

Aqua America

Stock Symbol	2009 AGM Date	Headquarters	Market Cap as of March 21, 2009
WTR	Mid-May	Bryn Mawr, PA	\$2.62 Billion

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Category of Resolution: Sustainability Disclosure

Resolution Resolved Clause: “Shareholders request that the Board of Directors prepare a sustainability report describing corporate strategies to sustainably manage water use and addressing other environmental and social impacts such as greenhouse gas emissions, energy use, waste management, and employee and community relations. The report, prepared at a reasonable cost and omitting proprietary information, should be published by September 2009.”

Financial Case (risk and opportunities):

Overall, Calvert believes that sustainability reporting is the foundation of corporate responsibility with clear benefits and risks for lack thereof. Comprehensive sustainability reporting as defined by the Global Reporting Initiative (GRI) sends a message to investors and other stakeholders that the company is aware of and working to manage its environmental, social and governance (ESG) impacts, which has a positive impact on business success.

We believe the following 5 links between ESG disclosure and company value present a compelling financial case for sustainability reporting:

Links between ESG disclosure and company value:

1. Supply Chain Management:
 - ESG disclosure creates conditions for greater accountability among suppliers and draws suppliers that are equally concerned about ESG issues.
 - A 2007 report by Sustainable Asset Management and PWC indicates that supply chain risk management is a strategic business consideration and a growing number of multinational companies are addressing this issue to minimize potential risks (i.e. remediation, fines and violations, decreased quality and performance, damage to customer and supplier relationships, etc.).
2. Improved Brand Positioning
 - As companies continue to grow in size, improved disclosure allows growing mid-cap companies like Aqua America to address increased CSR press and publicity.

- Consumers vote with their pocketbooks (customer satisfaction); according to a 2008 Global Survey on company ethics and corporate responsibility by the Nielsen Company, half the world's consumer consider it very important that companies improve their environmental policies and practices.
 - Given the growing demand for energy efficient products, new environmental technologies, and innovative R&D, Aqua America would benefit from added disclosure.
3. Leadership in the Marketplace
 - Personnel: disclosure of employee relations programs attracts more talented individuals and leads to higher employee retention rates, especially in industries where a rapidly aging work force is a competitive driver.
 - Employees increasingly want to work for an employer with a commitment to corporate responsibility as demonstrated through ESG disclosure
 4. Operational Efficiency
 - Disclosure of decreased costs (i.e. through energy savings, recycling, and improvements in efficiency) draws higher investor appeal because it indicates stronger management of resources; with water in particular becoming more scarce and more regulated, utilities stand to gain.
 - Through our internal surveying of corporate sustainability leaders, we have learned that the reporting process in itself adds value because it helps corporate management determine which elements are most material to their business. We have not seen evidence of a clear process for Aqua America to identify material sustainability indicators or impacts.
 5. Embracing Global Business Trends
 - There is a steady increase in sustainability reporting according to KPMG's International Survey of Corporate Responsibility Reporting 2008.
 - Since KPMG's survey in 2005, twice as many US companies release ESG data
 - Mainstream investment firms are increasingly examining ESG issues (i.e. Citigroup and Goldman Sachs).

Furthermore, Calvert considers non-disclosure as a form of environmental, social or governance risk. Some of the risks of non-disclosure of ESG include:

1. Reputational Risk: crisis management, strong disclosure improves ability to manage stakeholders' interests.
2. Regulatory Risk: increased transparency often leads to less regulatory scrutiny, especially for companies facing climate risk, such as energy-related companies.
3. Competitive Risk: rising numbers of reporters nationally.

Company Specific Analysis

A number of environmental, social and governance (ESG) issues affect any corporation operating in a high impact sector, such as Aqua America. As a water and wastewater

utility, the company operates in a sensitive and vitally important sector. The maintenance of a safe supply of drinking water is critical for the protection of public health. The sufficient treatment of wastewater is also of great importance, as a failure in this area could result in pollution and regulatory action. Water utilities must also effectively manage leakages, infrastructure repair (such as pipe replacement), energy use, and the local water source. The failure to mitigate these risks could result in regulatory fines and threaten the safety of the local water supply. Water demand is not expected to decline in the coming decades, and water utilities must strategically position themselves for sustainable growth to meet this challenge. Climate change could also affect water availability and the condition of the local water source. Climate scientists believe severe weather events such as droughts and floods will become more frequent due to global warming (Climate Change and Water, Intergovernmental Panel on Climate Change, June 2008). These events pose special challenges to water utilities, and investors are increasingly viewing climate change as a business risk (Investor Research Project- Investor Use of CDP Data, Carbon Disclosure Project, March 2009).

Aqua America shows no evidence of comprehensive sustainability reporting, but has only very limited information on certain relevant policies (i.e. diversity and ethics) within the company's code of conduct. Sustainability performance data is missing from any of Aqua America's filings and public disclosure. The company has no current commitments to undertake such reporting.

Specifically, Aqua America is missing disclosure on the following key issues:

- Comprehensive EHS management system across all operations
- Quantitative Environmental or Safety data
- Climate Change policy or positioning
- Human rights policy or programs
- Stakeholder relations
- Quality control and management systems across all operations
- Consumer and public safety policies
- Vendor code or supplier standards
- EEO-1 policy or diversity programs

Benchmark Analysis:

Aqua America is in the Russell 1000, where the company is comparable to other companies growing in size in the U.S. equity universe. Such companies are expected to improve and follow best practices in transparency and good governance. We believe that such growing companies in the mid-cap space will also need to compete amongst multi-national, large cap corporations that are intent on gaining a foothold in the US water utility market.

Calvert's research shows that sustainability disclosure is practically non-existent among US water utilities. However, Calvert has recently withdrawn similar shareholder resolutions with three of Aqua America's peers – Itron, Valmont, and Flowserve – in

exchange for commitments to increase their sustainability disclosure. Some of Aqua America's international industry peers with US operations are best practice examples of comprehensive sustainability disclosure. For example, the current disclosure on Aqua America's website does not address in a comprehensive way, sustainability information that the following peers have disclosed.

- American Water Works- formally a subsidiary of Germany-based RWE, it currently offers the most sustainability disclosure of any non-foreign based company
- Suez Environment- company has operations in the US through their United Water subsidiary
- Veolia Water- company has operations in the US through its Veolia Water North America subsidiary

Sustainability Reporting Resolutions:

Sustainability disclosure or environmental reporting has been an active component of shareholder resolutions requests for over a decade. According to a Risk Metrics 2008 ESG Background Report, the average level of support for sustainability reporting resolutions has been increasing each year, up to 28.1% in 2008. Sustainability reporting resolutions generally reference the Global Reporting Initiative (GRI) Guidelines as a model for the requested report. Calvert's 2009 resolutions also refer to GRI because we believe the guidelines create a generally accepted framework. Calvert believes that ESG disclosure, especially according to established guidelines/standards, minimizes a company's risk related to disclosure and potential litigation.