asset to its estimated residual value on a straight-line basis over its expected useful life, as follows:

Long leasehold land & building improvements	over life of lease
Freehold improvements	2% to 5%
Plant & machinery	10% to 33%
Motor vehicles	10% to 25%
Fixtures, fittings & computer equipment	10% to 33%

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Tangible assets (continued)

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life. Freehold land and assets under the course of construction are not being depreciated.

Impairment of tangible assets

At each reporting end date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

Interests in subsidiaries are assessed for impairment at each reporting date. Any impairments losses or reversals of impairment losses are recognised immediately in the profit and loss account.

Stocks

Stocks are valued at the lower of cost and estimated selling price less costs to complete and sell. Cost includes direct material and labour costs and an attributable proportion of manufacturing overheads based on normal levels of activity. Costs is calculated using the FIFO (first-in, first-out) method.

At each reporting date, the Group assesses whether stocks are impaired or if an impairment loss recognised in prior periods has reversed. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in the profit and loss account.

Reversals of impairment losses are also recognised in the profit and loss account.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments that comply with all of the condition of paragraph 11.9 of FRS 102 are classified as 'basic'. For debt instruments that do not meet the conditions of FRS 102.11.9, the Group considers whether the debt instrument is consistent with the principle in paragraph 11.9A of FRS 102 in order to determine whether it can be classified as basic. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method. Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting conditions of being 'basic' financial instruments are measured at fair value through the profit and loss account.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments in non-derivative instruments that are equity of the issuer (where shares are publicly traded, or their fair value is reliably measurable) are measured at fair value through profit or loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

In the Company balance sheet, investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Financial instruments (continued)

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of transaction costs.

(iv) Derivative financial instruments

The Group does not use derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

(v) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Provisions

Provisions are recognised when the Group has a legal or constructive present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Provisions (continued)

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in the profit and loss account in the period it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Retirement benefits

The Group operates a defined contribution scheme and also contributes to three separate Group retirement benefit schemes.

Defined contribution plan

The amount charged to profit or loss in respect of pension costs and other post-retirement benefits represent the contributions payable in the year by the Group. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Defined benefit schemes

The Group is a member of three Group defined benefit schemes. The assets of the schemes are managed separately from those of the Company. The costs recognised by the Group are determined, where applicable, by contractual agreements for charging the defined benefit costs between the Group and other group companies.

The defined benefit schemes are valued every three years by a professionally qualified independent actuary. These plans have now closed. The cost of providing benefits under each defined benefit scheme is determined separately for each plan using the projected unit credit method and is based on actuarial advice.

The change in the defined benefit asset/ (liability) arising from employee service during the year is recognised as an employee cost within operating profit or loss. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as incurred.

The net interest element is determined by multiplying the defined benefit liability by the discount rate, taking into account any changes in the defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the defined benefit liability excluding amounts included in net finance income/(cost). These are recognised immediately in other comprehensive income in the period in which they occur and are not reclassified to profit and loss in subsequent periods.

The defined benefit pension asset/(liability) in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Share-based payments – Xylem Group plans

The Group participates in a share-based payment arrangement granted to its employees and employees of its subsidiaries. The Group has elected to recognise and measure its share-based payment expense on the basis of a reasonable allocation of the expense for the group. The directors consider the number of unvested options granted to the Group's employees compared to the total unvested options granted under the group plan to be a reasonable basis for allocating the expense.

Leases

Assets held under finance lease, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payment as determined at the inception of the lease) are depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations is recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Foreign exchange

Transactions in currencies other than the functional currency are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are not considered to be any critical judgements.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Pension scheme - estimate

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. There is no exposure on the bought in liabilities which reduces the risk. See note 20.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Turnover

An analysis of the Group's revenue (including turnover) by category is as follows:

	2021	2020
	£'000	£'000
Sale of goods	194,044	163,217
Rendering of services	24,764	23,951
Income from long term contracts	6,246	8,376
Rental income	5,608	5,682
	<u>230,662</u>	<u>201,226</u>

An analysis of the geographical location of the Group's turnover is as follows:

	2021	2020
	£'000	£'000
United Kingdom	141,875	136,663
Rest of Europe	82,721	58,314
Rest of World	6,066	6,249
	<u>230,662</u>	<u>201,226</u>

4. Other operating income

	2021	2020
	£'000	£'000
Defined benefit pension credits (note 20)	2,410	2,440
Coronavirus Job Retention Scheme income	53	129
	<u>2,463</u>	<u>2,569</u>

The Group receives contributions to its defined benefit pension plan (XUPP) from Xylem Europe GmbH, a fellow group company.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

5. Operating profit/(loss)

	2021	2020
	£'000	£'000
Operating profit/(loss) is stated after charging/(crediting):		
Amortisation of intangible assets (note 12)	4,847	9,668
Depreciation of tangible fixed assets (note 13)	1,648	1,475
Depreciation of tangible fixed assets held under finance lease (note 13)	12	12
(Profit)/loss on disposal of tangible fixed assets	(1,185)	15
Fees payable to the Group's auditor for services in relation to:		
- audit of the Group financial statements	315	300
- audit of the Company financial statements	15	15
- taxation compliance services	-	16
Exchange losses/(gains)	505	(416)
Stock provision expense	1,507	1,000
Operating lease charges	4,024	4,249
R&D Expenditure	1,385	1,227
	<u>44,188</u>	<u>44,179</u>

6. Staff costs

	2021	2020
	£'000	£'000
Wages and salaries	37,340	35,900
Social security costs	4,040	3,946
Redundancy costs	242	1,874
Furlough payments	53	129
Pension costs – Defined contribution pension (note 20)	2,351	2,265
Share based payments (note 26)	162	65
	<u>44,188</u>	<u>44,179</u>

The average monthly number of persons (including directors) employed by the Group during the year was as follows:

	2021	2020
	No.	No.
Management	15	16
Production	359	366
Selling and marketing	213	218
Administration	206	197
R&D	14	17
	<u>807</u>	<u>814</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

7. Directors remuneration

	2021 £'000	2020 £'000
Directors emoluments	697	578
Group contributions to money purchase pension schemes	37	34
	<u>721</u>	<u>612</u>

	2021 No.	2020 No.
The number of directors to whom retirement benefits are accruing under:		
Defined contribution schemes	<u>5</u>	<u>5</u>

Included in Directors emoluments are share options awarded in the year of £49k. No share options were exercised or granted in the year (2020: none).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2021 £'000	2020 £'000
Directors emoluments	290	206
Group contributions to money purchase pension schemes	14	11
	<u>304</u>	<u>217</u>

The highest paid director did not exercise any share options in the year and had no shares receivable under long term incentive schemes.

