

Guide to the Palisades Water Index™

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INDEX DESCRIPTION

The Palisades Water Index™ (“Index”) is a modified equal-dollar weighted index comprised of U.S. exchange traded companies whose business stands to benefit significantly from the quantity and/or quality issues associated with the global provision of clean drinking water. The index seeks to capture the aggregate potential of publicly traded firms engaged in the business of protecting water quality and quantity throughout the hydrologic cycle by protecting water at its source, treating it to required standards, delivering water to homes and businesses, and collecting and treating wastewater before reintroducing it safely into the environment.

The Index is rebalanced after the close of trading on the next to last business day of each March, June, September and December (“Rebalance Date”). The Index divisor was initially determined to yield a benchmark value of 1000.00 at the close of trading December 31, 2003. The Index was created by, and is a trademark of, Palisades Water Index Associates, LLC (“Index Provider”). The American Stock Exchange LLC (“Amex”) serves as the calculation agent for the Index. The value of the Index will be disseminated every 15 seconds over the Consolidated Tape Association’s Network B between the hours of approximately 9:30am and 4:15pm (EST) under the ticker “ZWI”

SECTOR DEFINITIONS

Water Utilities: Water utilities are the **regulated purveyors of water** directly responsible for getting water supplies to residential, commercial and industrial users. As public utilities, they are under the jurisdiction of regulatory bodies and must comply with a myriad of federal and state regulatory requirements to ensure the safety of drinking water and the protection of the environment. Foreign water utilities may operate under different regulatory frameworks than U.S. water utilities. The investor-owned water utilities included in the index generally oversee the water and wastewater facilities for a specific geographical region or are structured as holding companies comprised of geographically diverse operating divisions.

Treatment: Treatment refers to the application of technologies and/or processes that alter the composition of water to achieve a beneficial objective in its use. Clearly, the most critical treatment objective pertains to the global need for healthy drinking water. **Water treatment** specifically refers to the process of converting source water to drinking water of sufficient quality to comply with applicable regulations, thereby ensuring the protection of human health, or to treat water in the optimization of an industrial process. **Wastewater treatment**, though extricably linked to the provision of potable water and sanitation, can be differentiated within the treatment category by the objective of environmental protection. The treatment category, therefore, comprises those companies that play a key role in the **physical, chemical or biological integrity of water** and wastewater supplies. While conventional centralized water and wastewater treatment equipment is the core of the treatment group, advanced treatment methods, enabling convergent technologies and innovative treatment systems are key drivers. Subsectors include chemicals/media, filtration/separation, disinfection, desalination, and decentralized technologies such as point-of-use (POU) or point-of-use-reuse (POUR) applications.

Analytical/Monitoring: The Analytical Group includes companies that provide services, manufacture instrumentation or develop techniques for the **analysis, testing or monitoring of water and/or wastewater quality parameters**. These analytics are applied to, directly or indirectly, achieve either a mandated compliance requirement or a management objective in optimizing the function of water relative to a specific use, whether municipal or industrial. From a water policy perspective, there is a trend toward regulations where implementation of compliance requirements is tied to monitoring provisions. As such, there is a growing allocation of manufacturing resources to instrumentation based on advanced analytics. The group is driven by the convergence of materials technologies, information technologies (protocol algorithms), sensor technologies and advanced electronics.

Infrastructure/Distribution: This category includes the companies that stand to benefit from the massive **construction, replacement, repair and rehabilitation** of water distribution systems, wastewater systems, and stormwater collection

systems throughout the world. In the U.S. alone, the EPA estimates that water and wastewater infrastructure repair costs may be as much as \$745 billion to \$1 trillion over the next 20 years. The deterioration of the U.S. **drinking water infrastructure**, a network that spans over 700,000 miles, poses significant risks to public health, security and economic development. International markets for new infrastructure construction in emerging economies add significantly to the magnitude of the potential expenditures. Companies within the group service and supply the components of the vast interconnected network of pipelines, mains, pumps, storage tanks, lift stations, and smaller appurtenances of a distribution system such as valves and flow meters. The group also includes the rehabilitation market comprised of 'in-situ' technologies utilized to upgrade, maintain and restore pipe networks as a cost-effective alternative to new construction.

Water Resource Management: The water industry has traditionally focused on the supply side of the equation; supplying water in sufficient quantities and within mandated thresholds of quality. However, the 'management' of water as a valuable economic and environmental resource reflects the transition of the water industry to the ideal of **sustainability**. This grouping is the embodiment of a **demand-side** emphasis. Water resource management is a service-oriented approach to the integration of the economic principles of resource sustainability with global water usage. As such, this group includes companies that provide engineering, construction, operations, and related technical services to public and private customers in virtually all aspects of managing water resources, agricultural irrigation, and privatization activities.

