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Water: pure, refreshing defensive growth

Our Goldman Sachs framework for investing in the global water sector

Sustainable investing: Environmental focus

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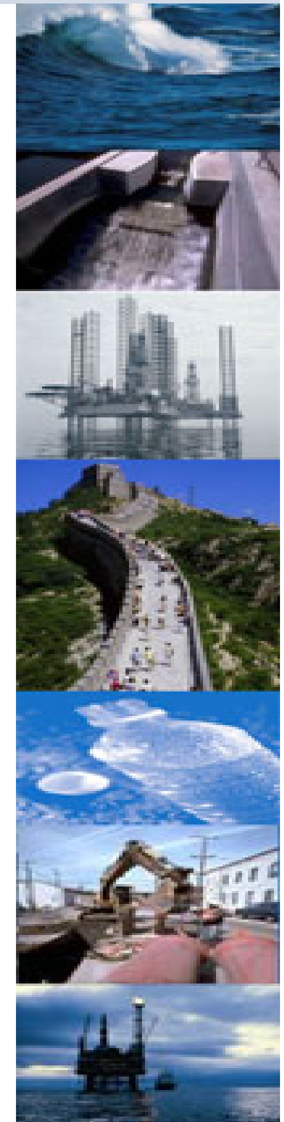
Biography and Goldman Sachs water-related research

- Deane M. Dray, CFA
  - Joined Goldman Sachs in 1997; works in the capital goods sector covering Electrical Equipment and Multi-Industry companies.
  - Prior to joining Goldman Sachs, worked for Lehman Brothers as an institutional salesperson and then in equity research covering diversified technology companies.
  - Received an M.B.A. from New York University and a B.A. (with honors) from Brown University; he is a Chartered Financial Analyst.
  - Recently appointed to the Board of Safe Water Networks a nonprofit organization developing portable emergency water filtration systems for developing markets.

- Goldman Sachs water-related research highlights
  - Water primer, June 2005: *Water: pure, refreshing defensive growth*
  - Water utility survey, June 2006: *Growth flows steady*
  - UN presentation on global water sector consolidation, October 2005
  - Hosted numerous Goldman Sachs water-related investor forums