8. Interest receivable and similar income

	2021 £'000	2020 £'000
Bank interest receivable	3	-
Interest receivable from group companies	1	47
Interest received from HMRC	-	43
	<u>4</u>	<u>90</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

9. Interest payable and similar charges

	2021	2020
	£'000	£'000
Interest payable on finance leases	1	1
Interest payable to group companies	3,827	4,024
Interest payable to HMRC	90	-
	<u>3,918</u>	<u>4,025</u>

10. Other finance costs

	2021	2020
	£'000	£'000
Net finance costs on defined benefit plans (note 20)	<u>179</u>	<u>164</u>

11. Taxation

	2021	2020
	£'000	£'000
Current tax		
UK corporation tax	(54)	(171)
Adjustments in respect of prior periods	1,489	88
Total current tax	<u>1,435</u>	<u>(83)</u>
Deferred tax		
Adjustments in respect of prior periods	509	39
Tax rate change	(211)	(79)
Total deferred tax	<u>298</u>	<u>(40)</u>
Total tax charge/(credit)	<u><u>1,733</u></u>	<u><u>(123)</u></u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

11. Taxation (continued)

Factors affecting current tax charge/(credit)

The tax charge/(credit) for the year is higher (2020: charge is higher) than the average standard rate of corporation tax in the UK for the year ended 31 December 2021 of 19% (2020: 19%). These differences are reconciled below:

	2021 £'000	2020 £'000
Loss before taxation	(478)	(6,781)
Loss multiplied by the average standard rate of corporation tax in the UK for the year of 19% (2020: 19%)	(91)	(1,288)
Effects of:		
Expenses that are not deductible for tax purposes	37	1,117
Adjustments in respect of prior periods	1,998	127
Tax rate change	(211)	(79)
Total tax charge/(credit) for the year	1,733	(123)

Factors that may affect future tax charge/(credit)

In the 2021 budget, Chancellor announced future changes to the amount of corporation tax in the UK, starting from the beginning of April 2023, the rate of corporation tax will be increasing from 19% to 25%. At balance sheet date, deferred tax balances are measured at 25% (2020: 19%). On 24 May 2021, the UK Finance Act 2021 was substantively enacted increasing the UK tax rate from 19% to 25% effective 1 April 2023.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

12. Intangible assets

	Goodwill £'000	Software £'000	Total £'000
Cost			
At 1 January 2021	237,312	1,546	238,858
Additions	-	166	166
	<u>237,312</u>	<u>1,712</u>	<u>239,024</u>
At 31 December 2021			
	<u>237,312</u>	<u>1,712</u>	<u>239,024</u>
Amortisation and impairment			
At 1 January 2021	232,486	1,497	233,983
Amortisation charged in the year	4,826	21	4,847
	<u>237,312</u>	<u>1,518</u>	<u>238,830</u>
At 31 December 2021			
	<u>237,312</u>	<u>1,518</u>	<u>238,830</u>
Carrying amount			
At 31 December 2021	-	194	194
	<u>-</u>	<u>194</u>	<u>194</u>
At 31 December 2020	4,826	49	4,875
	<u>4,826</u>	<u>49</u>	<u>4,875</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

13. Tangible assets

	Long leasehold land & building improvements £'000	Freehold land & buildings £'000	Assets under the course of construction £'000	Fixtures, fittings & computer equipment £'000	Plant & machinery £'000	Motor vehicles £'000	Total £'000
Cost							
At 1 January 2021	2,135	1,390	1,115	4,010	17,879	212	26,741
Additions	92	70	355	375	1,388	-	2,280
Disposals	-	-	-	(97)	(1,021)	(47)	(1,165)
Transfer between classes	-	-	(552)	83	469	-	-
At 31 December 2021	<u>2,227</u>	<u>1,460</u>	<u>918</u>	<u>4,371</u>	<u>18,715</u>	<u>165</u>	<u>27,856</u>
Depreciation							
At 1 January 2021	1,784	694	-	3,382	13,656	167	19,683
Charge for the year	123	24	-	174	1,326	13	1,660
Disposals	-	-	-	(83)	(843)	(27)	(953)
At 31 December 2021	<u>1,907</u>	<u>718</u>	<u>-</u>	<u>3,473</u>	<u>14,139</u>	<u>153</u>	<u>20,390</u>
Carrying amount							
At 31 December 2021	<u>320</u>	<u>742</u>	<u>918</u>	<u>898</u>	<u>4,576</u>	<u>12</u>	<u>7,466</u>
At 31 December 2020	<u>351</u>	<u>696</u>	<u>1,115</u>	<u>628</u>	<u>4,223</u>	<u>45</u>	<u>7,058</u>

The net book value of motor vehicles includes £8k (2020: £20k) in respect of assets held under hire purchase contracts.

Included in freehold land and buildings is land at a value of £438k (2020: £438k) which is not being depreciated. Assets under the course of construction are also not being depreciated.

14. Stocks

	2021 £'000	2020 £'000
Finished goods and goods for resale	8,584	10,543
Work in progress	1,281	1,895
Raw materials	8,842	3,537
	<u>18,707</u>	<u>15,975</u>

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amounts.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

15. Debtors: amounts due within one year

	2021	2020
	£'000	£'000
Trade debtors	34,212	27,577
Amounts due from parent company	1	1
Amounts due from other group companies:		
- Interest bearing	69,910	91,963
- Non-interest bearing	20,089	2,723
Corporation tax receivable	781	624
Prepayments and accrued income	4,479	5,085
Amounts recoverable on contracts	2,848	2,497
	<u>132,320</u>	<u>130,470</u>

Interest on loans to other group companies is accrued at 0.92% (2020: 1.50%) for EUR, 1.35% (2020: 1.30%) for GBP and 1.45% (2020: 1.35%) for USD in accordance with the terms agreed with Group & European treasury. Amounts due from the parent company and other group companies are unsecured and repayable on demand.

16. Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Obligations under finance leases (note 23)	12	12
Payments received on account	-	418
Trade creditors	9,412	7,181
Amounts due to other group companies		
- Interest bearing	75,195	-
- Non-interest bearing	26,027	14,765
Corporation tax payable	900	-
Other taxation and social security	2,488	5,540
Other creditors	948	2,047
Accruals and deferred income	11,573	12,530
	<u>126,555</u>	<u>42,493</u>

There are loans from Xylem Europe GmbH of £30m and £14m of which interest is charged at a variable rate of 1% SONIA (2020: £3m LIBOR + 1.23%), with maturity scheduled for 31 March 2022. There is an addition loan from Xylem Europe GmbH of £30m of which interest is charged at a variable rate of 0.6% SONIA (2020: £3m LIBOR + 1.23%), with maturity scheduled for 31 March 2022 at the balance sheet date. These loans were previously classified within Creditors: amounts falling due after more than one year. These loans have now been extended to a repayment date of 31 March 2027.