Conglomerates: The Conglomerates sector comprises those companies that **contribute significantly to the water industry yet are extensively diversified** into other industries or markets such that the contribution of water-related activities is relatively small. Conglomerates are reviewed on a case-by-case basis. These companies may not be conglomerates in the traditional sense but may have instead sought to apply a particular platform technology, product-line or service capability across several global markets, including water. While companies classified in other

index sectors may be said to be engaged in the water industry when viewed externally, the conglomerates sector contains ***leading companies that have business brands or activities that are widely recognized from within the water industry.***

ELIGIBILITY CRITERIA FOR INDEX COMPONENTS

The Index includes companies that focus on the provision of potable water, the treatment of water and wastewater for municipal, agricultural and industrial processes and the technologies and services that are directly related to water consumption across applications that are listed on the New York Stock Exchange, American Stock Exchange, or quoted on the Nasdaq National Market System. To be included in the Index, new index components must meet the following criteria each Determination Date:

- Market capitalization is at least \$150 million.
- Traded volume greater than 100,000 shares for each of the prior three months.
- A minimum Average Daily Traded Volume (ADTV) of at least \$500,000 for the prior three months.

The Index Provider may at any time and from time to time change the number of issues comprising the Index by adding or deleting one or more components or sectors, or replacing one or more issues contained in the Index with one or more substitute stocks of its choice, if, in the Index Provider's discretion, such addition, deletion or substitution is necessary or appropriate to maintain the quality and/or character of the industry groups to which the Index relates.

CALCULATION METHODOLOGY

The Index is calculated using a modified equal weighting methodology. Component securities are equally weighted within their respective Sector. Each Sector is assigned an aggregate weight within the index. Sector weightings were initially determined by the Index Provider and are reviewed each quarter in conjunction with the scheduled quarterly review of the Index. Within each sector the component weightings cannot

exceed five percent (5%) of the Index. As of September 30, 2005, the Sectors are weighted as follows:

SECTOR NAME	SECTOR WEIGHT	# OF COMPONENTS
Water Utilities	30%	7
Treatment	25%	6
Analytical/Monitoring	6%	2
Infrastructure/Distribution	17%	4
Conglomerates	8%	10
Resource Management	14%	6
TOTAL	100%	35

QUARTERLY UPDATES TO THE INDEX

The component weights will be determined and announced at the close of trading two days prior to the Rebalance Date. The Index components are determination five days prior to the Rebalance Date. For a component to remain in the Index, the component must meet the following continued inclusion rules:

- Maintain a total market capitalization above \$100 million on the determination date.
- Maintain traded volume greater than 100,000 shares for each of the prior three months.
- Maintain a minimum Average Daily Traded Volume (ADTV) of at least \$500,000 for the prior three months.

In conjunction with the quarterly review, the share weights used in the calculation of the Index are updated based upon newly assigned Sector weights and index component prices as of the close of trading two business days prior to the Rebalance Date. The share weight of each component in the Index portfolio remains fixed between quarterly reviews except in the event of certain types of corporate actions such as splits, reverse splits, stock dividends, or similar events.

MAINTENANCE OF THE INDEX

In the event of a merger between two components, the share weight of the surviving entity may be adjusted to account for any shares issued in the acquisition. The Index Provider may substitute components or change the number of issues included in the index, based on changing conditions in the industry or in the event of certain types of corporate actions, including mergers, acquisitions, spin-offs, and reorganizations. In the event of component or share weight changes to the Index portfolio, the payment of dividends other than ordinary cash dividends, spin-offs, rights offerings, re-capitalization, or other corporate actions affecting a component of the Index; the Index divisor may be adjusted to ensure that there are no changes to the Index level as a result of non-market forces.

DISSEMINATION OF INDEX INFORMATION

The Index Provider will provide to the Amex the constituents of the Index on the sixth to the last business day of each quarterly rebalance month. Whenever practical, in conjunction with the Index Provider, the Amex when applicable, will pre-announce stock additions and/or deletions as well as certain Index share weight changes at least two trading days before making such changes effective -- either via www.amextrader.com, via broadcast email, or press release.

REBALANCE SCHEDULE EXAMPLE - JUNE 2005

June 23, 2005 — Index components updated by Index Provider. Components screened for inclusion rules and additions and deletions determined. New Index composition and assigned Sector weights sent to Amex.

June 24, 2005 — New shares and weights are determined at the close of business and disseminated.

June 29, 2005 — At the close of business the new Index is rebalanced.