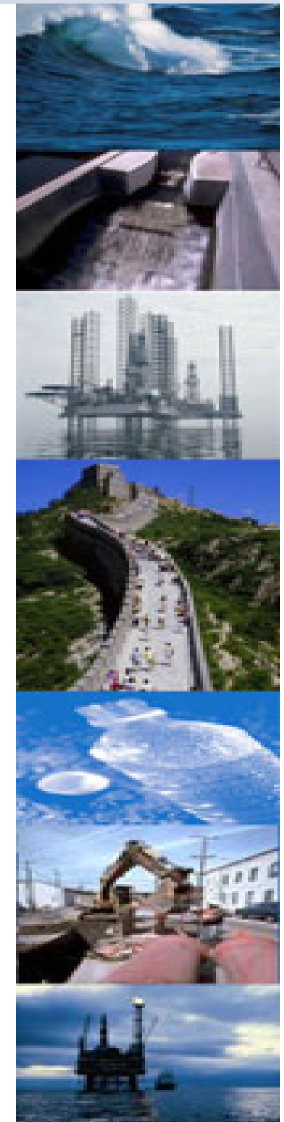


Our thesis on the water sector:
Water: pure, refreshing defensive growth

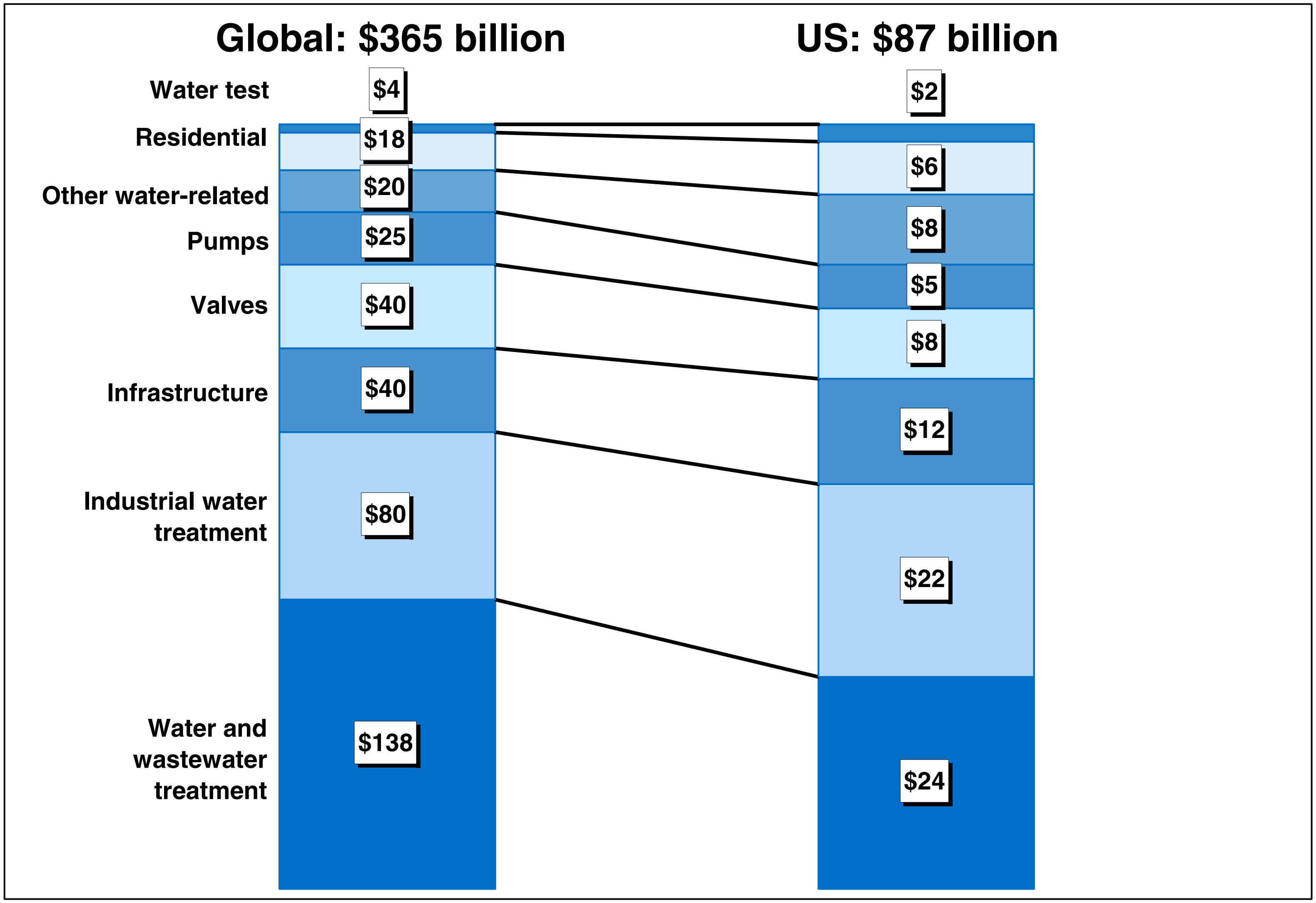
- Water sector is an attractive defensive growth opportunity
  - $365 billion global water market, $87 billion in the US
  - Developed countries: 4%-6% → infrastructure rebuild
  - Developing countries: 10%-15% → new treatment systems

- Surging toward a global water oligopoly in equipment and services
  - Best positioned are GE, ITT, Danaher, and Siemens
  - Buyout targets are evaporating; remaining assets expensive

- Focus on high-end water treatment systems with more growth, higher margins, and more after-market:
  - Filtration
  - Ultrafiltration
  - Reverse osmosis/desalination
  - Water test



Market composition of the water sector



Source: Company reports, Goldman Sachs Research estimates.