Other amounts owed to other group companies are non-interest bearing, unsecured and repayable on demand.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

17. Creditors: amounts falling due after more than one year

	2021	2020
	£'000	£'000
Amounts due to other group companies	45,045	119,045
Obligations under finance leases (note 23)	-	12
Accruals and deferred income	58	170
	<u>45,103</u>	<u>119,227</u>

On 31 May 2020 loans with Xylem Industries S.à.r.l were transferred to Xylem Europe GmbH, another group company.

Interest is charged on loan 1 (£15m) at 6.15% and on loan 2 (£30m) at 5.97%. Both loans are repayable to Xylem Europe GmbH in 2031.

In the previous year, there were further loans from Xylem Europe GmbH of £30m, £30m and £14m of which interest was charged at a variable rate of £3m LIBOR + 1.23%. In the current year, these loans have been reclassified within Creditors: amounts falling due within one year, since the maturity date at the balance sheet date was 31 March 2022. However, these loans have now been extended to a repayment date of 31 March 2027.

18. Deferred tax asset

	2021	2020
	£'000	£'000
Retirement benefit obligation	1,763	3,149
Accelerated capital allowances	278	417
Losses carried forward	666	828
Other timing differences	2	(1)
	<u>2,709</u>	<u>4,393</u>

The movement on the deferred tax asset is as follows:

	2021	2020
	£'000	£'000
At 1 January	4,393	2,967
Profit and loss account movement arising during the year	(509)	(39)
Profit and loss account movement arising due to tax rate change	211	79
Movement arising from pension scheme deficit	(2,381)	1,179
Movement arising from tax rate change on pension scheme deficit	995	207
As at 31 December	<u>2,709</u>	<u>4,393</u>

A deferred tax asset is recognised to the extent that the asset is forecast to be utilised within the foreseeable future. The Group anticipates deferred tax of £2,429k will be reversed before 2025.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

19. Provisions for liabilities and charges

	Dilapidations £'000	Onerous lease £'000	Total £'000
At the beginning of the year	186	1,627	1,813
Utilised	(186)	(1,250)	(1,436)
Released	-	(377)	(377)
	<u>-</u>	<u>-</u>	<u>-</u>
At the end of the year	-	-	-

A dilapidation provision is provided against the expiry of a property lease agreement and represents the costs to return the property to its pre-rental state as per the stipulations of the lease agreement. The dilapidations provision was settled during January 2021.

An onerous lease provision was provided against the site in Hoddesdon where the lease was surrendered in September 2021 and the rent payments accelerated.

20. Retirement benefit schemes

a) Defined contribution schemes

A defined contribution pension scheme was introduced to the Group in 2007 following the closure of Xylem UK Pension Plan (XUPP) to new entrants and to existing employees in 2012 following the closure of Xylem UK Pension Plan (XUPP) to accrual. It was extended on 1 July 2014, to replace the Godwin Pumps Limited pension scheme, a defined benefit scheme which closed. The pension cost charge for the year represents contributions paid by the Group into the defined contribution pension scheme and amounted to £2,351k (2020: £2,265k). A liability of £nil (2020: £nil) existed in respect of pension contributions at 31 December 2021.

b) Defined benefit schemes

Xylem UK Pension Plan (XUPP)

The Xylem UK Pension Plan (XUPP) (previously called the ITT Industries General Pension Plan) closed to new entrants in November 2007 and all future payments due in future years are to recover the deficit of the scheme. The XUPP is a defined benefit scheme in the UK that shares risks between entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost to individual group entities; therefore the net defined benefit cost of the whole defined benefit Plan is recognised in the financial statements of Xylem Water Solutions UK Limited, which is legally responsible for the plan. Xylem Water Services Limited recognises a cost equal to its contributions payable for the period in its individual financial statements.

The plan is a defined benefit plan providing benefits that are linked to salary at the date of the plan closure or an earlier date of leaving service. The Plan is now closed to future accrual with benefits for non-pensioners increasing broadly in line with inflation in the period to retirement. The Plan is governed by Trustee Directors, who are responsible for ensuring that there are sufficient funds to meet current and future obligations. The plan's assets are held in a separate fund from the Group's assets. The contributions payable into the plan are determined by the Trustee Directors and the plan's sponsoring Company, Xylem Water Solutions UK Limited, after obtaining the advice of the Scheme Actuary at each formal triennial actuarial valuation.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

A full actuarial valuation of the defined benefit scheme was carried out at 1 January 2019 by a qualified independent actuary. During this valuation it was found that no further deficit reduction contributions would be required and therefore it was agreed to drop the annual payments from £5,800k to £1,100k with the aim of the new contributions just covering the administration cost of the scheme.

The most recent triennial funding valuation as at 1 January 2019 found that the Plan was in surplus at that date, so no deficit funding contributions were required. A new Schedule of Contributions was agreed on 9 March 2020, whereby the Company pays £100k per month with effect from 1 March 2020 to cover the cost of expenses payable by the Plan.

However, the Plan has since entered into a 'Buy-out' arrangement with an insurance company. With effect from 27 January 2020, when the risk was formally transferred, the bulk of the Plan's assets were used to purchase annuities in the name of the Trustee to cover most of the Plan's liabilities. As a result, the Company paid additional contributions over 2021 (in particular to cover the cost of securing GMP underpin benefits, benefit changes, member movements, additional beneficiary premium and GMP equalisation requirements for current members) as summarised in the disclosures, and continues to pay £170k per month to cover a higher level of expenses in the run-up to the Plan's expected buy-out.

The valuation used has been based on the most recent formal actuarial valuation at 1 January 2019, with allowance made for enhanced transfer values paid out of the Plan during 2019 (which were accounted for as a settlement within the year ended 31 December 2019), and then adjusted in an approximate manner to calculate the defined benefit obligation as at 31 December 2021 for FRS 102 purposes. The actual known payments made to the insurer this year have been used in calculating the defined benefit obligation.

Plan assets are stated at their fair values at the respective Balance Sheet dates, and include monies held in the Trustee bank account and the value of insurance policies held in the name of the Plan Trustee measured using the FRS102 assumptions at the respective year-ends.

There have been no Plan amendments, curtailments or settlements over the year ending 31 December 2021. However, on 27 January 2020, when the risk was formally transferred, the bulk of the Plan's assets were used to purchase annuities in the name of the Trustee to cover most of the Main Plan's liabilities. The value of the final premium paid to the insurer was £256.1m.

The underlying actuarial value of the insured annuity policies held in the name of the Trustee has been calculated using the FRS102 assumptions at the year end. However, the actual payments made to the insurer this year reflect the cost of securing GMP underpin benefits for certain DC members and allowing for benefit changes, member movements, additional beneficiary premium and GMP equalisation requirements for current members (these items had not been secured with the insurer when the FRS 102 valuation was prepared for the year ended 31 December 2020, but suitable estimates were included in the liabilities, and therefore any differences come through as Plan experience).

In November 2020, in a further judgment in the Lloyds GMP equalisation case, the High Court ruled that schemes must revisit and, where appropriate, increase all relevant historical transfer payments paid. A further past service cost of £188k was included in the year ended 31 December 2020 as a result. As noted above, the actual known payments made to the insurer this year have been used in calculating the cost of securing GMP equalisation requirements for current members, along with other items.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Additional contributions paid into the Plan by the Group of £779k were made to cover the cost of compensating some Defined Contribution members for the loss of their with-profits guarantee as part of the buy-out process. These additional contributions have been included within the overall contributions figure (i.e. have not been 'netted off' the with-profits transfer). The payment made has been recorded within the 'Other' item in the asset reconciliation.

The contributions made by Xylem Europe GmbH, a fellow group company, amounted £2,410k (2020: £2,440k) and have been recorded in the profit and loss account within other operating income (note 5). Total contributions paid to the scheme by the Group amounted £6,886k (2020: £6,972k). A liability of £nil (2020: £nil) existed in respect of pension contributions at 31 December 2021. The total contributions to be paid to the scheme by the Group for 2022 are expected to be £2,040k.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2021. The major assumptions used by the actuary were:

	2021	2020
	%	%
Discount rate	1.85	1.30
RPI inflation	3.55	3.00
CPI inflation	3.05	2.40
Pension increases:		
- RPI price inflation, capped at 2.5%	2.20	2.10
- CPI price inflation, capped at 3%	2.40	2.15
- CPI price inflation, capped at 5%	3.00	2.40

The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	2021	2020
	Years	Years
Male	23.0	23.0
Female	25.0	25.0

The average life expectancy for an employee retiring at 65 that is aged 45 at the reporting date is:

	2021	2020
	Years	Years
Male	24.7	24.7
Female	26.9	26.8

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Sensitivities of the scheme Assets

	Change in DBO 2021 £'000	Change in DBO 2020 £'000
Change of -0.25% in discount rate	9,075	10,760
Change of +0.25% in inflation rate	3,532	5,969
Change of +1 years in life expectancy	9,080	10,390

Assets and liabilities of the scheme

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit scheme are as follows:

	2021 £'000	2020 £'000
Fair value of scheme assets	230,075	242,111
Present value of defined benefit obligation	(227,470)	(246,542)
Net pension asset/(liability)	<u>2,605</u>	<u>(4,431)</u>

The pension surplus has been recognised as there is no clause in the scheme rule which prevents the group receiving the ultimate surplus in the scheme.

Fair value of scheme assets

The fair value of the major categories of the scheme assets as a percentage of total scheme assets are as follows:

	Scheme assets 2021 %	Value 2021 £'000	Scheme assets 2020 %	Value 2020 £'000
Cash	1.1	2,605	0.7	1,650
Insured pensions	98.9	227,470	99.3	240,461
	<u>100.0</u>	<u>230,075</u>	<u>100.0</u>	<u>242,111</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Reconciliation of the fair value of the scheme assets

	2021	2020
	£'000	£'000
Fair value of scheme assets at 1 January	242,111	243,961
Interest income on scheme assets	3,122	4,845
Actuarial loss on scheme assets	(11,218)	(3,302)
Employer contributions	4,476	4,532
Contributions paid by other group companies (note 4)	2,410	2,440
Administration expenses	(1,900)	(2,175)
Benefits paid	(8,147)	(8,190)
Other	(779)	-
Fair value of scheme assets at 31 December	<u>230,075</u>	<u>242,111</u>

Reconciliation of the present value of the scheme liabilities

	2021	2020
	£'000	£'000
Present value of scheme liabilities at 1 January	246,542	214,840
Interest cost	3,152	4,215
Past service cost	-	188
Actuarial (gain)/loss on scheme liabilities	(14,077)	35,489
Benefits paid	(8,147)	(8,190)
Present value of scheme liabilities at 31 December	<u>227,470</u>	<u>246,542</u>

Analysis of amounts charged to operating profit/(loss)

	2021	2020
	£'000	£'000
Past service cost	-	(188)
Administration expenses	(1,900)	(2,175)
	<u>(1,900)</u>	<u>(2,363)</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Analysis of amounts (charged)/credited to other finance costs

	2021	2020
	£'000	£'000
Expected return on pension scheme assets	3,122	4,845
Interest on pension scheme liabilities	(3,152)	(4,215)
Interest cost adjustment	-	(582)
Net finance (costs)/income (note 10)	(30)	48

Amounts transferred to statement of other comprehensive income

	2021	2020
	£'000	£'000
Actuarial loss on scheme assets	(11,218)	(3,302)
Actuarial gain/(loss) on scheme liabilities	14,077	(35,489)
Interest cost adjustment	-	582
Movement in restriction on pension asset	-	29,121
Net gain/(loss)	2,859	(9,088)

Movement in surplus/(deficit) during the year

	2021	2020
	£'000	£'000
Deficit in scheme at 1 January	(4,431)	-
Employer contributions	4,476	4,532
Contributions paid by other group companies (note 4)	2,410	2,440
Past service cost	-	(188)
Administration expenses	(1,900)	(2,175)
Net finance (costs)/income	(30)	48
Actuarial gain/(loss)	2,859	(9,088)
Other	(779)	-
Surplus/(deficit) in scheme at 31 December	2,605	(4,431)

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme

The Group participates in the Godwin Pumps Limited Pension Scheme, a fully funded defined benefit pension scheme. On 30 June 2014, the scheme was closed to new entrants and future accruals, with all participants transferred to the defined contribution scheme. Total contributions paid to the scheme amounted £1,460k (2020: £729k). The total contributions to be paid to the scheme by the Group for 2022 are expected to be £1,430k. A liability of £nil (2020: £nil) existed in respect of pension contributions at 31 December 2021.

The pension payable to an individual is based on their average earnings calculated over the period of pensionable service.