Top 25 global water companies and their leverage to our water themes

				End market									Leverage to water themes			
Company (ticker)	Market Cap $bil	Water as % of Total Revs	2005 Water Revs $mil	Pumps	Valves	Water test	Water treatment	Industrial treatment	Filtration	Automation systems	Engineering/ consulting	Other water	Aging water infrastructure	Advanced treatment	Regulatory drivers	Water test
Veolia (VE)	$21.1	40%	$11,600				34%				1%	5%		✓	✓	
RWE (RWEOY)	$49.7	<25%	$11,500				<13%	<13%						✓	✓	
Suez (SZE)	$53.7	16%	$8,500				14%				2%			✓	✓	
Pentair (PNR)	$3.0	75%	$2,200	30%					23%			22%	✓	✓	✓	
Mueller Water Products (MWA)	$1.9	100%	$1,700		38%							62%	✓			
ITT Industries (ITT)	**$9.3**	**25%**	**$1,650**	12%			11%		2%				✓	✓	✓	
Siemens (SI)	**$75.6**	**<2%**	**$1,600**				<1%	<1%	<1%					✓	✓	
General Electric (GE)	**$343.8**	**<2%**	**$1,500**				<1%	<1%	<1%	<1%				✓	✓	
Nalco (NLC)	$2.6	40%	$1,300					40%							✓	
Tetra Tech (TTEK)	$1.0	85%	$1,100								85%		✓		✓	
Watts Water Technologies (WTS)	$1.1	100%	$825	42%	20%				18%			20%	✓		✓	
Tyco International (TYC)	$54.3	2%	$850		<2%			<1%			<1%		✓		✓	
Danaher (DHR)	**$20.3**	**10%**	**$800**			8%	2%							✓	✓	✓
Aqua America (WTR)	$2.9	100%	$450				100%							✓	✓	
Pall Corporation (PLL)	$3.4	18%	$350						18%					✓	✓	
Rockwell Automation (ROK)	$11.0	<5%	$205							<5%					✓	
Millipore (MIL)	$3.4	20%	$180						20%					✓	✓	
Flowserve Corporation (FLS)	$2.9	7%	$175	3%	3%							1%	✓		✓	
Roper Industries (ROP)	$4.1	17%	$165	6%	3%		2%	3%	1%			2%	✓	✓	✓	
Emerson Electric (EMR)	$34.2	<1%	$160	<1%	<1%					<1%		<1%	✓		✓	
Calgon Carbon Corporation (CCC)	$0.2	44%	$150				39%		5%					✓	✓	
Itron (ITRI)	$1.3	30%	$150									30%			✓	
Crane Co. (CR)	$2.4	6%	$120	2%	4%								✓		✓	
Honeywell (HON)	$32.2	<1%	$110		<1%	<1%				<1%			✓		✓	✓
Hyflux (600.SI)	$0.7	100%	$81						100%					✓	✓	✓

Source: Goldman Sachs Research, FactSet.

Surging toward a global water oligopoly
Best positioned consolidators and pure-plays

imagination at work

Consolidation

Remaining pure-plays

Aqua America
Badger Meter
Calgon Carbon
Clarcor Corporation
Hyflux
Nalco
Sinomem
Pentair
Tetra Tech
Watts Water