A full actuarial valuation of the Goodwin Pumps Limited Pension Scheme was undertaken at 1 May 2020.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2021. The major assumptions used by the actuary were:

	2021	2020
Discount rate	2.00%	1.30%
Inflation assumption (RPI)	3.50%	2.90%
Inflation assumption (CPI)	3.10%	2.40%
Rate of increase in deferred pensions	3.10%	2.40%
Salary increase	3.10%	2.40%

Employees are entitled to retirement benefits upon reaching the retirement age of 65.

The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	2021 Years	2020 Years
Male	21.9	21.9
Female	24.6	24.5

The average life expectancy for an employee retiring at 65 that is aged 45 at the reporting date is:

	2021 Years	2020 Years
Male	23.2	23.2
Female	26.0	26.0

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme (continued)

Sensitivities of the scheme liabilities

	Change in DBO 2021 £'000	Change in DBO 2020 £'000
Change of -0.10% in discount rate	670	698
Change of +0.10% in inflation rate	629	677
Change of 1.50% in long term mortality rate	380	439

Assets and liabilities of the scheme

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit scheme are as follows:

	2021 £'000	2020 £'000
Fair value of scheme assets	24,824	23,944
Present value of defined benefit obligation	(34,479)	(36,087)
Net pension liability	(9,655)	(12,143)

Fair value of scheme assets

The fair value of the major categories of the scheme assets as a percentage of total scheme assets are as follows:

	Scheme assets 2021 %	Value 2021 £'000	Scheme assets 2020 %	Value 2020 £'000
Equities	32.7	8,112	31.9	7,643
Diversified growth fund	51.6	12,816	55.2	13,223
Cash and other	15.7	3,896	12.9	3,078
	<u>100.0</u>	<u>24,824</u>	<u>100.0</u>	<u>23,944</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme (continued)

Reconciliation of the fair value of the scheme assets

	2021	2020
	£'000	£'000
Fair value of scheme assets at 1 January	23,944	21,265
Expected return on scheme assets	313	442
Actuarial gain	390	2,625
Group contributions	1,460	729
Benefits paid	(1,037)	(1,021)
Administration expenses	(246)	(96)
	<u>24,824</u>	<u>23,944</u>
Fair value of scheme assets at 31 December		

Reconciliation of the present value of the scheme liabilities

	2021	2020
	£'000	£'000
Present value of scheme liabilities at 1 January	36,087	31,633
Interest cost	462	654
Actuarial (gain)/loss	(1,033)	4,821
Benefits paid	(1,037)	(1,021)
	<u>34,479</u>	<u>36,087</u>
Present value of scheme liabilities at 31 December		

Analysis of amounts charged to operating profit/(loss)

	2021	2020
	£'000	£'000
Administration expenses	<u>(246)</u>	<u>(96)</u>

Analysis of amounts charged to other finance costs

	2021	2020
	£'000	£'000
Expected return on pension scheme assets	313	442
Interest on pension scheme liabilities	<u>(462)</u>	<u>(654)</u>
Net finance costs (note 10)	<u>(149)</u>	<u>(212)</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme (continued)

Amounts transferred to statement of other comprehensive income

	2021	2020
	£'000	£'000
Actuarial gain on scheme assets	390	2,625
Actuarial gain/(loss) on scheme liabilities	1,033	(4,821)
Net gain/(loss)	1,423	(2,196)

Movement in deficit during the year

	2021	2020
	£'000	£'000
Deficit in scheme at 1 January	(12,143)	(10,368)
Administration expenses	(246)	(96)
Group contributions	1,460	729
Net finance costs	(149)	(212)
Actuarial gain/(loss)	1,423	(2,196)
Deficit in scheme at 31 December	(9,655)	(12,143)

Xylem UK Pension Plan for UK Expatriates (XPPX)

The Group participates in the Xylem Pension Plan for UK Expatriates (XPPX) (previously known as the ITT Industries Pension Plan for UK Expatriates). The pension cost charge for the year represents contributions paid by the Group of £70k (2020: £50k) into this defined benefit pension scheme. A liability of £nil (2020: £nil) existed in respect of pension contributions at 31 December 2021. The contributions to be paid to the scheme by the Group for 2022 are expected to be £70k.

The XPPX is a defined benefit scheme in the UK of which the assets and liabilities are held independently from the Group. The expected cost of providing pensions, as calculated periodically by a professionally qualified independent actuary, is charged to the profit and loss account so as to spread the cost over the service life of the employees in the scheme in such a way that the pension cost is a substantially level percentage of current expected future pensionable payrolls.

The plan provided benefits linked to salary at retirement or earlier date of leaving services. The plan is now closed to future accrual with benefits for non-pensioners increasing broadly in line with inflation in the period to retirement.

Under the rules of the scheme, the contributions payable into plan are set by the employer at each triennial valuation, after consulting with the Trustees and after obtaining the advice of the scheme Actuary. The most recent triennial funding valuation as at 1 January 2021 found that the Plan was in surplus at that date on the Group's funding basis, so no deficit funding contributions were required.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2021. The major assumptions used by the actuary were:

	2021	2020
Discount rate	1.80%	1.10%
Inflation assumption (RPI)	3.70%	3.05%
Inflation assumption (CPI)	3.05%	2.40%

Employees are entitled to retirement benefits upon reaching the retirement age of 65.

The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	2021 Years	2020 Years
Male	23.5	23.0
Female	25.8	25.0

The average life expectancy for an employee retiring at 65 that is aged 45 at the reporting date is:

	2021 Years	2020 Years
Male	25.1	24.7
Female	27.5	26.9

Sensitivities of the scheme assets

	Change in DBO 2021 £'000	Change in DBO 2020 £'000
Change of -0.25% in discount rate	174	202
Change of +0.25% in inflation rate	28	44
Change of +1 years in life expectancy	329	360

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)

Assets and liabilities of the scheme

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit scheme are as follows:

	2021 £'000	2020 £'000
Fair value of scheme assets	7,576	8,174
Present value of defined benefit obligation	(7,290)	(7,923)
Surplus in the scheme	286	251
Restriction on pension asset	(286)	(251)
Net pension asset	-	-

The pension asset has been restricted following the closure of the scheme as the asset cannot be recovered through a reduction in future contributions.

Fair value of scheme assets

The fair value of the major categories of the scheme assets as a percentage of total scheme assets are as follows:

	Scheme assets 2021 %	Value 2021 £'000	Scheme assets 2020 %	Value 2020 £'000
UK equities	1.0	76	1.0	85
Overseas equities	3.9	296	4.3	351
Index linked gilts	14.5	1,098	14.6	1,190
Fixed interest	29.2	2,211	29.0	2,367
Corporate bonds	48.5	3,674	49.9	4,078
Cash and other	2.9	221	1.2	103
	100.0	7,576	100.0	8,174

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)

Reconciliation of the fair value of the scheme assets

	2021	2020
	£'000	£000
Fair value of scheme assets at 1 January	8,174	8,127
Expected return on scheme assets	87	145
Employer contributions	70	50
Actuarial (loss)/gain	(233)	430
Administration costs	(35)	(91)
Benefits paid	(487)	(487)
	<u>7,576</u>	<u>8,174</u>
Fair value of scheme assets at 31 December		

Reconciliation of the present value of the scheme liabilities

	2021	2020
	£'000	£'000
Present value of scheme liabilities at 1 January	7,923	7,766
Interest cost	84	139
Actuarial (gain)/loss	(230)	505
Benefits paid	(487)	(487)
	<u>7,290</u>	<u>7,923</u>
Present value of scheme liabilities at 31 December		

Analysis of amounts charged to operating profit/(loss)

	2021	2020
	£'000	£'000
Administration costs	<u>(35)</u>	<u>(91)</u>

Analysis of amounts (credited)/charged to other finance costs

	2021	2020
	£'000	£'000
Expected return on pension scheme assets	87	145
Interest on pension scheme liabilities	(84)	(139)
Interest cost adjustment	(3)	(6)
	<u>-</u>	<u>-</u>
Net finance costs (note 10)		

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

20. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)

Amounts transferred to statement of other comprehensive income

	2021	2020
	£'000	£'000
Actuarial (loss)/gain on scheme assets	(233)	430
Actuarial gain/(loss) on scheme liabilities	230	(505)
Restriction on pension asset excluding interest cost adjustment	(32)	117
Net (loss)/gain	(35)	42

Movement in asset during the year

	2021	2020
	£'000	£'000
Asset in scheme at 1 January	-	-
Employer contributions	70	50
Administration expenses	(35)	(91)
Net finance income	3	6
Actuarial loss	(3)	(75)
Restriction on pension asset including interest cost adjustment	(35)	110
Asset in scheme at 31 December	-	-

21. Share capital and reserves

Called up share capital

	2021	2020
	£'000	£'000
Allotted, called-up and fully paid		
2,101 ordinary shares of £1 each	2	2

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

21. Share capital and reserves (continued)

Share premium account

£'000

At 1 January 2021 and at 31 December 2021 271,999

The share premium account represents the consideration received for shares issued above their nominal value net of transaction costs.

Profit and loss account

The cumulative profit and loss, net of distributions to the owners of the Group.

22. Cash flow statement

Reconciliation of operating profit/(loss) to cash generated by operations

	2021	2020
	£'000	£'000
Operating profit/(loss)	2,985	(4,495)
Adjustment for:		
Amortisation (note 12)	4,847	9,668
Depreciation (note 13)	1,660	1,487
(Profit)/loss on sale of tangible assets	(1,185)	15
	<u>8,307</u>	<u>6,675</u>
Operating cash inflow before movement in working capital	8,307	6,675
Inventories (note 14)	(2,732)	2,841
Trade and other receivables	(795)	74,098
Trade and other payables	4,173	(78,852)
Pension contributions in excess of operating costs	(5,456)	(5,200)
Provisions and other financial liabilities (note 19)	(1,813)	1,523
	<u>1,684</u>	<u>1,085</u>
Net cash inflows from operating activities	<u>1,684</u>	<u>1,085</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

22. Cash flow statement (continued)

Net debt reconciliation

	At 1 January 2021 £'000	Cash flows £'000	Other non- cash changes £'000	At 31 December 2021 £'000
Cash and cash equivalents	2,987	626	-	3,613
	2,987	626	-	3,613
Net debt due within one year				
Obligations under finance leases (note 16)	(12)	12	(12)	(12)
Amounts due to parent and other group Companies (note 16)	-	-	(74,000)	(74,000)
Net debt due after more than one year				
Obligations under finance leases (note 17)	(12)	-	12	-
Amounts due to parent and other group Companies (note 17)	(119,045)	-	74,000	(45,045)
Net debt	(116,082)	638	-	(115,444)

23. Financial commitments

The group participates in a treasury arrangement, which calls for unlimited bank cross-guarantees between certain group companies. The net amount due to the bank at year-end was £nil (2020: £nil).

The Group had minimum lease payments under non-cancellable operating leases as set out below:

	Land & buildings		Other	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<i>Operating leases which expire:</i>				
Within one year	640	987	1,372	1,647
Between two and five years	1,484	1,430	1,565	2,213
After five years	163	308	-	-
	2,287	2,725	2,937	3,860

The Group had obligations under finance leases as set out below:

	2021 £'000	2020 £'000
<i>Net obligation payable:</i>		
Within one year (note 16)	12	12
Between two and five years (note 17)	-	12
	12	24

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

24. Post balance sheet events

We continue to assess the evolving nature of the pandemic and developments in Ukraine, along with the possible implications to our business, employees, supply chain, customers and communities, and to take actions in an effort to mitigate adverse consequences. Our markets and operations have largely demonstrated resilience against the effects of the pandemic. However, we have experienced, and may continue to experience, shortages in the supply of components, including electronics, parts and raw materials. In addition to impacts on our supply chain, we have also experienced, and continue to experience other impacts from the macroeconomic conditions, including increased inflation of materials and labour, energy, overhead, freight and logistics costs, and are engaging in various mitigation strategies and activities, including productivity and price realization efforts. Specifically, our productivity efforts include selective chip allocation, product redesigns, alternate sourcing options, and global procurement efforts to mitigate inflationary impacts. We have also initiated restructuring plans to further optimize our cost structure.

All manufacturing at our Hoddesdon site discontinued on 27 March 2022. It is anticipated that Water Process Limited, the subsidiary company based in Hoddesdon, will become dormant before 31 December 2022.

On 30 September 2022, the 'Buy-out' arrangement with an insurance company of the Xylem UK Pension Plan (XUPP) was completed.