Consolidation

ITT

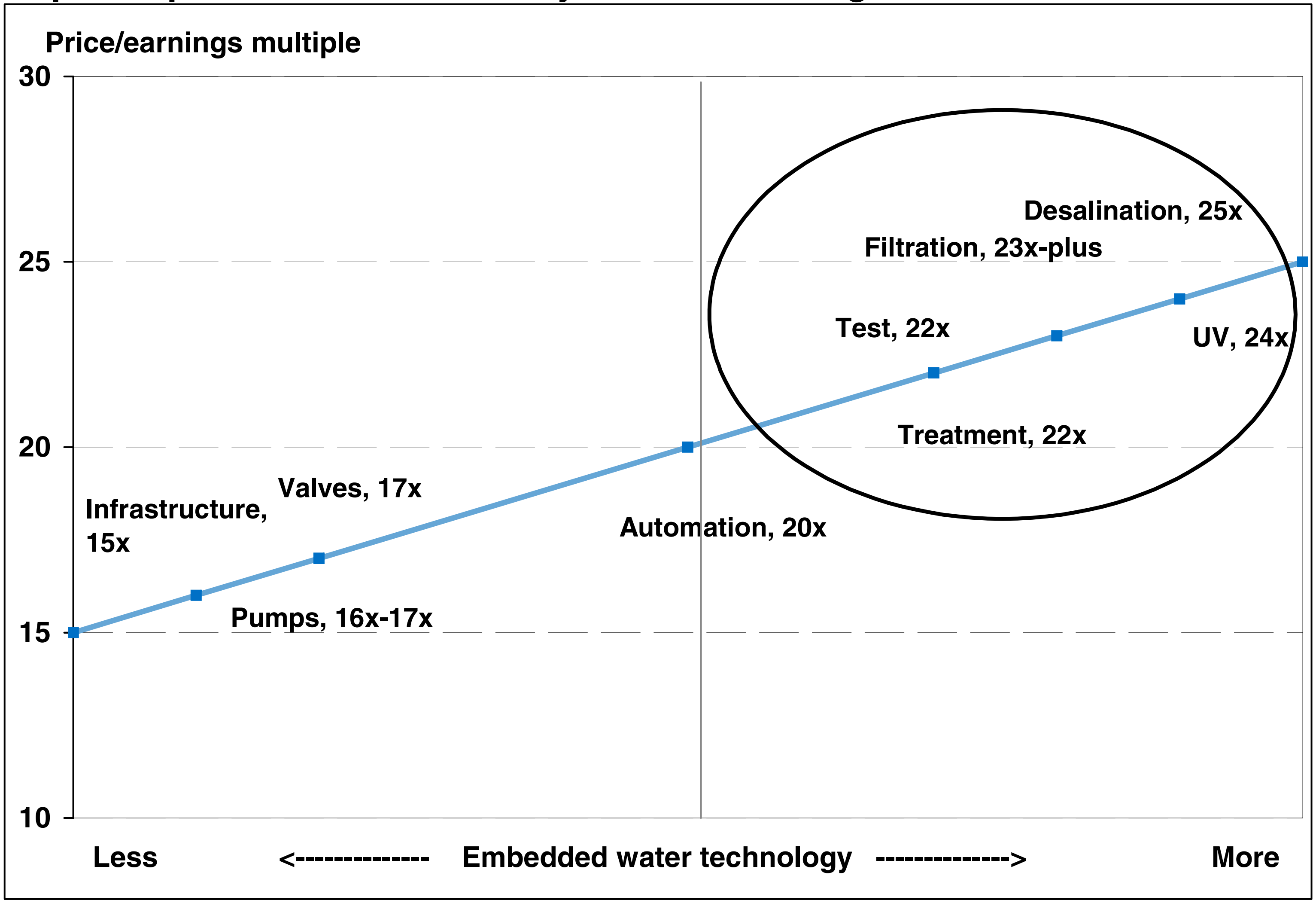
DANAHER

SIEMENS

Source: Goldman Sachs Research

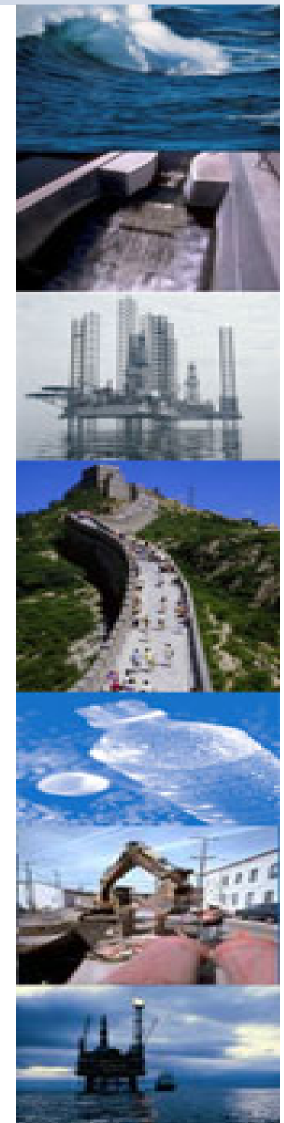
Goldman Sachs water valuation continuum
Focus on growth, more technology-embedded business

Implied spectrum of P/Es for key water technologies



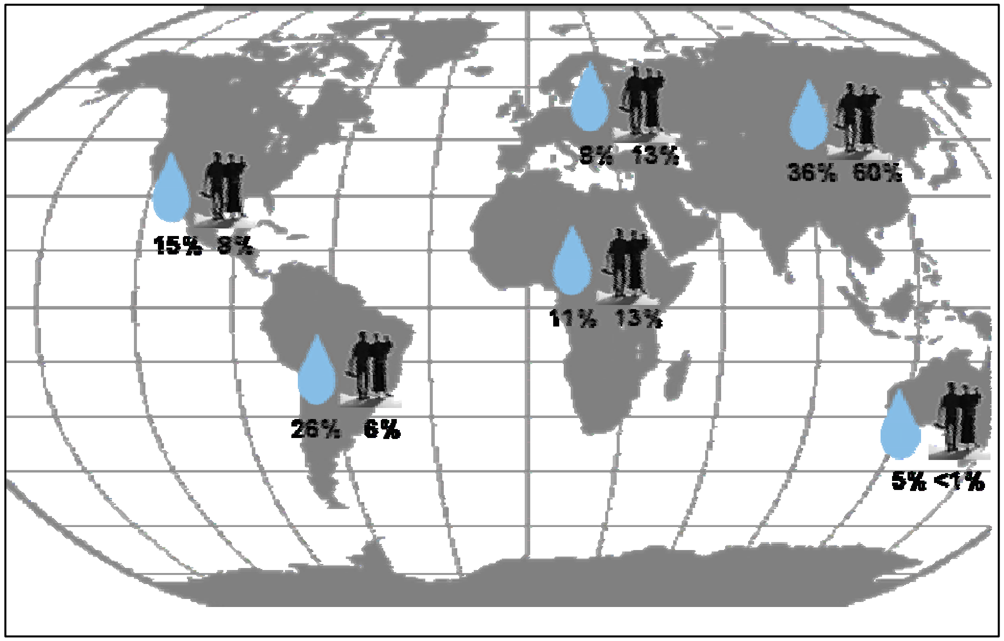
Source: Goldman Sachs Research.

Key global trends driving investment in water sector



- Replace aging water infrastructure in developed countries
- China's and other developing markets' thirst for water
- Regulatory drivers for water quality and safety
- High-end water treatment technologies, 10%-20% growth
    - Filtration
    - Ultrafiltration
    - Reverse osmosis/desalination
    - Water test