25. Financial Instruments

The carrying values of the Group financial assets and liabilities are summarised by category below:

	2021	2020
	£'000	£'000
Financial assets measured at amortised cost		
Cash	3,613	2,987
Trade debtors (note 15)	34,212	27,577
Amounts due from parent company (note 15)	1	1
Amounts due from other group companies:		
- Interest bearing (note 15)	69,910	91,963
- Non-interest bearing (note 15)	20,089	2,723
	<u>127,825</u>	<u>125,251</u>
	2021	2020
	£'000	£'000
Financial liabilities measured at amortised cost		
Obligations under finance leases (note 16)	12	12
Trade creditors (note 16)	9,412	7,181
Amounts due to other group companies:		
- Interest bearing (note 16)	75,195	-
- Non-interest bearing (note 16)	26,027	14,765
Amounts to other group companies (note 17)	45,045	119,045
Obligations under finance leases (note 17)	-	12
	<u>155,691</u>	<u>141,015</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

25. Financial Instruments (continued)

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2021 £'000	2020 £'000
Interest income/(expense)		
Total interest income for financial assets at amortised cost (note 8)	4	90
Total interest expense for financial liabilities at amortised cost (note 9)	(3,828)	(4,025)

26. Share-based payments

Stock Option Grants

The options are awarded with a contractual term of ten years and generally vest over a three-year period and are exercisable within the contractual term, except in certain instances of death, retirement or disability. The exercise price per share is the fair market value of the underlying common stock on the date each option is granted.

Restricted Stock Unit Grants

Restricted shares granted to employees in 2021 vest over a three-year period. Restricted shares granted to employees prior to 2021 generally become fully vested upon the third anniversary of the date of grant. Prior to the time a restricted share becomes fully vested, the awardees cannot transfer, pledge, hypothecate or encumber such shares. Prior to the time a restricted share is fully vested, the awardees do not have certain rights of a stockholder, such as the right to vote and receive dividends; however, dividends accrue during the vesting period and are paid upon vesting. If an employee leaves prior to vesting, whether through resignation or termination, the restricted stock unit and related accrued dividends are forfeited. If an employee retires, a pro rata portion of the restricted stock unit may vest in accordance with the terms of the grant agreements.

Performance Share Units

Performance share units granted under the long-term incentive plan vest based upon performance by the Group over a three-year period against targets approved by the compensation committee. For the performance periods, the performance share units were granted at a target of 100% with actual pay out contingent upon the achievement of a pre-set, three-year adjusted Return on Invested Capital (ROIC) and cumulative adjusted net income performance target for ROIC performance share units and a relative total shareholder return (TSR) performance for TSR performance share units.

27. Related party transactions

In accordance with the exemption in FRS 102 section 33, related party transactions with other group companies which are owned 100% by Xylem Water Holdings Limited have not been disclosed.

Other related party transactions

There are no key management personnel other than the directors.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

28. Ultimate controlling party

As at 31 December 2021 the Company and its subsidiaries are wholly owned subsidiaries of Xylem Industries S.à.r.l., a company incorporated in Luxembourg. Xylem Industries S.à.r.l. is the immediate parent company.

The ultimate holding company and controlling party is Xylem Inc., a company incorporated in the United States of America.

The largest and smallest group in which these financial statements are consolidated is that of the ultimate holding company, Xylem Inc. The financial statements of that company are available from its registered office at 301 Water Street SE, Washington, DC 20003, USA.

XYLEM WATER HOLDINGS LIMITED
COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Investments	5	53,779	53,779
Current assets			
Debtors	6	3,514	3,514
Creditors: amounts falling due within one year	7	(48,711)	(16,213)
Net current liabilities		(45,197)	(12,699)
Total assets less current liabilities		8,582	41,080
Creditors: amounts falling due after more than one year	8	(45,045)	(75,045)
Net liabilities		(36,463)	(33,965)
Capital and reserves			
Called up share capital	9	2	2
Share premium account	9	271,999	271,999
Profit and loss account	9	(308,464)	(305,966)
Shareholders' deficit		(36,463)	(33,965)

For the financial year ended 31 December 2021 the Company reported a loss of £2,498k (2020: loss of £1,265k).

Notes 1 to 11 on pages 63 to 70 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 December 2022 and are signed on its behalf by:



L J Bentley
Director

XYLEM WATER HOLDINGS LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2020	2	271,999	(304,701)	(32,700)
Loss for the financial year	-	-	(1,265)	(1,265)
Balance at 31 December 2020	2	271,999	(305,966)	(33,965)

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2021	2	271,999	(305,966)	(33,965)
Loss for the financial year	-	-	(2,498)	(2,498)
Balance at 31 December 2021	2	271,999	(308,464)	(36,463)

Notes 1 to 11 on pages 63 to 70 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Significant accounting policies

Company information

Xylem Water Holdings Limited ("the Company") is a private company limited by shares domiciled and incorporated in England and Wales. The registered office is at Private Road No 1, Colwick Industrial Estate, Nottingham, United Kingdom, NG4 2AN. The Company's principal activity is to act as a holding company for a group of companies which are involved in the water industry.

Basis of preparation

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 under the historical cost convention.

The financial statements are presented in sterling which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest whole £1,000 except where otherwise indicated.

Consolidated financial statements

The financial statements of the Company are included in the financial statements of Xylem Inc. The consolidated financial statements of Xylem Inc. are available from its registered office at 1 International Drive, Rye Brook, NY 10573, USA.

Reduced disclosures

In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares
- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures
- Section 12 'Other Financial Instruments' – Disclosure exemptions relating to financial instruments
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

Going concern

The directors are aware that there will always be an element of economic uncertainty around making a going concern assessment of the Company. However, on 15 February 2022, the directors received a letter of support from Xylem Inc., the ultimate parent company that it will continue to provide financial support in order for the Company to meet its financial obligations for a minimum of twelve months from the date these financial statements are approved. The directors are satisfied that the letter of support is sufficient to determine that the loan and accrued interest the Company owes to Xylem Europe GmbH. will not be recalled in the next 12 months from the date of signing the accounts. As a result, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Borrowing costs

The costs of borrowing on interest bearing loans are recognised in the profit and loss account on an accruals basis. Interest is calculated using the effective interest rates determined by the prevailing market interest rates.

The Company has applied the following amendments to FRS 102 issued by the FRC for the first time during the year. The amendments issued by the FRC in December 2020. The amendments enable the entity to reflect the effects of transitioning from LIBOR to SONIA without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Company is exposed to LIBOR in its intercompany loan balances.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Significant accounting policies

Investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in the profit and loss account.

A subsidiary is an entity controlled by the Company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Impairment of investments

At each reporting end date, the company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to dispose and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

Financial assets

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Financial assets classified as other financial assets are stated at fair value with any gains or losses arising on re-measurement recognised in the profit and loss account. The net gain or loss recognised in the profit and loss account includes any dividend or interest earned on the financial asset

Impairment of financial assets

Financial assets, other than those held at fair value through the profit and loss account, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the profit and loss account.

De-recognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Significant accounting policies

Financial liabilities

Financial liabilities are classified as either basic or other financial liabilities.

Basic financial liabilities

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Other financial liabilities

Financial liabilities classified as other financial liabilities are stated at fair value with any gains or losses arising on re-measurement recognised in the profit and loss account.

De-recognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled, or they expire.

Taxation

The tax expense represents the sum of the current tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

There are not considered to be any critical accounting estimates or judgements.

3. Loss for the year

As permitted by s408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. The loss attributable to the Company is disclosed in the footnote of the company's balance sheet.

4. Employees and directors' remuneration

There were no employees of the Company in the year (2020: nil).

During the year and preceding year, the directors' received remuneration from Xylem Water Services Limited, a fellow group company within the UK. No remuneration has been charged to the profit and loss account in respect of their services to the Company in either years being reported, since it is not practical to allocate.

5. Investments in subsidiaries

	£'000
Cost	
At 1 January 2021 and at 31 December 2021	312,327
Provision for Impairment	
At 1 January 2021 and at 31 December 2021	258,548
Net book value	
At 31 December 2021	53,779
At 31 December 2020	53,779

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. Investments in subsidiaries (continued)

a) Directly owned by the Company:

<i>Name of company</i>	<i>Class of Share-holding</i>	<i>Proportion of nominal value held directly</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Xylem Water Solutions UK Holdings Ltd*	Ordinary	100%	Holding company	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Pension Trustee Management Ltd**	Ordinary	100%	Dormant	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Bellingham & Stanley Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Lowara UK Ltd**	Ordinary	100%	Dormant	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Godwin Holdings Ltd**	Ordinary	100%	Dormant	England & Wales	Quenington Fairford Cirencester Gloucestershire GL7 5BX
Xylem Water Services Ltd*	Ordinary	100%	Head Office	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Xylem IP UK S.à.r.l.	Ordinary	50%	Holding company	Luxembourg	11 Breedewues L-1259 Senningerberg Luxembourg

* Exempt from audit by virtue of s479A of Companies Act 2006 as Xylem Water Holdings Limited provided the required guarantee.

** Exempt from preparing accounts for a dormant subsidiary by virtue of s394A-C and exempt from filing accounts for a dormant subsidiary by virtue of s448A-C.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. Investments in subsidiaries (continued)

b) Indirectly owned by the Company:

<i>Name of Company</i>	<i>Class of Share-holding</i>	<i>Proportion of nominal value held directly</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Xylem Water Solutions UK Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Water Process Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Xylem Water Solutions Rugby Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Xylem Dewatering Solutions UK Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Quenington Fairford Cirencester Gloucestershire GL7 5BX
BS Pumps Ltd**	Ordinary	100%	Dormant	Northern Ireland	Hydepark Commercial Centre Newtownabbey County Antrim BT36 4PY
Arrow Rentals Ltd	Ordinary	100%	Dormant	Ireland	50 Broomhill Close Airton Road Tallaght Dublin 24
Xylem Water Solutions Ireland Ltd***	Ordinary	26%	Fluid Tech	Ireland	50 Broomhill Close Airton Road Tallaght Dublin 24

* Exempt from audit by virtue of s479A of Companies Act 2006 as Xylem Water Holdings Limited provided the required guarantee.

** Exempt from preparing accounts for a dormant subsidiary by virtue of s394A-C and exempt from filing accounts for a dormant subsidiary by virtue of s448A-C.

*** The value of the investment is valued at £nil since it has been fully impaired.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. Debtors: amounts due within one year

	2021	2020
	£'000	£'000
Amounts owed by parent company	1	1
Amounts owed by subsidiaries	3,513	3,513
	<u>3,514</u>	<u>3,514</u>

In the current year group relief has been allocated to the relevant group company, and now included in Amounts owed by direct subsidiaries. Amounts due from the parent company and subsidiaries are unsecured, non-interest bearing and receivable on demand.

7. Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Amounts owed to subsidiaries	10,257	10,257
Amounts owed to other group companies:		
- Non-interest bearing	8,432	5,922
- Interest bearing	30,000	-
Other creditors	22	34
	<u>48,711</u>	<u>16,213</u>

Loan interest charged on any short-term cash pool balances is calculated at European Central Bank rate plus 0.5%, equating to an average of 0.92% (2020: 1.10%) for EUR and 1.35% (2020: 1.59%) for GBP. Amounts owed to subsidiaries and other group companies are unsecured and repayable on demand.

In addition, there is a further loan from Xylem Europe GmbH of £30m (2020: £30m) in which interest is charged at a variable rate of 1% SONIA (2020: £3m LIBOR + 1.23%), with maturity scheduled for 31 March 2022 at the balance sheet date. This loan was previously classified within Creditors: amounts falling due after more than one year. This loan has now been extended to a repayment date of 31 March 2027.

8. Creditors: amounts falling due after more than one year

	2021	2020
	£'000	£'000
Amounts owed to other group companies	<u>45,045</u>	<u>75,045</u>

On 31 May 2020 loans with Xylem Industries S.à.r.l were transferred to Xylem Europe GmbH, another group company.

Interest is charged on loan 1 (£15m) at 6.15% and on loan 2 (£30m) at 5.97%. Both loans are repayable to Xylem Europe GmbH in 2031.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

8. Creditors: amounts falling due after more than one year (continued)

In addition, there was a further loan from Xylem Europe GmbH of £30m (2020: £30m) in which interest is charged at a variable rate of £3m LIBOR + 1.23%, with maturity scheduled for 31 March 2022. In the current year, this loan has been reclassified within Creditors: amounts falling due within one year, since the maturity date at the balance sheet date was 31 March 2022. However, this loan has now been extended to a repayment date of 31 March 2027.

9. Capital and reserves

Called up share capital

	2021	2020
	£'000	£'000
<i>Allotted, called-up and fully paid</i>		
2,101 ordinary shares of £1 each	<u>2</u>	<u>2</u>

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

Share premium account

	£'000
At 1 January 2021 and at 31 December 2021	<u>271,999</u>

The share premium account represents the consideration received for shares issued above their nominal value net of transaction costs.

Profit and loss account

The cumulative profit and loss, net of distributions to the owners of the Company.

10. Related party transactions

In accordance with the exemption in FRS 102 section 33, related party transactions with other group companies which are 100% owned by the Company have not been disclosed.

11. Ultimate controlling party

As at 31 December 2021 the Company is a wholly owned subsidiary of Xylem Industries S.à.r.l., a company incorporated in Luxembourg. Xylem Industries S.à.r.l. is the immediate parent company.

The ultimate holding company and controlling party is Xylem Inc., a company incorporated in the United States of America.

The smallest group in which these financial statements are consolidated is this Company and its subsidiaries.

The largest group in which these financial statements are consolidated is that of the ultimate holding company, Xylem Inc. The financial statements of that company are available from its registered office at 301 Water Street SE, Washington, DC 20003, USA.