Global water supply versus population

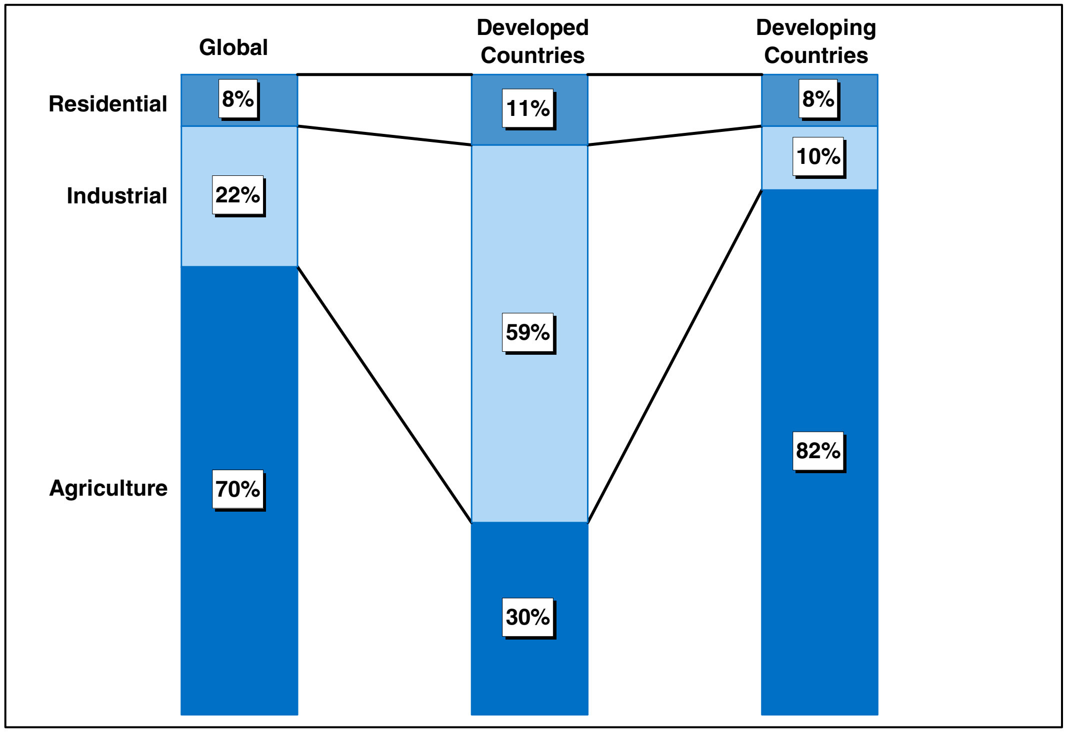


Source: UN Educational, Scientific, and Cultural Organization/International Health Programs.

- North America has 15% of the global water supply, but only has 8% of the population. In contrast, China only has 7% of the renewable water supply, but 21% of the population.
- Over one billion people use unsafe drinking water, with 3-4 million people dying each year from waterborne diseases.
- The number of people living in scarce-water conditions globally is expected to double in 20 years, and those in water stressed geographies should increase six times.

Global profile of water uses:
Developed versus developing countries

Patterns of water usage

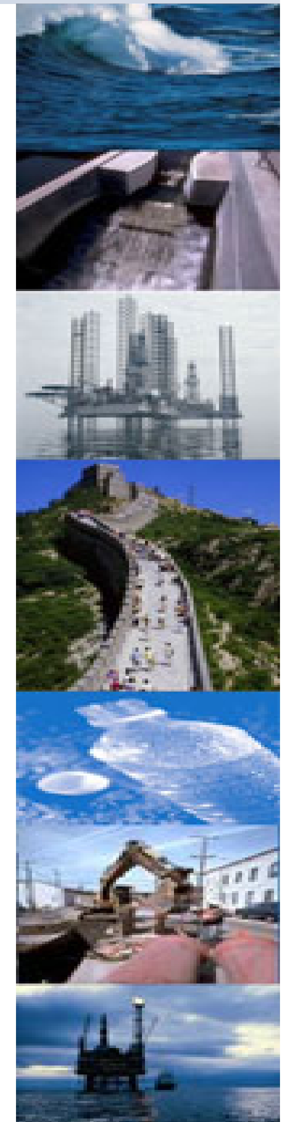


Source: United Nations Water Development.

- Unlike the US pattern of water usage, about 70% of the world's fresh water goes to irrigation.
- Developing countries' predominant use of water is for agriculture, while in developed countries, industrial processes represent the greatest percentage of water demand.
- As manufacturing continues its shift to less-developed countries, additional burdens are being placed on already-taxed infrastructures.

Our investment conclusions

- Water sector is a strategic imperative for many companies in the Multi-Industry sector, increasing prospects for a global water oligopoly
- Expect more investment as developed countries struggle to maintain their aging water infrastructure
- Developing counties still need to build out basic water and wastewater systems
- Filtration, ultrafiltration, reverse osmosis/desalination, and water test have more proprietary, embedded technology and higher growth, margin, and after-market opportunities



Goldman Sachs environmental, social, and governance research mission and methodology

- Mission

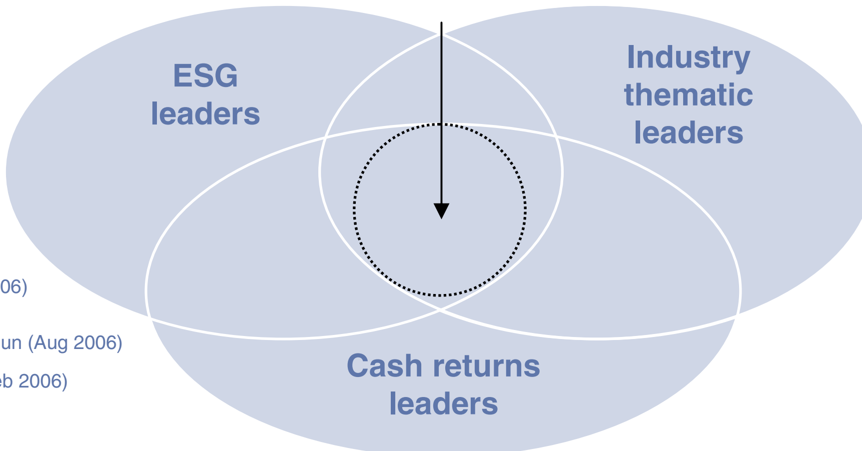
  Goldman Sachs' environmental, social and governance (ESG) research works to integrate ESG issues with industrial analysis and valuation on a sector-by-sector basis, and to identify investment opportunities related to alternative energy, carbon finance, and other ESG issues.

- Methodology for ESG framework – a proxy for management quality

  Industry reports rank companies vs. peers:

  - ESG performance (environment, social, governance)
  - Competitive positioning on industry themes
  - Cash returns (proprietary valuation methodology)

ESG leaders
+ Industry thematic leaders
+ Cash returns leaders
= Sustainable investing leaders



ESG framework (London ESG team)	▪Global Energy: Integrating ESG (Feb 2004, Aug 2005 & Apr 2006) ▪Europe Media: Integrating ESG (Feb 2006) ▪Global Mining and Steel: Integrating ESG (Jul 2006)
Alternative energy (Global)	▪European Renewable Energy: ESG primer [presentation] (Feb 2006) ▪Japan Technology: Solar Cell Industry Looks Attractive Toward 2010 (Mar 2006) ▪Asia: Alternative Energy: A breath of fresh air (Apr 2006) ▪US: Energy: Oil: Initiating coverage of ethanol producers Aventine and VeraSun (Aug 2006)
Carbon finance (Europe – Utilities)	▪European Utilities: Carbon - Putting the fizz into European power markets (Feb 2006) ▪European Utilities and ESG - Carbon Emissions Update (Mar 2006) ▪European Utilities: Carbon crazy (Apr 2006)
Water sector (US/Asia – Multi-industry)	▪Multi-Industry: Water Sector Primer: Water--Pure, refreshing defensive growth (Jun 2005) ▪Multi-Industry: Water utility survey: Growth flows steady (Jun 2006) ▪China: Utilities: Water: Quenching investment thirst (Jul 2006)
Portfolio strategy & accounting (US)	▪Portfolio Strategy: The growing interest in environmental issues is important to both socially responsible and fundamental investors (Aug 2005) ▪Portfolio Strategy/Accounting: 2006 accounting agenda -- 7 projects to monitor (Mar 2006)

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	Rating Distribution			Investment Banking Relationships		
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